Telekom Austria Aktiengesellschaft

(incorporated as a stock corporation under the laws of Austria, registered number FN 144477 t)

Offering of up to 221,500,000 no-par value ordinary bearer shares

Listing of up to 221,500,000 no-par value ordinary bearer shares on the Official Market of the Vienna Stock Exchange

Telekom Austria Aktiengesellschaft, a stock corporation organized under Austrian law (the "**Company**", "**Telekom Austria**" or the "**Issuer**" and, together with its consolidated subsidiaries (each of them a "**Group Company**" and, together, the "**Group Companies**"), "**Telekom Austria Group**" or the "**Group**") has issued 443,000,000 no-par value ordinary bearer shares with a calculated notional amount of EUR 2.181 per share (the "**Existing Shares**") and is targeting net proceeds from a capital increase in an amount of EUR 1,000,000,000 (maximum) by offering up to 221,500,000 newly issued no-par value ordinary bearer shares of the Company, with a calculated notional amount of EUR 2.181 per share, following a share capital increase from authorized capital against contribution in cash (the "**New Shares**" and, together with the Existing Shares, the "**Shares**").

Current shareholders of the Company (the "**Existing Shareholders**") holding Existing Shares as of 24:00 (midnight) Central European Time ("**CET**") on November 7, 2014 (the "**Record Date**") will be granted one subscription right for each Existing Share held (the "**Subscription Rights**") and are invited to subscribe for the New Shares (the "**Rights Offering**") at EUR 4.57 per New Share (the "**Rights Offering Offer Price**"). Existing Shareholders exercising their Subscription Rights will be entitled to 1 New Share for every 2 Subscription Rights (the "**Subscription Ratio**") against payment of the Rights Offering Offer Price per New Share. Existing Shareholders may exercise their Subscription Rights during the subscription period which begins on November 10, 2014 and is expected to end on November 24, 2014 (the "**Subscription Period**"). The Subscription Rights are freely transferable, subject to certain restrictions as set out in "Transfer and selling restrictions", and bear the ISIN AT0000A1AD41. The Company will apply for the trading of the Subscription Rights on the Vienna Stock Exchange. Trading of the Subscription Rights on the Vienna Stock Exchange is expected to commence on November 12, 2014 and to end on November 19, 2014. Subscription Rights not exercised by the end of the Subscription Period will expire without the right to any compensation. Existing Shareholders who do not hold a number of Subscription Rights divisible by 2 will not be able to exercise their Subscription Rights in full or at all and as a result of the Offering their ownership may therefore be diluted. Holders of Subscription Rights can acquire additional Subscription Rights on the market in order to acquire New Shares or can sell their Subscription Rights in the market, subject to certain restrictions as set out in "Transfer and selling restrictions". The Subscription Period may be extended or terminated at the absolute discretion of the Company in consultation with the Joint Bookrunners (as defined below) at any time. América Móvil, S.A.B. de C.V. ("**América Móvil**"), Carso Telecom B.V. ("**Carso Telecom**") and Österreichische Industrieholding Aktiengesellschaft ("**ÖIAG**") are the Company's core shareholders (the "**Core Shareholders**"). Each of them has committed itself vis-à-vis the Company to participate in the Offering (as defined below) and acquire the applicable numbers of New Shares at the Rights Offering Offer Price as described below, and the Company has admitted each of them for direct subscription of the applicable numbers of New Shares. América Móvil has committed itself to acquire at the Rights Offering Offer Price 3,967,850 New Shares according to its 7,935,700 Subscription Rights. Carso Telecom has committed itself to acquire at the Rights Offering Offer Price 128,267,215 New Shares according to its 256,534,431 Subscription Rights. ÖIAG has committed itself to acquire at the Rights Offering Offer Price up to 62,958,867 New Shares according to its 125,917,735 Subscription Rights such that its participation in the share capital of the Company after the Offering (as defined below) corresponds as closely as possible to its current pro-rata participation in the Company (approximately 28.42%).

New Shares not subscribed for in the Rights Offering or committed by the Core Shareholders will be offered at a price equal to or above the Rights Offering Offer Price (the "**Rump Placement Offer Price**"), in a rump placement (the "**Rump Placement**" and, together with the Rights Offering, the "**Offering**"), which will consist of private placements to qualified investors in the Republic of Austria ("**Austria**") and other selected countries, including in the United States of America (the "**United States**", "**U.S.**" or "**USA**") to qualified institutional buyers ("**QIBs**") as defined in Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and outside of the United States to certain other eligible institutional investors in reliance on Regulation S ("**Regulation S**") under the Securities Act. The final price of the New Shares offered in the Rump Placement will be determined on the basis of the outcome of a bookbuilding procedure. The offer period during which investors may offer to purchase New Shares in the Rump Placement begins on November 24, 2014 after market close of the Vienna Stock Exchange and is expected to end on November 25, 2014 (the "**Rump Placement Period**" and together with the Subscription Period, the "**Offer Period**"). The Rump Placement Period may be shortened, extended or terminated at the absolute discretion of the Company in consultation with the Joint Bookrunners at any time.

The final number of New Shares will be determined by Telekom Austria in consultation with the Joint Bookrunners. Should the number of New Shares issued by Telekom Austria be lower than 221,500,000, the Subscription Ratio will not change; therefore, the relative share ownership (expressed as a percentage of the total share capital of Telekom Austria) of those Existing Shareholders fully exercising their Subscription Rights may be higher than prior to the Offering.

The Existing Shares (ISIN AT0000720008) are listed on the Official Market (*Amtlicher Handel*) of the Vienna Stock Exchange (the "**Official Market**") in the prime market segment under the symbol "TKA". The New Shares will have the same ISIN. Application will be made to list the New Shares on the Official Market of the Vienna Stock Exchange. Subject to the approval of the Vienna Stock Exchange, trading in the New Shares on the Vienna Stock Exchange is expected to commence in the prime market segment on or about November 27, 2014.

The Subscription Rights and the New Shares have not been and will not be registered under the securities laws of any jurisdiction other than Austria, and, in particular, have not been and will not be registered under the Securities Act. The Subscription Rights and the New Shares will be offered or sold in the United States only to QIBs as defined in Rule 144A and outside the United States in reliance on Regulation S. Prospective investors are hereby notified that sellers of the Subscription Rights and the New Shares may be relying on the exemptions from the provisions of section 5 of the Securities Act provided by Rule 144A. Neither the United States Securities and Exchange Commission ("SEC") nor any state securities commission has approved or disapproved these securities or passed upon the adequacy or accuracy of this Prospectus (the "Prospectus"). Any representation to the contrary is a criminal offence. The Subscription Rights and the New Shares are transferable only in accordance with the restrictions described under "Transfer and selling restrictions".

Investing in the New Shares carries a high degree of risk. See "Risk Factors" beginning on page 40 of this Prospectus.

The Underwriters (as defined below) expect to deliver the New Shares, assigned and allotted in the Offering, in book-entry form through the facilities of Oesterreichische Kontrollbank Aktiengesellschaft ("**OeKB**"), Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream**") against payment of the Rights Offering Offer Price, respectively the Rump Placement Offer Price, on or about November 27, 2014.

This Prospectus has been prepared in accordance with Annex I, III, XXII and XXX of Commission Regulation (EC) No. 809/2004 of April 29, 2004, as amended, the Austrian Capital Markets Act (*Kapitalmarktgesetz*) (the "**Capital Markets Act**"), and the Austrian Stock Exchange Act 1989 (*Börsegesetz 1989*) (the "**Stock Exchange Act**"). This Prospectus has been approved by the Austrian Financial Market Authority (*Finanzmarktaufsichtsbehörde*) (the "**FMA**") in its capacity as competent authority under the Capital Markets Act. The accuracy of the information contained in this Prospectus does not fall within the scope of examination by the FMA under applicable Austrian law. The FMA examines the Prospectus only in respect of its completeness, coherence and comprehensibility pursuant to section 8a Capital Markets Act.

Joint Global Coordinators and Joint Bookrunners

Citigroup **Deutsche Bank**

Joint Bookrunners

Erste Group **Raiffeisen Centrobank** **UniCredit**

The date of this Prospectus is November 7, 2014.

IMPORTANT INFORMATION ABOUT THE OFFERING

This document comprises a prospectus dated November 7, 2014, for the purposes of the public offering of the New Shares to investors in Austria, private placements of the New Shares both in Austria and internationally and the listing of the New Shares on the Official Market. This Prospectus has been prepared in accordance with Annex I, III, XXII and XXX of Commission Regulation (EC) No. 809/2004 of April 29, 2004, as amended, the Capital Markets Act and the Stock Exchange Act. This Prospectus has been approved by the FMA. This Prospectus will be filed as a listing prospectus (*Börseprospekt*) with the Vienna Stock Exchange in accordance with the Stock Exchange Act in connection with the application for listing of the New Shares on the Official Market, and will be deposited with the notification office (*Meldestelle*) at OeKB in accordance with the Capital Markets Act.

No person is or has been authorized to give any information or to make any representation in connection with the offer or sale of the New Shares, other than as contained in this Prospectus. Any other information or representation given or made in connection with the Offering must not be relied upon as having been authorized by the Company, the management board of the Company (*Vorstand*) (the "**Management Board**" or "**Management**"), any of Citigroup Global Markets Limited ("**Citigroup**"), Deutsche Bank Aktiengesellschaft ("**Deutsche Bank**" and together with Citigroup, the "**Joint Global Coordinators**"), Erste Group Bank AG, Raiffeisen Centrobank AG and UniCredit Bank Austria AG (together with the Joint Global Coordinators, the "**Joint Bookrunners**" or the "**Underwriters**"). The delivery of this Prospectus at any time after the date hereof shall not, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date hereof or that the information set out in this Prospectus is correct as of any time since its date. The Underwriters make no representation or warranty, express or implied, as to the accuracy or completeness of the information in this Prospectus. Nothing in this Prospectus is, or shall be relied upon as, a promise or representation by the Underwriters.

Any significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the New Shares and which arises or is noted between the approval of the Prospectus by the FMA and the later of completion of the Offering and commencement of trading in the New Shares on the Vienna Stock Exchange will be published in a supplement to the Prospectus in accordance with section 6 of the Capital Markets Act. Such supplement must be approved by the FMA and be published in the same manner as the Prospectus.

This Prospectus has been prepared to enable investors to evaluate a purchase of the New Shares and to comply with the listing requirements of the Vienna Stock Exchange. In making an investment decision, investors must rely on their own examination of the Company, the Group, and the terms of the Offering, including, without limitation, the merits and risks involved. The Offering is being made solely on the basis of this Prospectus.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE UNIFORM SECURITIES ACT ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE NEW HAMPSHIRE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

TRANSFER AND SELLING RESTRICTIONS

The distribution of this Prospectus and the offer and sale of the Subscription Rights and the New Shares are restricted by law in certain jurisdictions. Persons who come into possession of this Prospectus are required to inform themselves about, and to observe, any such restrictions. This Prospectus may not be used for, or in connection with, and does not constitute, an offer to sell, or an invitation to purchase, any of the Subscription Rights or the New Shares in any jurisdiction in which such offer or invitation would be unlawful.

No action has been taken by the Company that would permit an offer of the Subscription Rights or the New Shares or distribution of this Prospectus or any other Offering materials in any jurisdiction other than Austria where action for that purpose is required.

Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

Notice to investors in the European Economic Area

In relation to each member state of the European Economic Area ("**EEA**") which has implemented the Prospectus Directive (the expression "**Prospectus Directive**" means Directive 2003/71/EC (and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State, and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU) (each, a "**Relevant Member State**"), each Underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State ("**Relevant Implementation Date**") it has not made and will not make an offer of the New Shares to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of New Shares to the public in that Relevant Member State:

(i) if an offer of New Shares may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State, following the date of publication of a prospectus in relation to such New Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in this Prospectus;

(ii) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(iii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons per Relevant Member State (other than qualified investors as defined in the Prospectus Directive); or

(iv) in any other circumstances falling under Article 3(2) of the Prospectus Directive,

provided that no such offer of New Shares referred to in (ii) to (iv) above shall require the Company to publish a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For the purposes of this representation, the expression an "offer of New Shares to the public" in relation to any New Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any New Shares to be offered so as to enable an investor to decide to purchase or subscribe for the New Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

Each purchaser of New Shares in a Relevant Member State other than, in the case of paragraph (i) below, Austria, who acquires any New Shares under the offers contemplated in this Prospectus will be deemed to have represented, agreed and acknowledged that:

(i) it is a qualified investor within the meaning of the law implementing Article 2(1)(e) of the Prospectus Directive; and

(ii) in the case of such person being a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the New Shares acquired by it in the Offering have not been acquired other than on a discretionary basis, where that fact means that the offer to the financial intermediary is deemed to be an offer to a qualified investor, nor have they been acquired with a view to their offer or resale to persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive.

Notice to investors in the United Kingdom

In the United Kingdom, this Prospectus is only addressed to and directed to qualified investors who are (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**FP Order**"), (ii) high net worth companies and other persons falling within Article 49(2)(a) to (d) of the FP Order or (iii) other persons who fall within an exemption in the FP Order and to whom the Offering can lawfully be communicated. The persons specified in (i), (ii) and (iii) above are collectively referred to as "**Relevant Persons**". The securities described herein are only available in the United Kingdom to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities in the United Kingdom will be engaged in only with, Relevant Persons. Any person in the United Kingdom who is not a Relevant Person should not act or rely on this Prospectus or any of its contents.

Notice to investors in Switzerland

This document as well as any other material relating to the Subscription Rights or the New Shares which are the subject of the Offering contemplated by this Prospectus does not constitute an issue prospectus pursuant to Articles 652a and/or 1156 of the Swiss Code of Obligations. The Subscription Rights or the New Shares will not be listed on the SIX Swiss Exchange and, therefore, the documents relating to the Subscription Rights or the New Shares including, but not limited to, this document, do not claim to comply with the disclosure standards of the listing rules of the SIX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange.

The New Shares are being offered in Switzerland by way of a private placement, meaning to a small number of selected investors only, without any public offer and only to investors who do not purchase the New Shares with the intention to distribute them to the public. The investors will be individually approached by the Company from time to time.

This document as well as any other material relating to the Subscription Rights or the New Shares is personal and confidential and does not constitute an offer to any other person. This document may only be used by those investors to whom it has been handed out in connection with the Offering described herein and may neither directly nor indirectly be distributed or made available to other persons without the express consent of the Company. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

Notice to investors in the United States

Because of the following restrictions, prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the New Shares.

The Subscription Rights or the New Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority or any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Subscription Rights and the New Shares are being offered and sold (1) in the United States only to QIBs within the meaning of and pursuant to Rule 144A or another available exemption from, or in transactions not subject to, the registration requirements of the Securities Act and (2) to persons outside the United States in offshore transactions pursuant to Regulation S and applicable laws. Neither the SEC nor any state securities commission has approved or disapproved these securities or passed upon the adequacy or accuracy of the Prospectus. Prospective investors are hereby notified that any seller of the Subscription Rights or the New Shares may be relying on the exemption from the provisions of section 5 of the Securities Act provided by Rule 144A. Any offer or sale of the Subscription Rights or the New Shares within the United States in reliance on Rule 144A or another exemption from the registration requirements of the Securities Act, if any, will be made by broker-dealers who are registered under the U.S. Exchange Act of 1934, as amended. The Offering is being made in the United States through U.S. broker-dealer affiliates of the Underwriters. Transfers of the Subscription Rights or the New Shares will be restricted and each purchaser will be deemed to have made acknowledgments, representations and agreements, as described below.

Each U.S. purchaser of the Subscription Rights or the New Shares and each subsequent purchaser thereof will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. The purchaser (A) is, and at the time of its purchase of any Subscription Right or New Shares will be, a QIB within the meaning of Rule 144A; (B) is aware that the sale of the Subscription Rights or the New Shares to it is being made in a transaction exempt from registration under the Securities Act and (C) is purchasing the Subscription Rights or the New Shares (i) for its own account or (ii) for the account of one or more other QIBs for which it is acting as duly authorized fiduciary or agent with sole investment discretion with respect to each such account and with full authority to make the acknowledgments, representations and agreements herein with respect to each such account (in which case it hereby makes such acknowledgments, representations and agreements on behalf of such QIBs as well), in each case for investment and not with a view to any resale or distribution of any such Subscription Rights or New Shares; or

2. the purchaser is acquiring the Subscription Rights or the New Shares, as the case may be, in an offshore transaction complying with Regulation S.

In each case, each purchaser of the Subscription Rights or New Shares and each subsequent purchaser thereof will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. The purchaser understands and agrees that offers and sales of the Subscription Rights or the New Shares have not been and will not be registered under the Securities Act, and may not be offered, resold, pledged or otherwise transferred except (A) pursuant to an effective registration statement under the Securities Act, (B) to a QIB in a transaction meeting the requirements of Rule 144A, not involving a public offering or which is exempt from registration requirements of the Securities Act, (C) outside the United States in an "offshore transaction" pursuant to Rule 903 or 904 of Regulation S (and not in a pre-arranged transaction resulting in the resale of such securities into the United States) or (D) in accordance with Rule 144 and, in each case, in accordance with any applicable securities laws of any state or territory of the United States and of any other jurisdiction. The purchaser understands that no representation can be made as to the availability of the exemption provided by Rule 144 for the resale of the Subscription Rights or the New Shares.

2. The purchaser understands that for so long as the Subscription Rights and the New Shares are "restricted securities" within the meaning of the U.S. federal securities laws, no such Subscription Rights or New Shares may be deposited into any American depositary receipt facility established or maintained by a depositary bank, other than a restricted depositary receipt facility, and that such Subscription Rights and New Shares will not settle or trade through the facilities of DTC or any other U.S. clearing system.

3. The purchaser has received a copy of this Prospectus and has had access to such financial and other information concerning the Company as it deems necessary in connection with making its own investment decision to purchase Subscription Rights or New Shares. The purchaser acknowledges that neither the Company nor any of its representatives has made any representation to it with respect to the Company, the Group or the allocation, offering or sale of any Subscription Rights or New Shares other than as set forth in this Prospectus which has been delivered to it and upon which it is solely relying in making its investment decision with respect to the Subscription Rights and the New Shares. The purchaser also acknowledges that it has made its own assessment regarding the U.S. federal tax consequences of an investment in the Subscription Rights or the New Shares. The purchaser has held and will hold any offering materials, including the Prospectus, it receives directly or indirectly from the Company in confidence, and it understands that any such information received by it is solely for it and not to be redistributed or duplicated by it.

4. The purchaser understands that these representations and undertakings are required in connection with the securities laws of the United States and that the Company, the Underwriters and their affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. The purchaser irrevocably authorizes the Company and the Underwriters to produce these representations and undertakings to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered herein.

5. The purchaser undertakes promptly to notify the Company and the Underwriters if, at any time prior to the purchase of Subscription Rights or New Shares, any of the foregoing ceases to be true.
6. The purchaser understands that any offer, sale, pledge or other transfer made other than in compliance with the above stated restrictions shall not be recognized by the Company in respect of the New Shares.

In addition, until the end of the 40th calendar day after the commencement of the Offering, an offer or sale of the Subscription Rights or the New Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

Neither the Company nor the Underwriters accept any legal responsibility for any violation by any person, whether or not a prospective investor in the Subscription Rights or the New Shares, of any of the foregoing restrictions.

Notice to investors in Japan

The Subscription Rights and the New Shares have not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the "**FIEL**"). This document is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity organized under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements under the FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to investors in Australia

This document is not a prospectus for the purposes of the Corporations Act of Australia 2001 (the "**Australian Corporations Act**") and may not contain all of the information that an Australian investor may find in a prospectus prepared in accordance with the Australian Corporations Act which may be required in order to make an informed investment decision regarding, or about the rights attaching to, the Subscription Rights or the New Shares. This document is being distributed in Australia by the Underwriters or their affiliates, to a limited number of professional investors (within the meaning of section 708 paragraph 11 Australian Corporations Act) and/or sophisticated investors (within the meaning of section 708 paragraph 8 Australian Corporations Act). The entity receiving this document represents and warrants that if it is in Australia, it is either a professional or a sophisticated investor, that it will not distribute this document to any other person and agrees that it will not offer to sell the Subscription Rights or the New Shares in Australia within twelve months of such New Shares being allotted to it, to any person that is not a professional investor under section 708 paragraph 11 or a sophisticated investor under section 708 paragraph 8 Australian Corporations Act.

Notice to Canadian Shareholders

Due to restrictions under the securities laws of Canada, no Subscription Rights will be granted to or credited to the account of any Canadian Shareholder (as defined in the below paragraph), and such Canadian Shareholders will not be entitled to participate in the Rights Offering. No offer of Subscription Rights is being made to Canadian Shareholders by virtue of this Prospectus.

For purposes of the above paragraph, "Canadian Shareholder" means an Existing Shareholder as of midnight Central European Time on the Record Date that is located or resident in any province or territory of Canada, or a discretionary account manager located or resident in any province or territory of Canada that is acting on behalf of a beneficial shareholder of the Issuer, whether or not such beneficial shareholder is located or resident in any province or territory of Canada, provided that a discretionary account manager located and resident outside of Canada acting on behalf of a beneficial shareholder of the Issuer located or resident in Canada shall not be a "Canadian Shareholder" unless such beneficial shareholder participates in the decision to take up or exercise any Subscription Rights, or any other acts in furtherance of the distribution of Subscription Rights to such beneficial shareholder take place in Canada.

AVAILABLE INFORMATION

If, at any time, the Company is neither subject to section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to rule 12g3-2(b) under the Exchange Act, it will furnish, upon request, to any owner of the New Shares, or any prospective purchaser designated by any such owner, the information required to be delivered pursuant to rule 144(d)(4) under the Securities Act. In such cases, the Company will also furnish to each such owner all notices to shareholders' meetings and other reports and communications that are made generally available to shareholders by it.

ENFORCEMENT OF CIVIL LIABILITIES

The Company is a stock corporation organized under the laws of Austria and its assets are located primarily outside the United States. In addition, all of the members of the Company's supervisory board (*Aufsichtsrat*) (the "**Supervisory Board**") and Management Board are non-residents of the United States whose assets are located primarily outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Company or such persons or to enforce against them or the Company judgments of courts of the United States, whether predicated upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States or any state thereof. The United States and Austria currently do not have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for payment of money rendered by a federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, may not be enforceable, either in whole or in part, in Austria. However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in Austria, such party may submit to the Austrian court the final judgment rendered in the United States. Under such circumstances, a judgment by a federal or state court of the United States against the Company or such persons will be regarded by an Austrian court only as evidence of the outcome of the dispute to which such judgment relates, and an Austrian court will re-hear the dispute. In addition, awards of punitive damages in actions brought in the United States or elsewhere are unenforceable in Austria.

FORWARD-LOOKING STATEMENTS

This Prospectus contains statements under the captions "Summary of the Prospectus", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business" and in other sections that are, or may be deemed to be, "forward-looking statements". Forward-looking statements are defined as statements that do not relate to historical facts or events. They may sometimes be identified by the use of forward-looking terminology, including the words "believes", "might", "projects", "predicts", "estimates", "anticipates", "expects", "intends", "targets", "may", "will", "plans", "aims", "foresees", "seeks", "pursues", "goals", "continue" or "should" or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, goals, future events, forecasts or intentions. These terms may be found in those parts of the Prospectus containing information about the intentions, beliefs or current expectations of the Company concerning its future financial earning power, plans, liquidity, outlook, growth, strategy and profitability, as well as the overall business and regulatory conditions to which the Company and the Group will or may be exposed. Forward-looking statements comprise, in particular, plans, estimates, prognoses and expectations.

Forward-looking statements in this Prospectus relate, among other things, to:

- the Group's ability to generate sufficient cash to service debt and to finance capital expenditures and operations;
- risks associated with the Group's financing and the ability to raise additional financing on terms acceptable to it;
- the Group's relationship with its shareholders;
- risks related to the Group's business, strategy, expectations about growth in demand for its products and services, business operations, financial condition and results of operations;
- the accuracy of any guidance provided as to the Group's future results of operations;

- risks related to the Group's competitive position;
- changes in local and global economic conditions, including market perceptions, instability of the Euro or other currencies, developments in financial markets and their impact on consumer spending;
- the Group's ability to maintain, continue to grow and increase the profitability of the Group's mobile and fixed-line businesses;
- the Group's ability to attract new mobile subscribers and retain existing mobile subscribers, including by offering mobile internet at competitive prices;
- the Group's ability to increase data revenue and to mitigate the impact of trends toward reduced consumer voice usage;
- the Group's ability to recoup expenditures relating to investments in new technologies, such as long-term evolution technology ("**LTE**");
- risks associated with the Group's dependence on third-party telecommunications providers for international mobile services;
- the status of, trends and anticipated changes in the telecommunications markets in which the Group operates;
- the Group's ability to respond to changes in consumer preferences by developing and introducing competitive products and services based on new technologies on a timely basis;
- the ability to continuously upgrade the Group's existing network, including glass fiber networks;
- the Group's ability to roll out LTE platforms and its ability to introduce competitive products and services based on LTE technologies;
- the ability to maintain the Group's licenses and permits for the key technologies underlying its service offerings and other licenses and permits necessary for the conduct of its business;
- the ability to establish and maintain distribution channels;
- changes in the political, fiscal, administrative and regulatory framework in which the Group operates, including regulatory developments with respect to tariffs, conditions of interconnection and access, and legal developments with respect to consumer protection laws, tax laws and regulations as well as their interpretation;
- the ability to protect the Group's equipment and network systems and avoid service disruptions;
- the ability to maintain the Group's relationships with its equipment and telecommunications providers;
- the ability to attract and retain key personnel;
- the impact of decreased mobile communications usage, litigation or stricter regulation arising from actual or perceived health risks or other problems;
- the infringement by the Group of the intellectual property rights of others;
- the status and outcome of pending litigation, legal or regulatory actions, and impact of any new litigation, legal or regulatory actions the Group may become party to or litigation, legal or regulatory actions to which the Group may be subject;
- the ability to prevent labor disputes and work stoppages; and
- other factors discussed in this Prospectus.

Such forward-looking statements are based on the Company's current expectations and assumptions made to the best of its knowledge and based on the current regulatory and macroeconomic environment. They are subject to risks, uncertainties and other factors that could result in the actual situation, including the financial condition and results of operations of the Group, being materially different and more negative than those expressly or implicitly assumed or described in such forward-looking statements. Certain forward-looking statements, although they are currently reasonable, may prove to be wrong. Potential investors should therefore not rely on forward-looking statements. The Group's business is subject to a number of substantial risks and uncertainties that could result in a forward-looking statement being incorrect.

It is therefore essential that investors read the sections headed "Summary of the Prospectus", "Risk Factors", "Management's Discussion and Analysis of the Financial Condition and Results of Operations" and "Business". These provide a detailed description of those factors which have an influence on the performance of the Group and the markets in which the Group is active. In view of the risks, uncertainties and assumptions, the future events described in this Prospectus may not occur and additional factors could cause actual results, performance or achievements to differ materially. In addition, any forward-looking statements extracted from publications by third parties and reproduced in this Prospectus (see also "Industry and Market Data") may turn out to be incorrect. Should one or more of these factors or uncertainties materialize, or should the assumptions underlying the forward-looking statements included in this Prospectus prove incorrect, events described in this Prospectus might not occur as described, and actual results may deviate materially from those described in this Prospectus as anticipated, believed, estimated or expected, and the Group may not be able to achieve its financial targets and strategic objectives. Forward-looking statements speak only as of the date on which they are made. Other than as required by section 6 of the Capital Markets Act, the Company does not intend, and does not assume any obligation, to update the forward-looking statements set forth in this Prospectus.

INDUSTRY AND MARKET DATA

This Prospectus includes information regarding market share, market position, growth rates and industry data for Telekom Austria Group's lines of business, which consists of estimates based on data and reports compiled by third parties, on data from other external sources, and on Telekom Austria Group's knowledge of its sales and markets. Such third party information includes information from the FMA, the Vienna Stock Exchange and Bloomberg.

Telekom Austria assumes no responsibility for the correctness of any market share or industry data included in this Prospectus derived from third party sources. Such third party sources have been accurately reproduced and, as far as Telekom Austria is aware and able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Telekom Austria has no access to the facts and assumptions underlying the numerical data, market data and other information extracted from publicly available sources, and has not independently verified market data provided by third parties or industry or general publications.

In many cases there is no readily available external information (whether from trade associations, government bodies or other organizations) to validate market-related analyses and estimates, requiring Telekom Austria to rely on internally developed estimates. Where this Prospectus refers to the Group's market position without making reference to specific sources of information, such market position is derived from the Group's own research. While Telekom Austria believes its internal research to be reliable, such research has not been verified by any independent source and Telekom Austria cannot guarantee its accuracy. Telekom Austria believes that such data is useful in helping investors understand the industry in which Telekom Austria Group operates and Telekom Austria Group's position within the industry.

PRESENTATION OF FINANCIAL INFORMATION

The financial statements presented in this Prospectus include translations of the audited consolidated financial statements of the Company as of and for the financial years ended December 31, 2013, December 31, 2012 and December 31, 2011 (the "**Audited Consolidated Financial Statements**") and the unaudited interim condensed consolidated financial statements of the Company as of and for the nine months ended September 30, 2014 (with comparable information for the nine months ended September 30, 2013 as far as the condensed consolidated statements of profit or loss, the condensed consolidated statements of comprehensive income, the condensed consolidated statements of cash flows and the selected explanatory notes to the consolidated interim financial statements relating thereto are concerned) (the "**Interim Consolidated Financial Statements**" or "**Condensed Consolidated Financial Statements**" and, together with the Audited Consolidated Financial Statements, the "**Consolidated Financial Statements**"). The Consolidated Financial Statements comprise in each case the consolidated statements of profit or loss (or the consolidated statements of operations for the financial years ended December 31, 2012 and 2011), the consolidated statements of comprehensive income, the consolidated statements of financial position, the consolidated statements of cash flows, the consolidated statements of changes on stockholders' equity, the notes to the consolidated financial statements, and the translations of the auditor's reports on the consolidated financial statements for each respective financial year. The German language Audited Consolidated Financial Statements for the financial years ended December 31, 2012 and December 31, 2011 were audited by KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft ("**KPMG**") and for the financial year ended December 31, 2013 by Deloitte Audit Wirtschaftsprüfungs GmbH ("**Deloitte**"), in each case in accordance with laws and regulations applicable in Austria and International Standards on Auditing, issued by the International Auditing and Assurance Board of the International Federation of Accountants, as stated in the reports attached to the respective Audited Consolidated Financial Statements. The Company prepares its Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (the "**EU**", the reporting standards being referred to as "**IFRS**"). As required by Austrian law, the Company also prepares unconsolidated financial statements in accordance with the generally accepted accounting principles in Austria. References to "audited" financial statements shall mean financial statements audited under Austrian law, but not under any other laws or standards including the laws or accounting rules of the United States.

ROUNDING ADJUSTMENTS

The numerical information set forth in this Prospectus has been rounded for ease of presentation. Accordingly, in certain cases, the sum of the numbers or percentages in a column in a table may not conform to the total figure given for that column. In addition, certain figures in this document have been rounded to the nearest whole number or to one decimal place.

CERTAIN DEFINITIONS

Unless otherwise indicated, for purposes of this Prospectus, "**Company**", "**Telekom Austria**" and "**Issuer**", refer to Telekom Austria Aktiengesellschaft. "**Telekom Austria Group**" and the "**Group**" refer to the Company including all its consolidated subsidiaries (each of them a "**Group Company"** and, together, the "**Group Companies**"). Further, certain technical terms, abbreviations and definitions are used in this Prospectus. They are listed and explained in the sections "Definitions" and "Technical Glossary" starting on page D-1 of this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

For as long as this Prospectus is valid, copies of the following documents will be available for inspection free of charge during usual business hours at the Company's headquarters, located at Lassallestraße 9, A-1020 Vienna, Austria:

- the articles of association of the Company (*Satzung*) (the "**Articles of Association**"); and
- the Consolidated Financial Statements.

For as long as this Prospectus is valid, copies of this Prospectus will be available free of charge during usual business hours at the Company's headquarters, located at Lassallestraße 9, A-1020 Vienna, Austria. For a period of one year after the Offering this Prospectus will also be availabe on the Company's website under http://www.telekomaustria.com/en/ir/14887 and under http://www.telekomaustria.com/de/ir/14887.

The Company's future consolidated annual and interim financial statements will be made available by the Company on its website.

The information displayed on the Company's website or any other website to which a reference is made in this Prospectus does not form part of this Prospectus nor is it incorporated by reference into this Prospectus.

CONSENT TO USE PROSPECTUS

The Company gives its express consent to the use of the Prospectus and accepts responsibility for the content of the Prospectus for final placement of New Shares in Austria by financial intermediaries, which are credit institutions licensed in accordance with article 4 number 1 of Directive 2006/48/EC of the European Parliament and of the Council of June 14, 2006, as amended, to trade securities ("**Financial Intermediaries**"), during the Offer Period. The Company may revoke or limit its consent at any time, whereby such revocation or limitation requires a supplement to the Prospectus. **Any Financial Intermediary using the Prospectus must (i) state on its website that it uses the Prospectus in**

accordance with the consent and the conditions attached thereto and (ii) ensure that it complies with all applicable laws and regulations in force in the respective jurisdiction. In the event of an offer being made by a Financial Intermediary, such Financial Intermediary will provide information to investors on the terms and conditions of the offer at the time the offer is made.

EXCHANGE RATE INFORMATION

The amounts set forth in "**EUR**" or "**Euro**" refer to the legal currency of Austria since January 1, 2002. The amounts set forth in "**US$**", "**USD**" or "**U.S. dollar**" refer to the legal currency of the United States of America. The Group's principal functional currency is the Euro, and it prepares its financial statements in Euro. The following table sets forth, for the periods indicated, the period end, period average, high and low Bloomberg Composite Rates expressed in U.S. dollars per EUR 1.00. The "**Bloomberg Composite Rate**" is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The Bloomberg Composite Rate of the EUR on November 5, 2014 was USD 1.2490 per EUR 1.00. The inclusion of the exchange rates is not meant to suggest that the Euro amounts actually represent U.S. dollar amounts or that these amounts could have been converted into U.S. dollar at any particular rate, if at all.

	U.S. Dollar per EUR 1.00			
	Period end	**Average[1]**	**High**	**Low**
Year ended December 31,				
2009	1.4326	1.3953	1.5134	1.2531
2010	1.3387	1.3266	1.4513	1.1923
2011	1.2959	1.3926	1.4830	1.2907
2012	1.3192	1.2860	1.3458	1.2061
2013	1.3789	1.3283	1.3804	1.2772
Month				
January 2014	1.3488	1.3623	1.3763	1.3488
February 2014	1.3808	1.3668	1.3808	1.3517
March 2014	1.3772	1.3830	1.3925	1.3733
April 2014	1.3859	1.3810	1.3897	1.3705
May 2014	1.3634	1.3733	1.3927	1.3591
June 2014	1.3692	1.3601	1.3692	1.3532
July 2014	1.3390	1.3537	1.3679	1.3390
August 2014	1.3132	1.3314	1.3430	1.3132
September 2014	1.2631	1.2895	1.3150	1.2631
October 2014	1.2525	1.2682	1.2838	1.2516
November 2014 (through November 5)	1.2490	1.2511	1.2546	1.2482

[1] The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The average rate for each month presented is based on the average Bloomberg Composite Rate for each business day of such month.

Source: Bloomberg Finance L.P.

CONTENTS

SUMMARY OF THE PROSPECTUS

*Summaries are made up of disclosure requirements known as elements ("**Elements**"). These Elements are numbered in sections A – E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable".*

A – INTRODUCTION AND WARNINGS

A.1	**Introduction and warnings**	This summary should be read as an introduction to this prospectus (the "**Prospectus**"). Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Telekom Austria Aktiengesellschaft, Vienna, Austria (the "**Company**", "**Telekom Austria**" or the "**Issuer**", and the "**Telekom Austria Group**" and the "**Group**" referring to Telekom Austria including all of its consolidated subsidiaries (each of them a "**Group Company**" and, together, the "**Group Companies**")) can be held liable for the content of this summary including its German translation, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, all necessary key information in order to help investors decide whether to invest in the New Shares.
A.2	**Information regarding the subsequent use of the Prospectus**	The Company gives its express consent to the use of the Prospectus and accepts responsibility for the content of the Prospectus for final placement of New Shares in Austria by financial intermediaries, which are credit institutions licensed in accordance with Art. 4 number 1 of Directive 2006/48/EC of the European Parliament and of the Council of June 14, 2006, as amended, to trade securities ("**Financial Intermediaries**"), during the Offer Period. The Company may revoke or limit its consent at any time, whereby such revocation or limitation requires a supplement to the Prospectus. **Any Financial Intermediary using the Prospectus must (i) state on its website that it uses the Prospectus in accordance with the consent and the conditions attached thereto and (ii) ensure that it complies with all applicable laws and regulations in force in the respective jurisdiction.** **In the event of an offer being made by a Financial Intermediary, such Financial Intermediary will provide information to investors on the terms and conditions of the offer at the time the offer is made.**

B – THE ISSUER

B.1	**Legal and commercial name**	The Company's legal name is Telekom Austria Aktiengesellschaft. The Company's as well as the Group's commercial name is "Telekom

		Austria".
B.2	**Domicile, legal form, legislation under which the issuer operates, country of incorporation**	The Company has its registered office at Lassallestraße 9, A-1020 Vienna, Austria, and is registered in the Austrian companies register (*Firmenbuch*) (the "**Companies Register**") under registration number FN 144477 t. The Company is an Austrian stock corporation incorporated in Austria and governed by Austrian law.
B.3	**Description of, and key factors relating to, the nature of the issuer's current operations and its principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes**	Telekom Austria Group is a telecommunications provider. Its portfolio of fixed and mobile communication products and services covers many aspects of modern information and communication technologies, meaning fixed and mobile voice telephony, fixed-line and mobile broadband internet, multimedia services, IP- and cable TV, data and IT applications, wholesale and payment services. Telekom Austria's Austrian subsidiary A1 Telekom Austria Aktiengesellschaft is a fully integrated fixed and mobile operator offering convergent products (fixed and mobile) for voice telephony, internet access, data and IT solutions, value-added services, wholesale services, IPTV (broadcasting and VoD), sale of end-user terminal equipment, mobile business solutions and mobile payment solutions in Austria. In Bulgaria, Telekom Austria's local subsidiary Mobiltel EAD offers convergent products (fixed and mobile) for voice telephony, internet access, value-added services, wholesale services, IPTV (broadcasting and VoD), sale of end-user terminal equipment, mobile business solutions and mobile payment solutions. In addition, it is planned to offer SAT TV starting in the fourth quarter of the financial year ending December 31, 2014. In Croatia, Telekom Austria's local subsidiary VIPnet d.o.o. offers convergent products (fixed and mobile) for voice telephony, internet access, value-added services, wholesale services, IPTV (broadcasting and VoD) and SAT TV, sale of end-user terminal equipment, mobile business solutions and mobile payment solutions. In Belarus, Telekom Austria's local subsidiary unitary enterprise velcom offers mobile products for voice telephony, internet access, value-added services, wholesale services, sale of end-user terminal equipment, fixed-line services for selected business customers. In Slovenia, the Republic of Serbia, the Republic of Macedonia and Liechtenstein, Telekom Austria Group offers mobile products for voice telephony, internet access, value-added services and wholesale services. In addition, fixed-line services are being offered in the Republic of Macedonia since the acquisition of blizoo DOOEL Skopje.
B.4a	**Description of the most significant recent trends affecting the issuer and the industries in which it operates**	Telekom Austria Group operates in a highly competitive environment in both the fixed-line and the mobile communication markets with negative pricing trends visible in most of its segments. Regulatory measures, particularly on mobile termination rates and roaming tariffs, impact domestic as well as international activities negatively. In Austria, the telecommunications market remains characterized by strong competition and ongoing fixed-to-mobile substitution. The competitive environment in the mobile communication market continues to negatively impact the business performance of Telekom Austria. Starting in 2013, Telekom Austria has implemented a range of tariff adjustments with a focus to increase the mobile average revenue per user ("**ARPU**") to counteract these effects. In the fixed-line market,

		the ongoing loss of fixed voice minutes, due to the fixed-to-mobile substitution, remains a key challenge, which Telekom Austria addresses via the continuation of its convergence strategy. In Central, Eastern and South-Eastern Europe ("**CESEE**"), strong macroeconomic headwinds continue to impact operations in Bulgaria, Croatia and Slovenia. Furthermore, competition remains intense, particularly in Bulgaria and Croatia and regulatory and fiscal burdens affect operations in the CESEE region. Roaming revenues were negatively affected in particular by Croatia's accession to the EU in July 2013. With respect to foreign exchange markets uncertainty remains so that there may be further currency fluctuations between the EUR and the currencies of the countries in which Telekom Austria Group also operates.
B.5	**Description of the group and the issuer's position within the group**	Telekom Austria is the holding company of Telekom Austria Group. The business activities are placed in several subsidiaries, with a high degree of integration in the management and business activities between the subsidiaries.
B.6	**Persons who, directly or indirectly, have a (notifiable) interest in the issuer's capital or voting rights or have control over the issuer**	As of the date of this Prospectus, the shareholder structure of persons who have, directly or indirectly, a notifiable interest in the Company's capital according to disclosures made under section 92a paragraph 1 Austrian Stock Exchange Act is as follows (rounded percentage figures):

Shareholder	**Number of Existing Shares**	**%**
América Móvil[1]	264,470,131	59.70%
ÖIAG[2]	125,917,735	28.42%

[1] América Móvil, S.A.B. de C.V., a *sociedad anónima bursátil de capital variable* (public stock corporation with variable capital) established under Mexican law with its business address at Lago Zurich 245, Plaza Carso/Edificio Telcel, Piso 16, Colonia Granada Ampliación, 11529, México, D.F., registered under 263,770 in Mexico City's Registro Público de Comercio ("**América Móvil**") holds 7,935,700 of the shares of Telekom Austria (1.79%) directly and 256,534,431 shares of Telekom Austria (57.91%) via its wholly owned subsidiary Carso Telecom B.V., a *besloten vennootschap* (private limited liability company) established under Dutch law with its corporate seat in Amsterdam and its business address at Prins Bernhardplein 200, 1097 JB, Amsterdam, The Netherlands, registered under 55341535 in the Companies' Register of The Netherlands ("**Carso Telecom**").

[2] Österreichische Industrieholding Aktiengesellschaft, a stock corporation organized under Austrian law with its corporate seat in Vienna and its business address at Dresdner Straße 87, A-1200 Vienna, Austria, registered in the Companies Register under FN 80286 v ("**ÖIAG**" and, together with América Móvil and Carso Telecom, the "**Core Shareholders**").

Source: Company information.

The remaining shares of Telekom Austria are held in free float (including employee stocks and treasury shares).

América Móvil is a Mexico-based company primarily engaged in providing telecommunications services in Latin America. It is a leading provider of telecommunications services in Latin America. Its activities include offering mobile and landline telephony services, broadband access, as well as cable and satellite television. It distributes its services under the Telcel, Telmex, Claro, Embratel, Net, TracFone and Simple Mobile brands, among others. It has operations established in 18 countries, including Mexico, Brazil, Argentina, Chile, Paraguay, Uruguay, Colombia, Panama, Ecuador, Peru and the United States,

		among others.
		América Móvil, through its wholly owned subsidiary Carso Telecom, and ÖIAG entered into a shareholders' agreement dated April 23, 2014 for a 10 year term which became effective on June 27, 2014 (the "**Shareholders' Agreement**"); for further information see "Whether the issuer is directly or indirectly owned or controlled and by whom and description of the nature of control" below.
		Except as set forth above, to the Company's knowledge, no other shareholder directly or indirectly owns more than 4% of the Existing Shares as of the date of this Prospectus.
	Voting rights	Each share in the Company carries one vote at the Company's shareholders' meeting (*Hauptversammlung*) ("**Shareholders' Meeting**"). There are no restrictions on voting rights.
	Whether the issuer is directly or indirectly owned or controlled and by whom and description of the nature of control	The Shareholders' Agreement, among others, provides Carso Telecom, and therefore ultimately América Móvil, with the industrial leadership and sole control of Telekom Austria, and ÖIAG with certain veto rights defining its role as a Core Shareholder in Telekom Austria. Moreover, the Shareholders' Agreement contains rules on the uniform exercise of voting rights in the corporate bodies of Telekom Austria, nomination rights for members of the supervisory board (*Aufsichtsrat*) ("**Supervisory Board**") and the management board (*Vorstand*) ("**Management Board**") and share transfer restrictions. With effectiveness of the Shareholders' Agreement on June 27, 2014, América Móvil has therefore acquired a controlling position in Telekom Austria.
		América Móvil has, subject to ÖIAG's shareholder rights and rights under the Shareholder Agreement, the ability to significantly influence and ultimately determine the outcome of most decisions to be taken by vote at the Shareholders' Meeting and also effectively controls the Supervisory Board and will effectively control the Management Board. As long as ÖIAG holds 25% plus 1 share or more of the registered share capital of Telekom Austria, ÖIAG shall, pursuant to the Shareholders' Agreement, have the following veto rights: among others, veto rights on capital increases in Telekom Austria and its subsidiaries, and the issuance of certain convertible instruments, appointment of the statutory auditors, related party transactions, relocation of the headquarters and major business functions including research and development, sale of core businesses, amendment of the corporate name of Telekom Austria and of trademarks of Telekom Austria Group. In addition, ÖIAG will also have the mandatory statutory minority blocking rights of a 25% plus 1 share-minority shareholder. The veto rights of ÖIAG in connection with capital increases and the issuance of certain convertible instruments are also reflected in the articles of association (*Satzung*) of the Company. Even if ÖIAG's shareholding rights fall below 20%, but for as long as ÖIAG holds at least 10%, ÖIAG will enjoy certain veto rights. The Shareholders' Agreement automatically terminates if a party falls below 10%.
B.7	**Selected financial and business information**	The financial information contained in the following tables is extracted or derived from the Audited Consolidated Financial Statements of the Company as of and for the financial years ended December 31, 2013, 2012 and 2011 as well as the unaudited Interim Consolidated Financial Statements as of and for the nine months ended September 30, 2014 with comparable information for the nine months ended September 30,

2013, and the notes thereto. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union ("**EU**").

Selected data from the consolidated financial statements of profit or loss / operations

	Nine months ended September 30,		Financial year ended December 31,		
	2014	**2013**	**2013**	**2012**	**2011**
in TEUR	(unaudited)		(audited)		
Operating revenues	2,987,714	3,128,269	4,183,949	4,329,703	4,454,626
Other operating income	91,719	56,934	87,079	82,086	100,379
Materials	-341,750	-375,953	-547,302	-474,677	-442,044
Employee expenses, including benefits and taxes²	-626,179	-618,307	-845,872	-833,268	-805,042
Other operating expenses	-1,077,502	-1,165,835	-1,590,496	-1,648,095	-1,780,575
Operating expenses²	-2,045,430	-2,160,096	-2,983,669	-2,956,040	-3,027,661
EBITDA comparable[1, 2]	**1,034,003**	**1,025,107**	**1,287,359**	**1,455,749**	**1,527,343**
Restructuring	-12,073	-35,299	-45,185	-34,685	-233,703
Impairment and reversal of impairment	-400,000	0	0	0	-248,906
EBITDA incl. effects from restructuring and impairment tests²	**621,930**	**989,808**	**1,242,174**	**1,421,064**	**1,044,735**
Depreciation and amortization	-644,543	-645,061	-864,606	-963,972	-1,052,376
Operating income²	**-22,613**	**344,747**	**377,568**	**457,093**	**-7,641**
Interest income	10,508	12,537	16,123	16,937	16,942
Interest expense	-147,404	-151,648	-200,853	-232,674	-216,773
Foreign exchange differences	-569	-3,002	-4,278	2,494	-43,533
Other financial result	127	-55	-137	-425	-4,544
Result from investments in affiliates	118	213	1,697	981	1,089
Financial result	-137,219	-141,956	-187,447	-212,687	-246,819
Earnings before taxes²	**-159,832**	**202,790**	**190,121**	**244,405**	**-254,460**
Income taxes²	-30,155	-43,542	-80,421	-140,394	1,654
Net result²	**-189,988**	**159,249**	**109,700**	**104,011**	**-252,806**

[1] EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses. It consists of the sum of operating revenues and other operating income reduced by operating expenses.
[2] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendments to IAS 19.

Source: Consolidated Financial Statements.

Selected data from the consolidated financial statements of financial position

	September 30,	December 31,		
	2014	**2013**	**2012**	**2011**
in TEUR	(unaudited)	(audited)		
ASSETS				
Cash and cash equivalents	265,387	201,334	600,763	459,952
Short-term investments	7,641	9,882	85,123	165,972
Accounts receivable – trade, net of allowances	607,781	683,843	751,102	758,939
Receivables due from related parties	778	58	7	85
Inventories	124,818	127,273	152,942	157,706
Prepaid expenses	113,605	101,684	106,692	101,010
Income tax receivable	23,709	22,162	21,140	40,633
Non-current assets held for sale	694	962	881	134
Other current assets	97,976	73,995	90,602	67,015
Total current assets	**1,242,389**	**1,221,193**	**1,809,252**	**1,751,446**
Investments in associates	39,399	4,979	3,661	3,699
Financial assets long-term	6,296	5,247	7,872	13,897

	September 30,	December 31,		
	2014	2013	2012	2011
in TEUR	(unaudited)		(audited)	
Goodwill	1,194,613	1,581,906	1,289,501	1,289,714
Other intangible assets, net	2,578,859	2,590,269	1,522,577	1,619,339
Property, plant and equipment, net	2,194,305	2,308,127	2,426,436	2,462,174
Other non-current assets	38,718	25,243	30,767	34,521
Deferred tax assets[1]	119,116	123,006	167,083	275,676
Receivables due from related parties, long-term finance	0	0	0	106
Total non-current assets[1]	**6,171,305**	**6,638,779**	**5,447,896**	**5,699,126**
TOTAL ASSETS[1]	**7,413,694**	**7,859,972**	**7,257,148**	**7,450,572**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Short-term borrowings	-280,806	-230,284	-1,049,424	-1,014,185
Accounts payable – trade	-447,176	-573,836	-590,783	-684,025
Current provisions and accrued liabilities	-269,264	-301,369	-301,789	-311,573
Payables due to related parties	-4,273	-5,891	-7,775	-9,816
Income tax payable	-35,566	-34,658	-37,158	-41,259
Other current liabilities	-162,162	-137,098	-171,454	-184,642
Deferred income	-169,825	-159,134	-163,710	-166,517
Total current liabilities	**-1,369,073**	**-1,422,271**	**-2,322,093**	**-2,412,018**
Long-term debt	-3,625,945	-3,737,702	-2,831,983	-2,935,053
Employee benefit obligations[1]	-170,987	-164,332	-161,642	-136,187
Non-current provisions	-833,576	-881,355	-923,146	-888,208
Deferred tax liabilities	-95,159	-105,264	-115,176	-127,250
Other non-current liabilities and deferred income	-16,077	-16,441	-84,014	-74,178
Total non-current liabilities[1]	**-4,741,745**	**-4,905,094**	**-4,115,961**	**-4,160,878**
Common stock	-966,183	-966,183	-966,183	-966,183
Treasury shares	7,803	7,803	8,196	8,196
Additional paid-in capital	-582,618	-582,618	-582,896	-582,896
Hybrid capital	-591,186	-591,186	0	0
Retained earnings[1]	332,635	132,638	236,128	225,206
Available-for-sale reserve	-111	15	191	805
Hedging reserve	42,108	45,717	48,459	27,887
Translation adjustments	455,824	442,296	438,062	410,243
Equity attributable to equity holders of the parent[1]	**-1,301,727**	**-1,511,518**	**-818,042**	**-876,743**
Non-controlling interests	-1,148	-1,089	-1,052	-934
TOTAL STOCKHOLDERS' EQUITY[1]	**-1,302,876**	**-1,512,607**	**-819,094**	**-877,677**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY[1]	**-7,413,694**	**-7,859,972**	**-7,257,148**	**-7,450,572**

[1] Comparative amounts for the financial years ended December 31, 2012 and 2011 were restated as a result of the amendment to IAS 19.

Source: Consolidated Financial Statements.

Selected data from the consolidated financial statements of cash flows

	Nine months ended September 30,		Financial year ended December 31,		
	2014	2013	2013	2012	2011
in TEUR	(unaudited)			(audited)	
Net result[1]	-189,988	159,249	109,700	104,011	-252,806
Gross cash flow	916,585	909,514	1,137,217	1,295,903	1,339,633
Change in assets and liabilities	-242,569	-119,991	-85,652	-247,981	-126,358
Cash flow from operating activities	**674,016**	**789,523**	**1,051,564**	**1,047,922**	**1,213,275**
Cash flow from investing activities	**-490,956**	**-780,832**	**-2,021,368**	**-636,288**	**-854,751**
Cash flow from financing activities	**-119,111**	**-24,826**	**569,555**	**-269,566**	**-3,673**
Effect of exchange rate changes	-412	1,328	1,803	-49	1,274

	Nine months ended September 30,		Financial year ended December 31,		
	2014	2013	2013	2012	2011
in TEUR	(unaudited)		(audited)		
Monetary loss on cash and cash equivalents	517	-186	-983	-1,208	-16,367
Change in cash and cash equivalents	64,053	-14,993	-399,429	140,811	339,756
Cash and cash equivalents at beginning of the period	201,334	600,763	600,763	459,952	120,196
Cash and cash equivalents at end of the period	265,387	585,770	201,334	600,763	459,952

[1] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendment to IAS 19.

Source: Consolidated Financial Statements.

Additional key financial figures

	As of, and for the nine months ended, September 30,		As of, and for the financial year ended, December 31,		
	2014	2013	2013	2012	2011
in TEUR (unless indicated otherwise)	(unaudited)		(audited, unless otherwise indicated)		
Operating revenues	2,987,714	3,128,269	4,183,949	4,329,703	4,454,626
EBITDA comparable[1, 5]	1,034,003	1,025,107	1,287,359	1,455,749	1,527,343
EBITDA comparable margin (in % of revenues)[2, 5]	34.6	32.8	30.8	33.6	34.3
Capital expenditure[3]	472,514	492,998	1,779,085	728,223	738,979
Net debt[2, 4]	3,530,890	2,708,843	3,695,754	3,248,869	3,380,313

[1] EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses. It consists of the sum of operating revenues and other operating income reduced by operating expenses.
[2] Unaudited.
[3] Capital expenditure does not include additions for asset retirement obligations. Capital expenditure is defined as additions to property, plant and equipment and intangible assets as reported in the cash flow statement under cash flow from investing activities.
[4] Net debt is defined as financial liabilities less cash and cash equivalents, investments, finance lease receivables and derivative financial instruments for hedging activities.
[5] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendment to IAS 19.

Source: Consolidated Financial Statements and Company information.

Additional key operating figures

	September 30,		December 31,		
	2014	2013	2013	2012	2011
in TEUR (unless indicated otherwise)	(unaudited)		(audited, unless otherwise indicated)		
Number of mobile customers (in thousands)[1,2]	19,903	20,187	20,117	19,626	20,266
Number of fixed line customers (in thousands)[2]	2,639	2,623	2,637	2,603	2,609
FTE	16,350	16,243[3]	16,045	16,446	17,217[3]
Thereof in Austria	8,806	9,136	8,804	9,077	9,292
Thereof international	7,371	6,948	7,076	7,205	7,762
Thereof corporate	173	158	165	164	164

[1] As of the second quarter of 2013 the methodology for counting mobile subscribers was changed. Previous quarters of 2012 and 2013 were adjusted retrospectively.
[2] Unaudited.
[3] The figure does not correspond to the sum of the numbers in the column regarding FTE due to rounding adjustments.

Source: Consolidated Financial Statements and Company information.

The following changes in the Company's financial condition and its operating results, as defined by EBITDA comparable, occurred from the nine-month period ended September 30, 2013 to the nine-month period ended September 30, 2014 and in the Financial years ended December 31, 2011, 2012 and 2013.

Nine months ended September 30, 2013 and 2014

Operating revenues decreased by EUR 140.6 million, or 4.5%, from EUR 3,128.3 million for the nine months ended September 30, 2013 to

		EUR 2,987.7 million for the nine months ended September 30, 2014. The decrease in operating revenues was primarily due to revenue declines in Austria, Bulgaria and Croatia. The Austrian revenues included negative extraordinary effects of EUR 28.2 million from the introduction of a new fixed-line billing system interface. Negative effects from foreign currency translations stemming primarily from Belarus amounted to EUR 33.7 million. Excluding both of these effects, the Group's revenues would have decreased by 2.5%. EBITDA comparable increased by EUR 8.9 million, or 0.9%, from EUR 1,025.1 million for the nine months ended September 30, 2013 to EUR 1,034.0 million for the nine months ended September 30, 2014. The increase in EBITDA comparable was primarily due to an increase in other operating income combined with a decrease in material and other operating expenses that more than offset lower operating revenues and slightly increased employee expenses. ***Financial years ended December 31, 2012 and 2013*** Operating revenues decreased by EUR 145.8 million, or 3.4%, from EUR 4,329.7 million for the financial year ended December 31, 2012 to EUR 4,183.9 million for the financial year ended December 31, 2013. The decrease in operating revenues was primarily due to price competition and regulatory effects in the mature markets of Austria, Bulgaria and Croatia. Political and macroeconomic headwinds also negatively impacted revenues, especially in Bulgaria and Croatia. EBITDA comparable decreased by EUR 168.4 million, or 11.6%, from EUR 1,455.7 million for the financial year ended December 31, 2012 to EUR 1,287.4 million for the financial year ended December 31, 2013. The decrease in EBITDA comparable was primarily due to a decrease in operating revenues and a slight increase of operating expenses, which was mainly driven by a significant increase in expenses for materials. ***Financial years ended December 31, 2011 and 2012*** Operating revenues decreased by EUR 124.9 million, or 2.8%, from EUR 4,454.6 million for the financial year ended December 31, 2011 to EUR 4,329.7 million for the financial year ended December 31, 2012. The decrease in operating revenues was primarily due to intense competition in practically all of the Group's markets as well as regulatory changes that reduced roaming and termination rates and continued difficult economic developments in the Group's core markets. EBITDA comparable decreased by EUR 71.6 million, or 4.7%, from EUR 1,527.3 million for the financial year ended December 31, 2011 to EUR 1,455.7 million for the financial year ended December 31, 2012. The decrease in EBITDA comparable was primarily due to lower operating revenues and a decrease in other operating income.
B.8	**Selected key pro forma financial information**	Not applicable. No pro forma financial information is required.
B.9	**Profit forecast and estimate**	Not applicable. No profit forecast or estimate has been issued.
B.10	**Nature of any qualifications in the audit report on the historical financial**	Not applicable. There are no qualifications.

	information	
B.11	**Insufficiency of the issuer's working capital for its present requirements**	Not applicable. The working capital is sufficient.

C – SECURITIES

C.1	**A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number**	The Offering consists of a total of up to 221,500,000 no-par value ordinary bearer shares of the Company, each such share with a notional value of EUR 2.181 in the share capital and with full dividend rights as from January 1, 2014 (the "**New Shares**"). The New Shares will be from a capital increase from authorized capital against contribution in cash resolved upon by resolutions of the Management Board and the Supervisory Board on November 7, 2014, whereas the final number of New Shares will be resolved upon by resolutions of the Management Board and the Supervisory Board on or about November 25, 2014. For purposes of admission to trading on the Official Market of the Vienna Stock Exchange, this Prospectus relates to the New Shares. International Securities Identification Number of the New Shares (ISIN): AT0000720008.
C.2	**Currency of the securities issue**	Euro.
C.3	**The number of shares issued and fully paid and issued but not fully paid The par value per share or that the shares have not par value**	The share capital of the Company amounts to EUR 966,183,000 and is divided into 443,000,000 no-par value ordinary bearer shares. The entire share capital is fully paid up. Each of the shares of the Company represents a notional value of EUR 2.181 in the share capital.
C.4	**A description of the rights attached to the securities**	Each share in the Company carries in particular the right to participate, ask questions and cast one vote at the Shareholders' Meeting. There are no restrictions on voting rights. The New Shares carry the right to receive dividends as from January 1, 2014, the right to participate in capital increases pro rata (subscription right) and the right to receive liquidation proceeds in case of a dissolution of the Company.
C.5	**A description of any restrictions on the free transferability of the securities**	Other than under the lock-up agreements described under E.5, there are no principal restrictions on the transferability of the Company's shares. However, investors, in particular international investors, are requested to inform themselves of any potential regulatory restrictions in relation to the acquisition of shares in the Company, in particular under merger control laws, the Austrian Foreign Trade Act (*Außenwirtschaftsgesetz – AußWG 2011*), the Austrian Telecommunications Act (*Telekommunikationsgesetz – TKG 2003*) and the Austrian Banking Act (*Bankwesengesetz – BWG*).
C.6	**An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the**	All 443,000,000 Existing Shares are listed on the Official Market (*Amtlicher Handel*) of the Vienna Stock Exchange (the "**Official Market**") in the prime market segment under the symbol "TKA". The Company will apply to list the New Shares on the Official Market in the prime market segment and the New Shares are expected to trade on the Vienna Stock Exchange in the prime market segment commencing on or about November 27, 2014.

	identity of all the regulated markets where the securities are or are to be traded	
C.7	**A description of dividend policy**	The Company's dividend policy is based on a floor of EUR 0.05 per Share and targets a sustainable pay-out level that has the capacity to grow over time. At the beginning of each financial year, the respective intended dividend will be announced. After the end of a financial year, based on actual results, potential additional cash pay-out to shareholders may be defined, taking into consideration free cash flow generation, the Group's target capital structure as well as CAPEX requirements. For the financial years 2014 and 2015, Management intends to pay a dividend of EUR 0.05 per Share (including New Shares). However, the decision on whether and in what amount dividends are to be distributed in the future will depend on a series of factors. The timing and amount of future dividend payments, if any, will depend on the Company's financial performance, including, among other factors, its earnings, its general financial condition and liquidity situation, general conditions in the markets in which the Company operates, and legal, tax and regulatory considerations as well as such other factors as the Management Board and Supervisory Board may consider relevant. Furthermore, the Company's ability to pay dividends depends on the amount of dividends received from its subsidiaries.

D – RISKS

D.1	**Key information on the key risks that are specific to the issuer or its industry**	**Macroeconomic risks and market environment** • An economic downturn or substantial slowdown in economic development in certain markets could adversely affect customer demand for Telekom Austria Group's products and services. • Telekom Austria Group operates in a competitive industry and may not be able to maintain its market share, which could adversely affect its business. • Telekom Austria Group operates in a number of CESEE countries and is thus subject to individual country risks in CESEE. **Risks relating to Telekom Austria Group's business** • Telekom Austria Group may realize neither the expected level of demand for its products and services, nor the expected level or timing of revenues and profitability generated by those products and services, as a result of unsuccessful marketing strategies or lack of market demand. • The telecommunications industry is significantly affected by rapid technological change and Telekom Austria may not be able to proactively anticipate or effectively react to these changes. • Technological change could increase competition, allow for new market entrants, render existing technologies obsolete, or require Telekom Austria Group to make substantial additional investments. • Telekom Austria Group may not be able to successfully implement its convergence strategy to gain new customers through bundling of its voice, broadband and/or television services. • The migration to next generation networks and other technological changes may require substantial investments in the future and may

impair the value of existing investments which could have a negative impact on Telekom Austria Group's profitability.

- Telekom Austria Group may require permits for its existing and planned infrastructure in some of the markets in which it operates and may be required to relocate parts of its network infrastructure.
- Pursuing strategic opportunities, Telekom Austria Group may acquire or sell assets or companies, or enter into joint ventures which could potentially deliver less revenues, cash flows and earnings than anticipated and may experience difficulties integrating acquired assets or companies in a timely manner; suitable acquisition targets may not be identified and anticipated synergies may not be realized as expected.
- Due to the old age of some of its buildings, Telekom Austria Group may incur expenses, liabilities or limitations on its operations relating to the protection of such buildings as national landmarks or due to potential environmental issues.
- Telekom Austria Group's assets, such as goodwill and brands, are subject to the risk of impairment.
- As a result of Telekom Austria Group's large number of civil servants and protected employees in Austria, the Group is limited in its ability to adjust its operating expenses according to the changing market environment.
- System failures due to natural or human failure and the technological dependency on third parties may have an impact on Telekom Austria Group's reputation and the rate of customer satisfaction.
- Telekom Austria Group's cooperation agreement with Vodafone may not be renewed or may be terminated.
- Telekom Austria Group may not be able to retain, recruit or train sufficient management staff and skilled employees.
- The Group may be exposed to claims for compensation payments for the past and for higher payments in the future in connection with the calculation of pension contributions for civil servants employed with the Group.
- Alleged health risks of wireless communications devices could lead to litigation or decreased wireless communications usage or increased difficulty in obtaining sites for base stations and, as a result, adversely affect the financial condition and results of operations of Telekom Austria Group's wireless services business.
- Shortcomings in Telekom Austria Group's supply and procurement process could negatively affect its product portfolio, revenues and profits.
- Telekom Austria Group faces substantial recurring expenses for spectrum licenses to maintain its mobile operations and may be unable to renew or acquire such licenses.
- Major customers or sales partners may decide to terminate their contracts with Telekom Austria Group and Telekom Austria Group may fail to maintain or further develop its direct and indirect distribution channels or fail to anticipate customer preference for a specific distribution channel.
- An insolvency of major customers or international suppliers may

have an impact on Telekom Austria Group's revenues or profitability.

- The default of a large number of small customers may have an impact on Telekom Austria Group's revenues or profitability.
- Due to its high level of debt, the Group faces potential liquidity risks.
- Exchange rate and interest rate risks have had, and may continue to have, an adverse effect on Telekom Austria Group's revenue and cost development.
- Downgrades in the rating or a decline in the credit metrics of Telekom Austria, its inability to obtain new financing and covenants in existing financing agreements could increase refinancing costs and impair Telekom Austria Group's liquidity and profitability.
- Telekom Austria Group may not obtain necessary approvals for some of its transactions or may obtain conditional approvals.
- Unexpected events may result in the insurance coverage of Telekom Austria Group being inadequate.
- Increased capital requirements for banks due to more stringent regulations could lead to higher costs of capital for Telekom Austria Group.

Regulatory, legal and compliance risks

- Regulatory decisions and changes in the regulatory environment could adversely affect Telekom Austria Group's business.
- Telekom Austria Group is continuously involved in disputes and litigation with regulators, competition authorities, tax authorities, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on Telekom Austria Group's results of operations and financial condition.
- Potential breaches of compliance requirements or the identification of material weaknesses in Telekom Austria Group's internal control over financial reporting may have an adverse impact on Telekom Austria Group's corporate reputation, financial condition and the trading price of the Shares.
- Crime, corruption and money laundering in the countries where Telekom Austria Group operates may adversely affect Telekom Austria Group's ability to conduct its business.

Country risks affecting Telekom Austria Group's operations

- The legal systems, economies, social and other circumstances in CESEE countries are in different stages of the process of transformation towards EU standards.
- Telekom Austria Group's inability to address the various macroeconomic, competitive and regulatory challenges in each of the markets in which it operates could erode the Group's market share and cause a decline in its revenues and profitability.
- Economic instability in CESEE countries may adversely affect Telekom Austria Group's business and results of operations.
- Telekom Austria Group could become subject to the risk of

expropriation and nationalization in CESEE countries.

- Volatility of CESEE currencies may adversely affect Telekom Austria Group's earnings.
- Changes in the relationships between CESEE countries and western governments and institutions may affect Telekom Austria Group's business.
- Relationships upon which CESEE countries depend for their economic development may deteriorate and thus affect Telekom Austria Group's business.
- Limited financial infrastructure and liquidity problems in CESEE countries may adversely affect Telekom Austria Group's business, results of operations and financial condition.
- Restrictions may be imposed in some CESEE countries which could make the repatriation of profits difficult, hereby causing a transfer risk for Telekom Austria.
- Potential social instability in CESEE countries may affect Telekom Austria Group's business.
- The evolving legal systems in CESEE countries are subject to risks and uncertainties, which may have an adverse effect on Telekom Austria Group's business.
- Uncertainties in the tax systems in CESEE countries may adversely affect Telekom Austria Group's business, financial condition and results of operations.

D.3 Key information on the risks related to the shareholder structure, the Shares, the key risks that are specific Offering and admission to trading to the securities

Risks relating to the shareholder structure, the Offering and the New Shares

- América Móvil has, and will continue to have, the ability to control Telekom Austria in the Shareholders' Meeting, the Supervisory Board and the Management Board.
- Any seeking of consent by Telekom Austria's main shareholders on certain important Shareholders' Meeting matters could delay or otherwise impact Telekom Austria's ability to react quickly to business developments.
- Certain Supervisory Board members also hold executive positions in the management of América Móvil or serve as members of supervisory boards in companies of América Móvil group, which may create conflicts of interest.
- The market price of the Shares may be volatile and could be adversely affected by future sales of the Shares in the public market.
- A lower number of Shares in free float could decrease the liquidity of the Shares and therefore negatively affect the market price of the Shares.
- In the event of the insolvency of Telekom Austria, Telekom Austria's shareholders could suffer a total loss in the value of their Shares.
- The contestation of resolutions passed by the extraordinary Shareholders' Meeting held on August 14, 2014 may have a negative effect on the registration of the capital increase in relation to the New Shares into the Austrian companies register.

- Shareholders are exposed to the risk of a failure of Telekom Austria to make dividend payments.
- Telekom Austria's ability to pay dividends depends primarily on the inflow of funds from Telekom Austria's subsidiaries.
- The equity position of shareholders who do not participate in the Offering may be significantly diluted.
- Shareholders' interests in Telekom Austria may be diluted if Telekom Austria issues additional shares in the future.
- Rights of shareholders in an Austrian corporation may differ from rights of shareholders in a corporation organized under the laws of another jurisdiction.
- Fluctuation in exchange rates may influence the value of the Shares and dividends for investors outside the Euro zone.
- A suspension of trading in the Shares on the Vienna Stock Exchange could adversely affect the share price.
- If this Offering is not consummated, the Subscription Rights will no longer exist.
- The value of the Subscription Rights may be volatile and depends on various factors, including the price of the Shares.

E – OFFER

E.1	**The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the issuer or the offeror**	This is an offering of up to 221,500,000 newly issued no-par value ordinary bearer shares of the Company, with a calculated notional amount of EUR 2.181 per share, following a share capital increase from authorized capital against contribution in cash with targeted net proceeds of EUR 1,000,000,000 (maximum). The Company will receive the gross proceeds from the sale of the New Shares less the total costs of the Offering incurred by the Company. The Company targets gross proceeds from the Offering of approximately EUR 1,012,255,000. The Company estimates that its total costs (including commissions of the Underwriters and capital contribution tax (*Gesellschaftsteuer*) of 1%) will amount to at least EUR 13,256,500. Under the assumption that the maximum number of New Shares will be placed and that the Rump Placement Offer Price is equal to the Rights Offering Offer Price, the targeted net proceeds from the Offering would in this case amount to approximately EUR 998,998,500. However, the actual net proceeds the Company will receive from the sale of the New Shares depend on the actual number of New Shares sold, the Rump Placement Offer Price, the actual Offering related costs but will in no case exceed EUR 1,000,000,000. Depending on the actual number of New Shares sold, the Rump Placement Offer Price and the commissions, the total costs of the Offering (including commissions of the Underwriters and capital contribution tax (*Gesellschaftsteuer*) of 1%) could amount up to approximately EUR 16 million. As to the estimated expenses charged to the investor by the Company, see E.7.
E.2a	**Reasons for the offer, use of proceeds, estimated net amount of the proceeds**	The Company intends to use the net proceeds to re-establish its target capital structure allowing it to maintain a credit rating of at least BBB (stable) by Standard & Poor's. This will allow Telekom Austria Group to pursue strategic investment priorities with the aim to strengthen the Group's operational performance and to return to a sustainable growth

profile within the stated sound financial framework, in particular to implement the following measures:

(a) Accelerated roll-out of a fiber infrastructure during the years 2015 – 2018 in combination with latest available technologies to ensure CAPEX efficiency. This will allow Telekom Austria Group to meet increasing demand for high bandwidth services and safeguard the Group's network quality leadership in the Austria segment.

(b) Financing of value accretive M&A opportunities that strengthen Telekom Austria Group's operational strategy thereby maintaining the following priorities: (i) in-market consolidation to strengthen existing operations; (ii) continued pursuit of Telekom Austria Group's convergence strategy to diversify in markets that are currently mobile-only and to enhance existing convergent operations; and (iii) expansion via new operations.

As to the estimated net amount of the proceeds, see E.1.

E.3	**A description of the terms and conditions of the offer**	The Company has issued 443,000,000 no-par value ordinary bearer shares with a calculated notional amount of EUR 2.181 per share (the "**Existing Shares**" and, together with the New Shares, the "**Shares**") and is targeting net proceeds from a capital increase in an amount of EUR 1,000,000,000 (maximum) by offering up to 221,500,000 New Shares. Current shareholders of the Company (the "**Existing Shareholders**") holding Existing Shares as of 24:00 (midnight) Central European Time on November 7, 2014 will be granted one subscription right for each Existing Share held (the "**Subscription Rights**") and are invited to subscribe for the New Shares (the "**Rights Offering**") at EUR 4.57 per New Share (the "**Rights Offering Offer Price**"). Existing Shareholders exercising their Subscription Rights will be entitled to 1 New Share for every 2 Subscription Rights (the "**Subscription Ratio**") against payment of the Rights Offering Offer Price per New Share. Existing Shareholders may exercise their Subscription Rights during the subscription period which begins on November 10, 2014 and is expected to end on November 24, 2014 (the "**Subscription Period**"). The Subscription Rights are freely transferable, subject to certain restrictions, and bear the ISIN AT0000A1AD41. The Company will apply for the trading of the Subscription Rights on the Vienna Stock Exchange. Trading of the Subscription Rights is expected to commence on November 12, 2014 and to end on November 19, 2014 on the Vienna Stock Exchange. Subscription Rights not exercised by the end of the Subscription Period will expire without the right to any compensation. Existing Shareholders who do not hold a number of Subscription Rights divisible by 2 will not be able to exercise their Subscription Rights in full or at all and as a result of the Offering their ownership may therefore be diluted. Holders of Subscription Rights can acquire additional Subscription Rights on the market in order to acquire New Shares or can sell their Subscription Rights in the market. The Subscription Period may be extended or terminated at the absolute discretion of the Company in consultation with the Joint Bookrunners at any time. Each of the Core Shareholders has committed itself vis-à-vis the Company to participate in the Offering (as defined below) and acquire the applicable numbers of New Shares at the Rights Offering Offer Price as described below, and the Company has admitted each of

them for direct subscription of the applicable numbers of New Shares. América Móvil has committed itself to acquire at the Rights Offering Offer Price 3,967,850 New Shares according to its 7,935,700 Subscription Rights. Carso Telecom has committed itself to acquire at the Rights Offering Offer Price 128,267,215 New Shares according to its 256,534,431 Subscription Rights. ÖIAG has committed itself to acquire at the Rights Offering Offer Price up to 62,958,867 New Shares according to its 125,917,735 Subscription Rights such that its participation in the share capital of the Company after the Offering (as defined below) corresponds as closely as possible to its current pro-rata participation in the Company (approximately 28.42%).

New Shares not subscribed for in the Rights Offering or committed by the Core Shareholders will be offered at a price equal to or above the Rights Offering Offer Price (the "**Rump Placement Offer Price**"), in a rump placement (the "**Rump Placement**" and, together with the Rights Offering, the "**Offering**"), which will consist of private placements to qualified investors in the Republic of Austria and other selected countries, including in the United States of America (the "**United States**" or "**U.S.**") to qualified institutional buyers ("QIBs") as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and outside of the United States to certain other eligible institutional investors in reliance on Regulation S under the Securities Act. The final price of the New Shares offered in the Rump Placement will be determined on the basis of the outcome of a bookbuilding procedure but will in no event be higher than EUR 7.15. The offer period during which investors may offer to purchase New Shares in the Rump Placement begins on November 24, 2014 after market close of the Vienna Stock Exchange and is expected to end on November 25, 2014 (the "**Rump Placement Period**" and together with the Subscription Period, the "**Offer Period**"). The Rump Placement Period may be shortened, extended or terminated at the absolute discretion of the Company in consultation with the Joint Bookrunners at any time. The Offering may be terminated, suspended or extended in the absolute discretion of the Company in consultation with the Joint Bookrunners at any time.

The final number of New Shares will be determined by Telekom Austria in consultation with the Joint Bookrunners. Should the number of New Shares issued by Telekom Austria be lower than 221,500,000, the Subscription Ratio will not change; therefore, the relative share ownership (expressed as a percentage of the total share capital of Telekom Austria) of those Existing Shareholders fully exercising their Subscription Rights may be higher than prior to the Offering.

The Existing Shares (ISIN AT0000720008) are listed on the Official Market in the prime market segment under the symbol "TKA". The New Shares will have the same ISIN. Application will be made to list the New Shares on the Official Market of the Vienna Stock Exchange. Subject to the approval of the Vienna Stock Exchange, trading in the New Shares on the Vienna Stock Exchange is expected to commence in the prime market segment on or about November 27, 2014.

ADRs

The Company was previously listed on the New York Stock Exchange via American Depositary Receipts ("**ADRs**"). Effective May 17, 2007, the Company withdrew its listing on the New York Stock Exchange. The ADRs continue to be traded over the counter under a sponsored level 1 ADR program. Each ADR represents two Existing Shares. The ADRs are not listed on any securities exchange in the United States and the Company is not subject to the reporting requirements of sections 13 or 15(d) of the United States Exchange Act of 1934, as amended. Holders of ADRs issued by third-party depositaries in respect of their holdings in the Company's Shares in connection with the Company's ADR program will not be permitted to effect subscription for New Shares in respect of the Existing Shares that are represented by such ADRs. As the Subscription Rights and the New Shares have not been and will not be registered under the Securities Act, no new ADRs will be issued in the Offering.

E.4 **A description of any interest that is material to the issue/offer including conflicting interests**

The Joint Bookrunners have entered into a contractual relationship with the Company in connection with the Offering. Upon completion of the Offering, the Joint Bookrunners will receive a commission. In connection with the Offering, the Joint Bookrunners and their respective affiliated companies will be able to acquire Shares for their own accounts and hold, purchase or sell for their own accounts and can also offer or sell Shares outside of the Offering. The Joint Bookrunners do not intend to disclose the scope of such investments or transactions if not required by law.

The Joint Bookrunners and their respective affiliated companies have provided, currently provide or may provide in the future various investment banking, commercial banking, financial advisory and/or similar services to companies of the Telekom Austria Group on a regular basis, and maintain normal business relationships with the companies of the Telekom Austria Group in their capacity as credit institutions or as lenders under credit and/or guarantee facilities, for which they have received and may continue to receive customary fees and expenses. All investment, consulting and financial transactions with the Joint Bookrunners are conducted on an arm's length basis.

E.5 **Name of the person or entity offering to sell the security**

The New Shares are being offered for sale by Citigroup Global Markets Limited and Deutsche Bank Aktiengesellschaft (the "**Joint Global Coordinators**") and Erste Group Bank AG, Raiffeisen Centrobank AG and UniCredit Bank Austria AG (together with the Joint Global Coordinators, the "**Joint Bookrunners**" or the "**Underwriters**").

Lock-up agreements: the parties involved; and indication of the period of the lock up

In the underwriting agreement (the "**Underwriting Agreement**"), the Company has agreed with each of the Underwriters that, to the extent legally permissible, during the period commencing on the date of the Underwriting Agreement and ending six months after the first day of trading in the New Shares on the Vienna Stock Exchange, and without the prior written consent of the Joint Bookrunners (which shall not be unreasonably withheld or delayed), the Company or, in respect of (i) and (ii) below, its Management Board or Supervisory Board will not:

(i) exercise an authorization pursuant to its Articles of Association to increase its capital;

(ii) submit a proposal for a capital increase to any meeting of the shareholders for resolution;

(iii) offer, pledge, allot, issue (unless being required by applicable law), sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares in its capital or any securities convertible into or exercisable or exchangeable for shares in its capital or enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of shares in its capital, whether any such transaction described above is to be settled by delivery of shares in its capital or such other securities, in cash or otherwise (other than for the purpose of issuing ordinary shares or options for ordinary shares to directors or employees of the Company or any of the Subsidiaries under a customary directors' and/or employees' stock option plan).

In separate letter agreements, América Móvil and Carso Telecom agreed vis-à-vis the Company and the Joint Bookrunners, and ÖIAG agreed vis-à-vis the Joint Bookrunners, that during the period commencing on the date hereof and ending six months after the first day of trading in the New Shares on the Vienna Stock Exchange, without the prior written consent of the Joint Bookrunners, they will not offer, pledge, allot, issue (unless being required by applicable law), sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Existing Shares or New Shares held by América Móvil, Carso Telecom and ÖIAG at any time during such period, or any securities convertible into or exercisable or exchangeable for such Existing Shares or New Shares or enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of such Existing Shares or New Shares, whether any such transaction described above is to be settled by delivery of such Existing Shares or New Shares or other securities, in cash or otherwise.

E.6	**The amount and percentage of immediate dilution resulting from the offer. In case of a subscription offer to the existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer**	The Group's shareholders' equity as of September 30, 2014 was EUR 1,301.7 million (excluding non-controlling interests), or EUR 2.94 per each of the 443,000,000 Existing Shares of the Company (as adjusted for the 415,159 treasury shares). After giving effect to the sale of 221,500,000 New Shares assuming a price of EUR 4.57 per New Share for all New Shares (if the Rump Placement Offer Price equals the Rights Offering Offer Price), the Group's shareholders' equity as of September 30, 2014 would have been EUR 2,300.7 million or EUR 3.46 per share, after deduction of the expected total costs of the Offering incurred by the Company. This represents an immediate dilution in shareholders' equity of EUR 1.11 or 24.2% per share to investors purchasing New Shares at the Rights Offering Offer Price and an immediate increase of approximately EUR 0.52 or approximately 17.8% in the net assets per share for Existing Shareholders not subscribing New Shares. Dilution per share to new investors is determined by subtracting shareholders' equity per share after the Offering from the price paid by a new investor. Investors should be aware that dilution, as calculated above, is based on the maximum number of New Shares offered and on a Rump Placement Offer Price equal to the Rights Offering Offer Price. The actual dilution will be determined on the basis of the actual net proceeds based on the actual number of New Shares issued and is also contingent on the actual Rump Placement Offer Price.
E.7	**Estimated expenses charged to the investor by the issuer or the offeror**	Except for customary banking fees of an investor's depository bank, investors will not be charged with expenses by the Company or the Underwriters.

GERMAN TRANSLATION OF THE SUMMARY OF THE PROSPECTUS – ZUSAMMENFASSUNG DES PROSPEKTS

The following translation of the original summary is a separate document attached to this Prospectus. It does not form part of this Prospectus itself and has not been approved by the FMA. Further, the FMA has not reviewed the consistency of the translation with the original summary.

Die nachfolgende Übersetzung der Originalzusammenfassung ist ein separates Dokument, welches diesem Prospekt angeschlossen wurde. Sie ist selbst nicht Bestandteil dieses Prospekts und wurde nicht von der FMA gebilligt. Des Weiteren hat die FMA die Konsistenz der nachfolgenden Übersetzung mit der Originalzusammenfassung nicht geprüft.

Zusammenfassungen bestehen aus geforderten Angaben, die als "Punkte" bezeichnet sind. Diese Punkte sind in den Abschnitten A – E (A.1 – E.7) fortlaufend nummeriert. Diese Zusammenfassung enthält alle Punkte, die für die vorliegende Art von Wertpapieren und Emittenten in eine Zusammenfassung aufzunehmen sind. Da einige Punkte nicht behandelt werden müssen, können in der Nummerierungsreihenfolge Lücken auftreten. Selbst wenn ein Punkt wegen der Art der Wertpapiere und des Emittenten in die Zusammenfassung aufgenommen werden muss, ist es möglich, dass in Bezug auf diesen Punkt keine relevanten Informationen gegeben werden können. In diesem Fall enthält die Zusammenfassung eine kurze Beschreibung des Punktes mit dem Hinweis "Entfällt".

A – EINLEITUNG UND WARNHINWEISE

A.1	**Einleitung und Warnhinweise**	Diese Zusammenfassung ist als Einleitung zu diesem Prospekt (der "**Prospekt**") zu verstehen. Der Anleger sollte jede Entscheidung, in die Wertpapiere zu investieren, auf den Prospekt als Ganzes stützen. Für den Fall, dass vor einem Gericht Ansprüche aufgrund der in diesem Prospekt enthaltenen Informationen geltend gemacht werden, muss der Klage erhebende Anleger nach dem geltenden nationalen Recht des jeweiligen Mitgliedslandes des Europäischen Wirtschaftsraums eventuell die Kosten für die Übersetzung des Prospekts tragen, bevor das Gerichtsverfahren aufgenommen wird. Die Telekom Austria Aktiengesellschaft, Wien, Österreich (die "**Gesellschaft**", "**Telekom Austria**" oder die "**Emittentin**"; und die "**Telekom Austria Group**" und die "**Gruppe**" bezeichnen die Telekom Austria und ihre sämtlichen Konzerntochtergesellschaften (jede einzeln eine "**Konzerngesellschaft**" und gemeinsam die "**Konzerngesellschaften**")) kann nur dann für den Inhalt dieser Zusammenfassung, einschließlich ihrer deutschen Übersetzung, verantwortlich gemacht werden, wenn die Zusammenfassung irreführend oder falsch ist oder Unstimmigkeiten mit den übrigen Teilen dieses Prospekts aufweist oder im Zusammenhang mit den übrigen Teilen dieses Prospekts nicht alle notwendigen Schlüsselinformationen enthält, die Anlegern bei der Entscheidung, in die Neuen Aktien zu investieren, helfen sollen.
A.2	**Angabe über spätere Verwendung des Prospekts**	Die Gesellschaft erteilt ihre ausdrückliche Zustimmung zur Verwendung des Prospekts und erklärt, die Haftung für den Inhalt des Prospekts für die endgültige Platzierung der Neuen Aktien in Österreich durch Finanzintermediäre, die gemäß Artikel 4 Nr. 1 der Richtlinie 2006/48/EG des Europäischen Parlaments und des Rates vom 14. Juni 2006 in der jeweils geänderten Fassung zum Handel von Wertpapieren zugelassene Kreditinstitute sind ("**Finanzintermediäre**"), während der Angebotsfrist zu übernehmen. Die Gesellschaft kann ihre Zustimmung jederzeit widerrufen oder einschränken; dieser Widerruf oder diese Einschränkung machen einen Nachtrag zum Prospekt erforderlich. **Jeder Finanzintermediär, der den Prospekt verwendet, muss (i) auf**

seiner Webseite bestätigen, dass er den Prospekt gemäß der Zustimmung und den damit einhergehenden Bedingungen verwendet, und (ii) sicherstellen, dass er alle anwendbaren gesetzlichen Bestimmungen und Vorschriften einhält, die in den betreffenden Rechtsordnungen in Kraft sind.

Falls ein Angebot durch einen Finanzintermediär erfolgt, wird dieser Finanzintermediär den Anlegern zum Zeitpunkt der Angebotsunterbreitung Informationen über die Bedingungen des Angebots zur Verfügung stellen.

B – DIE EMITTENTIN

B.1	**Gesetzliche und kommerzielle Bezeichnung**	Die juristische Bezeichnung der Gesellschaft lautet Telekom Austria Aktiengesellschaft. Der kommerzielle Name der Gesellschaft sowie der Gruppe lautet "Telekom Austria".
B.2	**Sitz und Rechtsform der Emittentin, geltendes Recht, Land der Gründung**	Die Gesellschaft unterhält ihren eingetragenen Firmensitz unter Lassallestraße 9, A-1020 Wien, Österreich, und ist im österreichischen Firmenbuch (das "**Firmenbuch**") unter der Nummer FN 144477 t eingetragen. Die Gesellschaft ist eine in der Republik Österreich gegründete österreichische Aktiengesellschaft und unterliegt österreichischem Recht.
B.3	**Art der derzeitigen Geschäftstätigkeit und Haupttätigkeiten der Emittentin samt der hierfür wesentlichen Faktoren, wobei die Hauptprodukt- und/oder –dienstleistungskategorien sowie die Hauptmärkte, auf denen die Emittentin vertreten ist, anzugeben sind**	Die Telekom Austria Group ist ein Telekommunikationsanbieter. Das Produktportfolio der Telekom Austria an Festnetz- und Mobilfunkprodukten und -dienstleistungen umfasst viele Aspekte moderner Informations- und Kommunikationstechnologien, das bedeutet Festnetz- und mobile Sprachtelefonie, Festnetz- und mobiles Breitband-Internet, Multimedia-Dienste, IPTV und Kabelfernsehen, Daten- und IT-Anwendungen, Großkundenangebote und elektronische Zahlungsdienste. Die A1 Telekom Austria Aktiengesellschaft ist als österreichische Tochtergesellschaft der Telekom Austria ein voll integrierter Festnetz- und Mobilfunkanbieter, der Konvergenzprodukte (Festnetz und Mobilfunk) für Sprachtelefonie, Internetzugang, Daten- und IT-Lösungen, Mehrwertdienste, Großkundenangebote, IPTV (Internetfernsehen und Video-on-Demand), Endgeräte für Endverbraucher zum Verkauf, mobile Lösungen für Unternehmen und mobile Zahlungsdienste in Österreich anbietet. Die lokale Tochtergesellschaft der Telekom Austria in Bulgarien, MobilTel EAD, bietet Konvergenzprodukte (Festnetz und Mobilfunk) für Sprachtelefonie, Internetzugang, Daten- und IT-Lösungen, Mehrwertdienste, Großkundenangebote, IPTV (Internetfernsehen und Video-on-Demand), Endgeräte für Endverbraucher zum Verkauf, mobile Lösungen für Unternehmen und mobile Zahlungsdienste an. Darüber hinaus soll ab dem vierten Quartal des am 31. Dezember 2014 endenden Geschäftsjahres Satellitenfernsehen angeboten werden. Die lokale Tochtergesellschaft der Telekom Austria in Kroatien, VIPnet d.o.o., bietet Konvergenzprodukte (Festnetz und Mobilfunk) für Sprachtelefonie, Internetzugang, Mehrwertdienste, Großkundenangebote, IPTV (Internetfernsehen und Video-on-Demand) und Satellitenfernsehen, Endgeräte für Endverbraucher zum Verkauf, mobile Lösungen für Unternehmen und mobile Zahlungsdienste an. Die lokale Tochtergesellschaft der Telekom Austria in Weißrussland, das Unitarunternehmen velcom, bietet Mobilfunkprodukte für Sprachtelefonie, Internetzugang, Mehrwertdienste,

		Großkundenangebote, Endgeräte für Endverbraucher zum Verkauf und Festnetzdienste für ausgewählte Geschäftskunden an. In Slowenien, der Republik Serbien, der Republik Mazedonien und Liechtenstein bietet die Telekom Austria Group Mobilfunkprodukte für Sprachtelefonie, Internetzugang, Mehrwertdienste und Großkundenangebote an. Darüber hinaus werden in der Republik Mazedonien seit der Übernahme von blizoo DOOEL Skopje Festnetzdienste angeboten.
B.4a	**Wichtigste jüngste Trends, die sich auf die Emittentin und die Branchen, in denen sie tätig ist, auswirken**	Die Telekom Austria Group ist sowohl im Festnetz- als auch im Mobilfunkbereich in einem hart umkämpften Markt tätig, wobei sich in fast allen Segmenten der Telekom Austria Group negative Preisentwicklungen erkennbar sind. Regulierungsmaßnahmen, insbesondere in Bezug auf mobile Terminierungsentgelte und Roaming-Tarife, beeinflussen darüber hinaus sowohl die heimischen als auch die internationalen Geschäftstätigkeiten negativ. Der Telekommunikationsmarkt in Österreich ist weiterhin durch intensiven Wettbewerb und die anhaltende Substitution des Festnetzes durch den Mobilfunk gekennzeichnet. Das Wettbewerbsumfeld auf dem Mobilfunkmarkt beeinflusst den Geschäftsverlauf der Telekom Austria weiterhin negativ. Um diesen Auswirkungen entgegenzuwirken, hat die Telekom Austria seit Anfang 2013 Tarifanpassungen mit dem Ziel durchgeführt, den durchschnittlichen Monatserlös pro Mobilfunkkunde (*average revenue per user*, "**ARPU**") zu erhöhen. Auf dem Festnetzmarkt besteht die größte Herausforderung weiterhin im anhaltenden Rückgang von Sprachminuten aufgrund der Substitution des Festnetzes durch den Mobilfunk, dem die Telekom Austria durch die Fortführung ihrer Konvergenzstrategie entgegenwirken will. In Mittel-, Ost-, und Südosteuropa (nachfolgend "**CESEE**" für engl. "Central, Eastern and South-Eastern Europe") wirkt sich die schlechte Wirtschaftslage nach wie vor auf die Geschäfte in Bulgarien, Kroatien und Slowenien aus. Darüber hinaus ist der Wettbewerb – insbesondere in Bulgarien und Kroatien – weiterhin intensiv und regulatorische und steuerliche Belastungen beeinträchtigen die Geschäftstätigkeit in der CESEE-Region. Roaming-Umsätze wurden insbesondere durch den Beitritt Kroatiens zur EU im Juli 2013 negativ beeinflusst. Es besteht weiterhin Unsicherheit auf den Devisenmärkten, so dass es möglicherweise weitere Währungsschwankungen zwischen dem EUR und den Währungen der Länder geben wird, in denen die Telekom Austria Group ebenfalls tätig ist.
B.5	**Beschreibung der Gruppe und der Stellung der Emittentin innerhalb dieser Gruppe**	Die Telekom Austria ist die Holdinggesellschaft der Telekom Austria Group. Die Geschäftsaktivitäten sind auf mehrere Tochtergesellschaften verteilt, und die Verwaltungs- und Geschäftsaktivitäten der Tochtergesellschaften sind zu einem hohen Maße integriert.
B.6	**Personen, die eine (meldepflichtige) direkte oder indirekte Beteiligung am Grundkapital der Emittentin oder einen Teil der Stimmrechte halten oder eine Beherr-**	Zum Datum dieses Prospekts besteht die Aktionärsstruktur aus den folgenden Personen, die eine unmittelbare oder mittelbare meldepflichtige Beteiligung am Eigenkapital der Gesellschaft entsprechend den Angaben nach § 92a Absatz 1 des österreichischen Börsegesetzes halten (gerundete Prozentzahlen):

Aktionär	**Anzahl der Bestehenden Aktien**	**%**
América Móvil[1]	264.470.131	59,70%

schung ausüben

ÖIAG[2]	125.917.735	28,42%

[1] América Móvil, S.A.B. de C.V., eine nach mexikanischem Recht errichtete Aktiengesellschaft mit variablem Kapital (*sociedad anónima bursátil de capital variable*) mit der Geschäftsadresse Lago Zurich 245, Plaza Carso/Edificio Telcel, Piso 16, Colonia Granada Ampliación, 11529, Mexiko, D.F., Mexiko, eingetragen unter der Registernummer 263,770 im *Registro Público de Comercio* von Mexiko City, ("**América Móvil**") hält 7.935.700 Aktien der Telekom Austria (1,79%) unmittelbar und 256.534.431 Aktien der Telekom Austria (57,91%) über ihre 100%ige Tochtergesellschaft Carso Telecom B.V., eine nach niederländischem Recht errichtete Gesellschaft mit beschränkter Haftung (*besloten vennootschap*) mit Sitz in Amsterdam und mit Geschäftsadresse Prins Bernhardplein 200, 1097 JB, Amsterdam, Niederlande, eingetragen im niederländischen Gesellschaftsregister unter 55341535 ("**Carso Telecom**").

[2] Österreichische Industrieholding Aktiengesellschaft, eine Aktiengesellschaft nach österreichischem Recht mit Sitz in Wien und mit der Geschäftsadresse Dresdner Straße 87, A-1200 Wien, Österreich, eingetragen im Firmenbuch unter FN 80286 v ("**ÖIAG**" und gemeinsam mit América Móvil und Carso Telecom die "**Kernaktionäre**").

Quelle: Unternehmensangaben

Die verbleibenden Aktien der Telekom Austria befinden sich in Streubesitz (einschließlich Mitarbeiteraktien und eigener Aktien).

América Móvil ist eine mexikanische Gesellschaft, die überwiegend Telekommunikationsdienstleistungen in Lateinamerika anbietet. Sie ist ein führender Anbieter von Telekommunikationsdienstleistungen in Lateinamerika. Ihre Aktivitäten umfassen Dienstleistungen in den Bereichen Mobil- und Festnetztelefonie, Breitbandzugang sowie Kabel- und Satellitenfernsehen. Sie vertreibt ihre Dienstleistungen unter anderem unter den Marken Telcel, Telmex, Claro, Embratel, Net, TracFone und Simple Mobile. Sie ist in 18 Ländern operativ tätig, unter anderem in Mexiko, Brasilien, Argentinien, Chile, Paraguay, Uruguay, Kolumbien, Panama, Ecuador, Peru und den Vereinigten Staaten.

Über ihre 100%ige Tochtergesellschaft Carso Telecom schloss América Móvil mit der ÖIAG am 23. April 2014 einen Stimmbindungsvertrag mit einer Laufzeit von 10 Jahren ab, der am 27. Juni 2014 in Kraft trat (der "**Stimmbindungsvertrag**"); weitere Informationen sind dem nachfolgenden Abschnitt "Ob unmittelbare oder mittelbare Beteiligungen oder Beherrschungsverhältnisse bestehen, wer diese Beteiligungen hält bzw. diese Beherrschungen ausübt und welcher Art die Beherrschung ist" zu entnehmen.

Außer wie vorstehend beschrieben hält nach Kenntnis der Gesellschaft kein anderer Aktionär zum Zeitpunkt dieses Prospekts unmittelbar oder mittelbar mehr als 4 % der Bestehenden Aktien.

Stimmrechte

Jede Aktie der Gesellschaft berechtigt zu einer Stimme in der Hauptversammlung der Gesellschaft ("**Hauptversammlung**"). Es bestehen keine Stimmrechtsbeschränkungen.

Ob unmittelbare oder mittelbare Beteiligungen oder Beherrschungsverhältnisse bestehen, wer diese Beteiligungen hält bzw. diese Beherrschung ausübt und welcher Art die Beherrschung ist

Der Stimmbindungsvertrag sieht unter anderem vor, dass Carso Telecom, und damit letztlich América Móvil, die industrielle Führung und alleinige Kontrolle über die Telekom Austria erhält, und bezweckt die Absicherung der Position der ÖIAG durch einige Vetorechte als Kernaktionärin. Darüber hinaus enthält der Stimmbindungsvertrag Regeln für die gemeinsame Ausübung der Stimmrechte in den Gesellschaftsorganen der Telekom Austria, Nominierungsrechte für die Wahl von Mitgliedern des Aufsichtsrats ("**Aufsichtsrat**") und Mitgliedern des Vorstands ("**Vorstand**") sowie Aktienverkaufsbeschränkungen. Mit in Kraft treten des Stimmbindungsvertrags am 27. Juni 2014 hat América Móvil somit eine beherrschende Position in der Telekom Austria erhalten.

Vorbehaltlich der Aktionärsrechte der ÖIAG und der Rechte aus dem

Stimmbindungsvertrag ist América Móvil in der Lage, das Ergebnis der Beschlussfassungen der Hauptversammlung erheblich zu beeinflussen und letztlich zu bestimmen und kontrolliert zudem den Aufsichtsrat und wird den Vorstand effektiv kontrollieren. Solange die ÖIAG mehr als 25% plus eine Aktie oder mehr am Grundkapital der Telekom Austria hält, stehen der ÖIAG nach dem Stimmbindungsvertrag die folgenden Mitbestimmungsrechte zu: unter anderem Vetorechte bei Kapitalerhöhungen der Telekom Austria und ihrer Tochtergesellschaften, die Ausgabe bestimmter wandelbarer Instrumente, die Bestellung der Abschlussprüfer, Rechtsgeschäfte mit nahestehenden Personen, Verlegung des Firmensitzes und wesentlicher Geschäftsfunktionen, einschließlich Forschung und Entwicklung, der Verkauf des Kerngeschäfts, Änderung der Firma der Telekom Austria und der Marken der Telekom Austria Group. Darüber hinaus erhält die ÖIAG die nach geltendem Recht zwingend vorgesehenen Sperrminoritätsrechte eines 25% plus eine Aktie haltenden Minderheitsaktionärs. Die Vetorechte der ÖIAG in Verbindung mit Kapitalerhöhungen und der Ausgabe bestimmter wandelbarer Instrumente sind auch in der Satzung der Gesellschaft festgelegt. Selbst wenn die Beteiligung der ÖIAG auf unter 20% fällt, sie aber noch mit mindestens 10 % beteiligt bleibt, stehen der ÖIAG noch bestimmte Vetorechte zu. Der Stimmbindungsvertrag endet automatisch, wenn die Beteiligung einer Partei auf weniger als 10% fällt.

B.7 **Ausgewählte Finanz- und Geschäfts-informationen**

Die in den nachstehenden Tabellen enthaltenen Finanzinformationen sind den geprüften Konzernabschlüssen der Gesellschaft für die zum 31. Dezember 2013, 2012 und 2011 abgeschlossenen Geschäftsjahre sowie dem ungeprüften Konzernzwischenabschluss der Gesellschaft für den zum 30. September 2014 abgeschlossenen Neunmonatszeitraum mit Vergleichszahlen für den zum 30. September 2013 abgeschlossenen Neunmonatszeitraum, jeweils einschließlich der zugehörigen Anmerkungen, entnommen bzw. aus diesen abgeleitet. Diese Konzernabschlüsse wurden nach den IFRS-Vorschriften (International Financial Reporting Standards; "**IFRS**"), wie sie in der Europäischen Union ("**EU**") anzuwenden sind, erstellt.

Ausgewählte Daten aus der Konzern-Gewinn- und-Verlust-Rechnung

	Neun Monate bis zum 30. September		**Geschäftsjahr zum 31. Dezember**		
	2014	**2013**	**2013**	**2012**	**2011**
in TEUR	(ungeprüft)		(geprüft)		
Umsatzerlöse	2.987.714	3.128.269	4.183.949	4.329.703	4.454.626
Sonstige betriebliche Erträge	91.719	56.934	87.079	82.086	100.379
Materialaufwand	-341.750	-375.953	-547.302	-474.677	-442.044
Personalaufwand, einschließlich Sozialleistungen und Abgaben[2]	-626.179	-618.307	-845.872	-833.268	-805.042
Sonstiger betrieblicher Aufwand	-1.077.502	-1.165.835	-1.590.496	-1.648.095	-1.780.575
Betrieblicher Aufwand[2]	-2.045.430	-2.160.096	-2.983.669	-2.956.040	-3.027.661
EBITDA bereinigt[1, 2]	**1.034.003**	**1.025.107**	**1.287.359**	**1.455.749**	**1.527.343**
Restrukturierung	-12.073	-35.299	-45.185	-34.685	-233.703
Wertminderung und Wertaufholung	-400.000	0	0	0	-248.906
EBITDA inkl. Effekte aus Restrukturierung und Werthaltigkeitsprüfung[2]	**621.930**	**989.808**	**1.242.174**	**1.421.064**	**1.044.735**
Abschreibungen	-644.543	-645.061	-864.606	-963.972	-1.052.376
Betriebsergebnis[2]	**-22.613**	**344.747**	**377.568**	**457.093**	**-7.641**
Zinsertrag	10.508	12.537	16.123	16.937	16.942

	Neun Monate bis zum 30. September		Geschäftsjahr zum 31. Dezember		
	2014	**2013**	**2013**	**2012**	**2011**
in TEUR	(ungeprüft)			(geprüft)	
Zinsaufwendungen	-147.404	-151.648	-200.853	-232.674	-216.773
Wechselkursdifferenzen	-569	-3.002	-4.278	2.494	-43.533
Sonstiges Finanzergebnis	127	-55	-137	-425	-4.544
Ergebnis aus Beteiligungen an assoziierten Unternehmen	118	213	1.697	981	1.089
Finanzergebnis	-137.219	-141.956	-187.447	-212.687	-246.819
Ergebnis der gewöhnlichen Geschäftstätigkeit[2]	**-159.832**	**202.790**	**190.121**	**244.405**	**-254.460**
Ertragsteuern[2]	-30.155	-43.542	-80.421	-140.394	1.654
Jahresergebnis[2]	**-189.988**	**159.249**	**109.700**	**104.011**	**-252.806**

[1] EBITDA bereinigt ist definiert als EBITDA angepasst um Restrukturierungsaufwendungen und gegebenenfalls um Wertminderung bzw. Wertaufholung. Es umfasst die Summe der Umsatzerlöse und sonstiger betrieblicher Erträge, abzüglich betrieblichen Aufwands.
[2] Vergleichsbeträge für das zum 31. Dezember 2012 abgeschlossene Geschäftsjahr wurden in Folge der Novellierung des IAS 19 angepasst.

Quelle: Konzernabschlüsse und Konzernzwischenabschluss.

Ausgewählte Daten aus der Konzernbilanz

	30. September	31. Dezember		
	2014	**2013**	**2012**	**2011**
in TEUR	(ungeprüft)		(geprüft)	
AKTIVA				
Liquide Mittel	265.387	201.334	600.763	459.952
Kurzfristige finanzielle Vermögenswerte	7.641	9.882	85.123	165.972
Forderungen aus Lieferungen und Leistungen abzüglich Wertberichtigungen	607.781	683.843	751.102	758.939
Forderungen aus nahestehenden Unternehmen	778	58	7	85
Vorräte	124.818	127.273	152.942	157.706
Aktive Rechnungsabgrenzungen	113.605	101.684	106.692	101.010
Forderungen aus Ertragsteuern	23.709	22.162	21.140	40.633
Zur Veräußerung gehaltene langfristige Vermögenswerte	694	962	881	134
Sonstige kurzfristige Vermögenswerte	97.976	73.995	90.602	67.015
Kurzfristige Aktiva gesamt	**1.242.389**	**1.221.193**	**1.809.252**	**1.751.446**
Beteiligungen an assoziierten Unternehmen	39.399	4.979	3.661	3.699
Langfristige finanzielle Vermögenswerte	6.296	5.247	7.872	13.897
Firmenwerte	1.194.613	1.581.906	1.289.501	1.289.714
Sonstige immaterielle Vermögenswerte	2.578.859	2.590.269	1.522.577	1.619.339
Sachanlagen	2.194.305	2.308.127	2.426.436	2.462.174
Sonstige langfristige Vermögenswerte	38.718	25.243	30.767	34.521
Aktive latente Steuern[1]	119.116	123.006	167.083	275.676
Ausleihungen an nahestehende Unternehmen	0	0	0	106
Langfristige Aktiva gesamt[1]	**6.171.305**	**6.638.779**	**5.447.896**	**5.699.126**
AKTIVA GESAMT[1]	**7.413.694**	**7.859.972**	**7.257.148**	**7.450.572**
PASSIVA				
Kurzfristige Finanzverbindlichkeiten	-280.806	-230.284	-1.049.424	-1.014.185
Verbindlichkeiten aus Lieferungen und Leistungen	-447.176	-573.836	-590.783	-684.025
Kurzfristige Rückstellungen	-269.264	-301.369	-301.789	-311.573
Verbindlichkeiten gegenüber nahestehenden Unternehmen	-4.273	-5.891	-7.775	-9.816
Verbindlichkeiten aus Ertragsteuern	-35.566	-34.658	-37.158	-41.259
Sonstige kurzfristige Verbindlichkeiten	-162.162	-137.098	-171.454	-184.642
Kurzfristige passive Rechnungsabgrenzungen	-169.825	-159.134	-163.710	-166.517
Kurzfristige Verbindlichkeiten gesamt	**-1.369.073**	**-1.422.271**	**-2.322.093**	**-2.412.018**
Langfristige Finanzverbindlichkeiten	-3.625.945	-3.737.702	-2.831.983	-2.935.053
Personalrückstellungen[1]	-170.987	-164.332	-161.642	-136.187
Langfristige Rückstellungen	-833.576	-881.355	-923.146	-888.208

	30. September	31. Dezember		
	2014	2013	2012	2011
in TEUR	(ungeprüft)	(geprüft)		
Passive latente Steuern	-95.159	-105.264	-115.176	-127.250
Sonstige langfristige Verbindlichkeiten und passive Rechnungsabgrenzungen	-16.077	-16.441	-84.014	-74.178
Langfristige Verbindlichkeiten gesamt[1]	**-4.741.745**	**-4.905.094**	**-4.115.961**	**-4.160.878**
Grundkapital	-966.183	-966.183	-966.183	-966.183
Eigene Aktien	7.803	7.803	8.196	8.196
Kapitalrücklagen	-582.618	-582.618	-582.896	-582.896
Hybridkapital	-591.186	-591.186	0	0
Bilanzgewinn und Gewinnrücklagen[1]	332.635	132.638	236.128	225.206
Rücklage für zur Veräußerung verfügbare Wertpapiere	-111	15	191	805
Hedging-Rücklage	42.108	45.717	48.459	27.887
Rücklage aus Währungsumrechnung	455.824	442.296	438.062	410.243
Auf die Gesellschafter der Muttergesellschaft entfallendes Eigenkapital[1]	**-1.301.727**	**-1.511.518**	**-818.042**	**-876.743**
Nicht beherrschende Anteile	-1.148	-1.089	-1.052	-934
EIGENKAPITAL GESAMT[1]	**-1.302.876**	**-1.512.607**	**-819.094**	**-877.677**
PASSIVA GESAMT[1]	**-7.413.694**	**-7.859.972**	**-7.257.148**	**-7.450.572**

[1] Vergleichsbeträge für die zum 31. Dezember 2012 und 2011 abgeschlossenen Geschäftsjahre wurden in Folge der Novellierung des IAS 19 angepasst.

Quelle: Konzernabschlüsse und Konzernzwischenabschluss.

Ausgewählte Daten aus der Konzern-Kapitalflussrechnung

	Neun Monate bis zum 30. September		Geschäftsjahr zum 31. Dezember		
	2014	2013	2013	2012	2011
in TEUR	(ungeprüft)		(geprüft)		
Jahresergebnis[1]	-189.988	159.249	109.700	104.011	-252.806
Cashflow aus dem Ergebnis	916.585	909.514	1.137.217	1.295.903	1.339.633
Veränderung der Vermögenswerte und Schulden	-242.569	-119.991	-85.652	-247.981	-126.358
Cashflow aus laufender Geschäftstätigkeit	**674.016**	**789.523**	**1.051.564**	**1.047.922**	**1.213.275**
Cashflow aus Investitionstätigkeit	**-490.956**	**-780.832**	**-2.021.368**	**-636.288**	**-854.751**
Cashflow aus Finanzierungstätigkeit	**-119.111**	**-24.826**	**569.555**	**-269.566**	**-3.673**
Auswirkungen von Wechselkursschwankungen	-412	1.328	1.803	-49	1.274
Kaufkraftverlust auf liquide Mittel	517	-186	-983	-1.208	-16.367
Veränderung der liquiden Mittel	64.053	-14.993	-399.429	140.811	339.756
Liquide Mittel zu Beginn des Jahres	201.334	600.763	600.763	459.952	120.196
Liquide Mittel am Ende des Jahres	265.387	585.770	201.334	600.763	459.952

[1] Vergleichsbeträge für das zum 31. Dezember 2012 abgeschlossene Geschäftsjahr wurden in Folge der Novellierung des IAS 19 angepasst.

Quelle: Konzernabschlüsse und Konzernzwischenabschluss.

Zusätzliche Finanzkennzahlen

	Neun Monate bis zum und zum 30. September		Geschäftsjahr bis zum und zum 31. Dezember		
	2014	2013	2013	2012	2011
in TEUR (außer anders gekennzeichnet)	(ungeprüft)		(geprüft, außer anders gekennzeichnet)		
Umsatzerlöse	2.987.714	3.128.269	4.183.949	4.329.703	4.454.626
EBITDA bereinigt[1, 5]	1.034.003	1.025.107	1.287.359	1.455.749	1.527.343
EBITDA bereinigte Marge (in % des Umsatzes)[2, 5]	34,6	32,8	30,8	33,6	34,3
Investitionen[3]	472.514	492.998	1.779.085	728.223	738.979
Nettoverschuldung[2, 4]	3.530.890	2.708.843	3.695.754	3.248.869	3.380.313

[1] EBITDA bereinigt ist definiert als EBITDA angepasst um Restrukturierungsaufwendungen und gegebenenfalls um Wertminderung bzw. Wertaufholung. Es umfasst die Summe der Umsatzerlöse und sonstiger betrieblicher Erträge, abzüglich betrieblichen Aufwands.
[2] Ungeprüft.

[3] Investitionen beinhalten keine Zugänge für die Verpflichtung aus der Stilllegung von Vermögenswerten. Investitionen sind definiert als der Erwerb von Sachanlagen und immateriellen Vermögenswerten so wie in der Konzern-Kapitalflussrechnung unter "Cashflow aus Investitionstätigkeit" dargestellt.
[4] Nettoverschuldung ist definiert als Finanzverbindlichkeiten abzüglich liquider Mittel, Finanzanlagen und Finanzierungsleasingforderungen sowie derivate Finanzinstrumente für Hedgingaktivitäten.
[5] Vergleichsbeträge für das zum 31. Dezember 2012 abgeschlossene Geschäftsjahr wurden in Folge der Novellierung des IAS 19 angepasst.

Quelle: Konzernabschlüsse und unternehmenseigene Informationen.

Zusätzliche operative Kennzahlen

	30. September		31. Dezember		
	2014	**2013**	**2013**	**2012**	**2011**
in TEUR (außer anders gekennzeichnet)	(ungeprüft)		(geprüft, außer anders gekennzeichnet)		
Anzahl Mobilkunden (in Tausend)[1,2]	19.903	20.187	20.117	19.626	20.266
Anzahl Festnetzkunden (in Tausend)[2]	2.639	2.623	2.637	2.603	2.609
Mitarbeiter (Vollzeitkräfte)	16.350	16.243[3]	16.045	16.446	17.217[3]
davon in Österreich	8.806	9.136	8.804	9.077	9.292
davon international	7.371	6.948	7.076	7.205	7.762
davon corporate	173	158	165	164	164

[1] Zum 2. Quartal 2013 wurde die Berechnungslogik für Mobilkommunikationskunden geändert. Die vorherigen Quartale 2012 und 2013 wurden rückwirkend angepasst.
[2] Ungeprüft.
[3] Die Zahl entspricht aufgrund von Rundungsanpassungen nicht der Summe der Zahlen in der Spalte betreffend Mitarbeiter (Vollzeitkräfte).

Quelle: Konzernabschlüsse und unternehmenseigene Informationen.

Im Neunmonatszeitraum bis zum 30. September 2014 gegenüber dem Neunmonatszeitraum bis zum 30. September 2013 und in den Geschäftsjahren zum 31. Dezember 2011, 2012 und 2013 haben sich die Finanzlage und das Betriebsergebnis der Gesellschaft nach Maßgabe des bereinigten EBITDA wie folgt geändert:

Neun Monate bis zum 30. September 2013 und 2014

Die Umsatzerlöse sanken von EUR 3.128,3 Mio. in den neun Monaten bis zum 30. September 2013 um EUR 140,6 Mio., bzw. 4,5%, auf EUR 2.987,7 Mio. in den neun Monaten bis zum 30. September 2014. Der Rückgang der Umsatzerlöse ist vorwiegend auf Rückgänge der Umsatzerlöse in Österreich, Bulgarien und Kroatien zurückzuführen. Die Umsatzerlöse in Österreich beinhalteten negative außerordentliche Effekte in Höhe von EUR 28,2 Mio., die auf die Einführung einer neuen Billing-System-Schnittstelle im Festnetzbereich zurückzuführen waren. Negative Effekte aus Währungsumrechnung, insbesondere in Weißrussland, beliefen sich auf EUR 33,7 Mio. Ohne diese beiden Effekte wären die Umsätze der Gruppe um 2,5% gesunken.

Das bereinigte EBITDA erhöhte sich von EUR 1.025,1 Mio. in den neun Monaten bis zum 30. September 2013 um EUR 8,9 Mio., bzw. 0,9%, auf EUR 1.034,0 Mio. in den neun Monaten bis zum 30. September 2014. Der Anstieg des bereinigten EBITDA ist vorwiegend auf den Anstieg sonstiger betrieblicher Erträge in Verbindung mit niedrigeren Materialaufwand und sonstigem betrieblichen Aufwand zurückzuführen, die niedrigere Umsatzerlöse und leicht höhere Personalkosten mehr als wettmachten.

Geschäftsjahre zum 31. Dezember 2012 und 2013

Die Umsatzerlöse sanken von EUR 4.329,7 Mio. im Geschäftsjahr zum 31. Dezember 2012 um EUR 145,8 Mio., bzw. 3,4%, auf EUR 4.183,9 Mio. im Geschäftsjahr zum 31. Dezember 2013. Der Rückgang der Umsatzerlöse ist vorwiegend auf den Preiswettbewerb und die

Auswirkungen regulatorischer Maßnahmen in den reifen Märkten Österreich, Bulgarien und Kroatien zurückzuführen. Die politische und wirtschaftliche Lage haben die Umsätze ebenso negativ beeinflusst, insbesondere in Bulgarien und Kroatien.

Das bereinigte EBITDA sank von EUR 1.455,7 Mio. im Geschäftsjahr zum 31. Dezember 2012 um EUR 168,4 Mio., bzw. 11,6%, auf EUR 1.287,4 Mio. im Geschäftsjahr zum 31. Dezember 2013. Der Rückgang des bereinigten EBITDA ist vorwiegend durch einen Rückgang der Umsatzerlöse und eine leichte Erhöhung des betrieblichen Aufwands – hauptsächlich aufgrund wesentlich höherer Materialaufwendungen – zurückzuführen.

Geschäftsjahre zum 31. Dezember 2011 und 2012

Die Umsatzerlöse sanken von EUR 4.454,6 Mio. im Geschäftsjahr zum 31. Dezember 2011 um EUR 125,0 Mio., bzw. 2,8%, auf EUR 4.329,7 Mio. im Geschäftsjahr zum 31. Dezember 2012. Der Rückgang der Umsatzerlöse ist vorwiegend auf intensiven Wettbewerb in nahezu allen Märkten der Gruppe, regulatorische Änderungen, durch welche Roamingtarife und Terminierungsentgelte gesenkt wurden, sowie eine anhaltend schwierige wirtschaftliche Entwicklung in den Kernmärkten der Gruppe zurückzuführen.

Das bereinigte EBITDA sank von EUR 1.527,3 Mio. im Geschäftsjahr zum 31. Dezember 2011 um EUR 71,6 Mio., bzw. 4,7%, auf EUR 1.455,7 Mio. im Geschäftsjahr zum 31. Dezember 2012. Der Rückgang des bereinigten EBITDA ist vorwiegend auf niedrigere Umsatzerlöse und einen Rückgang sonstiger betrieblicher Erträge zurückzuführen.

B.8	**Ausgewählte wesentliche Pro-Forma-Finanzinformationen**	Entfällt. Es sind keine Pro-Forma-Finanzinformationen erforderlich.
B.9	**Gewinnprognosen und -schätzungen**	Entfällt. Es wurden keine Gewinnprognosen und -schätzungen abgegeben.
B.10	**Einschränkungen im Bestätigungsvermerk zu den historischen Finanzinformationen**	Entfällt. Es gibt keine Einschränkungen.
B.11	**Unzulänglichkeit des Geschäftskapitals der Emittentin zur Erfüllung bestehender Anforderungen**	Entfällt. Das betriebsnotwendige Vermögen ist ausreichend.

C – WERTPAPIERE

C.1	**Beschreibung von Art und Gattung der angebotenen und/oder zum Handel zuzulassenden Wertpapiere, einschließlich jeder Wertpapierkennung**	Das Angebot umfasst insgesamt bis zu 221.500.000 auf den Inhaber lautende stimmberechtigte Stückaktien der Gesellschaft mit einem anteiligen Betrag am Grundkapital von EUR 2,181 je Aktie und voller Dividendenberechtigung ab dem 1. Jänner 2014 (die "**Neuen Aktien**"). Die Neuen Aktien werden aus einer durch Beschlüsse des Vorstands und des Aufsichtsrats am 7. November 2014 beschlossenen Kapitalerhöhung aus genehmigtem Kapital gegen Bareinlage stammen, wobei die endgültige Zahl der Neuen Aktien durch Beschlüsse des Vorstands und des Aufsichtsrats am oder um den 25. November 2014 beschlossen werden wird. Für die Zwecke der Zulassung zum Amtlichen Handel an der Wiener

		Börse bezieht sich dieser Prospekt auf die Neuen Aktien. Internationale Wertpapierkennnummer der Neuen Aktien (ISIN): AT0000720008.
C.2	**Währung der Wertpapieremission**	Euro.
C.3	**Anzahl der ausgegebenen und voll eingezahlten Aktien und der ausgegebenen, aber nicht voll eingezahlten Aktien. Nennwert pro Aktie bzw. Angabe, dass die Aktien keinen Nennwert haben**	Das Grundkapital der Gesellschaft beträgt EUR 966.183.000 und besteht derzeit aus 443.000.000 auf Inhaber lautende stimmberechtigte Stückaktien. Das Grundkapital der Gesellschaft ist vollständig eingezahlt. Auf jede Aktie der Gesellschaft entfällt ein anteiliger Betrag am Grundkapital der Gesellschaft von EUR 2,181.
C.4	**Beschreibung der mit den Wertpapieren verbundenen Rechte**	Jede Aktie der Gesellschaft berechtigt den Aktionär an der Hauptversammlung teilzunehmen sowie in der Hauptversammlung Fragen zu stellen und eine Stimme auszuüben. Es bestehen keine Stimmrechtsbeschränkungen. Die Neuen Aktien gewähren das Recht auf Dividende ab dem 1. Jänner 2014, das Recht auf Teilnahme an Kapitalerhöhungen im Ausmaß der bisherigen Beteiligung (Bezugsrecht) und das Recht auf Liquidationserlöse der Gesellschaft im Falle ihrer Auflösung.
C.5	**Beschreibung aller etwaigen Beschränkungen für die freie Übertragbarkeit der Wertpapiere**	Außer nach Maßgabe der nachstehend in Abschnitt E.5 beschriebenen Lock-up-Vereinbarungen bestehen keine grundsätzlichen Beschränkungen der Übertragbarkeit der Aktien der Gesellschaft. Anleger, insbesondere internationale Anleger, müssen sich jedoch selbst über mögliche, hinsichtlich des Erwerbs der Aktien der Gesellschaft bestehende aufsichtsrechtliche Beschränkungen informieren, insbesondere aufgrund fusionskontrollrechtlicher Vorschriften, des österreichischen Außenwirtschaftsgesetzes (AußWG 2011), des österreichischen Telekommunikationsgesetzes (TKG 2003) und des österreichischen Bankwesengesetzes (BWG).
C.6	**Angabe, ob für die angebotenen Wertpapiere die Zulassung zum Handel an einem geregelten Markt beantragt wurde bzw. werden soll, und Nennung aller geregelten Märkte, an denen die Wertpapiere gehandelt werden bzw. werden sollen**	Sämtliche 443.000.000 Bestehenden Aktien sind zum Amtlichen Handel der Wiener Börse (der "**Amtliche Handel**") im Segment Prime Market unter dem Symbol "TKA" zugelassen. Die Gesellschaft wird die Zulassung der Neuen Aktien zum Amtlichen Handel im Segment Prime Market beantragen, und die Neuen Aktien werden voraussichtlich beginnend am oder um den 27. November 2014 an der Wiener Börse im Segment Prime Market gehandelt.
C.7	**Beschreibung der Dividendenpolitik**	Die Ausschüttungspolitik der Gesellschaft basiert auf einer Mindestdividende in Höhe von EUR 0,05 je Aktie und zielt auf ein nachhaltiges Auszahlungsniveau mit Wachstumspotential ab. Zu Beginn jedes Geschäftsjahres wird die jeweilige beabsichtigte Dividende bekanntgegeben werden. Nach dem Ende eines jeden Geschäftsjahres können in Abhängigkeit von den tatsächlichen Ergebnissen zusätzliche, an die Aktionäre auszuzahlende Geldbeträge

definiert werden, wobei der Free Cashflow, die angestrebte Kapitalstruktur der Gruppe und die Investitionserfordernisse berücksichtigt werden. Für die Geschäftsjahre 2014 und 2015 beabsichtigt das Management, eine Dividende in Höhe von EUR 0,05 pro Aktie (einschließlich der Neuen Aktien) auszuzahlen. Die Entscheidung, ob und in welcher Höhe künftig Dividenden ausgeschüttet werden, ist jedoch von einer Reihe von Faktoren abhängig. Der Zeitpunkt und die Höhe etwaiger künftiger Dividendenzahlungen ist vom Finanzergebnis der Gesellschaft abhängig, einschließlich ihrer Erträge, allgemeinen Finanzlage und Liquidität, der Rahmenbedingungen in den Märkten, in denen die Gesellschaft tätig ist, sowie rechtlicher, steuerlicher und aufsichtsrechtlicher Erwägungen und sonstiger Faktoren, die der Vorstand und der Aufsichtsrat der Gesellschaft gegebenenfalls für relevant erachten. Darüber hinaus ist die Fähigkeit der Gesellschaft zur Zahlung von Dividenden von der Höhe der Dividenden abhängig, die sie von ihren Tochtergesellschaften vereinnahmt.

D – RISIKEN

D.1 **Zentrale Angaben zu den zentralen Risiken, die der Emittentin oder ihrer Branche eigen sind**

Makroökonomische Risiken und Marktumfeld

- Ein wirtschaftlicher Abschwung oder eine wesentliche Verlangsamung der wirtschaftlichen Entwicklung in bestimmten Märkten könnte die Kundennachfrage nach Produkten und Dienstleistungen der Telekom Austria Group nachteilig beeinflussen.
- Die Telekom Austria Group ist in einer wettbewerbsintensiven Branche tätig und ist möglicherweise nicht in der Lage, ihren Marktanteil aufrechtzuerhalten, was sich nachteilig auf ihre Geschäftstätigkeit auswirken könnte.
- Die Telekom Austria Group ist in mehreren CESEE-Ländern tätig und damit länderspezifischen Risiken in diesen Ländern ausgesetzt.

Risiken aus der Geschäftstätigkeit der Telekom Austria Group

- Aufgrund erfolgloser Marketingstrategien oder mangelnder Nachfrage am Markt erreicht die Telekom Austria Group möglicherweise weder das erwartete Nachfrageniveau für ihre Produkte und Dienstleistungen noch die erwartete Höhe oder den erwarteten Zeitrahmen für die mit solchen Produkten und Dienstleistungen erwirtschafteten Umsätze und Gewinne.
- Die Telekommunikationsbranche ist durch schnellen technologischen Wandel geprägt und die Telekom Austria ist möglicherweise nicht in der Lage, diesen Wandel im Vorfeld proaktiv zu erkennen oder effektiv darauf zu reagieren.
- Technologische Veränderungen könnten den Wettbewerb verstärken, neuen Anbietern den Marktzutritt ermöglichen, zur Veralterung vorhandener Technologien führen oder die Telekom Austria Group zu erheblichen zusätzlichen Investitionen zwingen.
- Die Telekom Austria Group könnte nicht in der Lage sein, ihre Konvergenzstrategie zur Gewinnung neuer Kunden durch Bündelung ihrer Sprach-, Breitband- und/oder Fernsehangebote erfolgreich umzusetzen.
- Die Umstellung auf Next Generation Networks und andere technologische Änderungen könnten wesentliche Investitionen

erfordern und den Wert bestehender Investitionen beeinträchtigen, was nachteilige Auswirkungen auf die Ertragskraft der Telekom Austria Group haben könnte.

- In einigen Märkten in denen die Telekom Austria Group tätig ist, könnte sie Baugenehmigungen für bestehende und geplante Infrastruktureinrichtungen benötigen und müsste möglicherweise Teile ihrer Netzwerkinfrastruktur verlegen.
- Bei der Nutzung strategischer Chancen könnte die Telekom Austria Group möglicherweise Vermögenswerte oder Unternehmen erwerben oder verkaufen, oder Joint Ventures eingehen, die weniger Umsatzerlöse, Cashflows und Erträge als angenommen generieren, und ist möglicherweise Schwierigkeiten ausgesetzt, diese Vermögenswerte oder Unternehmen zeitnah zu integrieren; geeigneten Übernahmeziele könnten nicht identifiziert werden und erwartete Synergien nicht realisiert werden.
- Durch das hohe Alter einiger ihrer Gebäude könnten der Telekom Austria Group Kosten, Verbindlichkeiten oder Beschränkungen hinsichtlich ihrer Geschäftstätigkeit entstehen, die durch den Denkmalschutz solcher Gebäude oder aufgrund möglicher Umweltschäden notwendig werden.
- Vermögenswerte der Telekom Austria Group, wie beispielsweise Firmenwerte und Marken, unterliegen einem Wertminderungsrisiko.
- Aufgrund der großen Anzahl der von der Telekom Austria Group in Österreich beschäftigten Beamten und kündigungsgeschützten Mitarbeitern ist die Gruppe in ihren Möglichkeiten, ihre Betriebsausgaben an geänderte Marktverhältnisse anzupassen, beschränkt.
- Systemausfälle aufgrund natürlichen oder menschlichen Versagens und die technologische Abhängigkeit von Dritten können sich möglicherweise auf den Ruf der Telekom Austria Group und die Kundenzufriedenheit auswirken.
- Die Kooperationsvereinbarung der Telekom Austria Group mit Vodafone könnte nicht verlängert oder könnte gekündigt werden.
- Die Telekom Austria Group ist möglicherweise nicht in der Lage, Führungskräfte und qualifizierte Mitarbeiter an sich zu binden, zu gewinnen und aus- bzw. weiterzubilden.
- Die Gruppe könnte Ansprüchen auf Ausgleichszahlungen aus der Vergangenheit und auf zukünftige höhere Zahlungen in Verbindung mit der Berechnung von Pensionsbeiträgen für die von der Gruppe beschäftigten Beamten ausgesetzt sein.
- Vermeintliche Gesundheitsrisiken drahtloser Kommunikationsmittel könnten zu Gerichtsverfahren oder zum verminderten Gebrauch drahtloser Kommunikationsmittel führen oder die Akquise geeigneter Grundstücke für Basisstationen erschweren und sich daher nachteilig auf die Finanz- und Ertragslage des Mobilfunkgeschäfts der Telekom Austria Group auswirken.
- Unzulänglichkeiten im Einkaufs- und Logistikprozess der Telekom Austria Group könnten sich nachteilig auf ihr Produktportfolio, ihre Erträge und ihren Gewinn auswirken.

- Telekom Austria Group ist erheblichen, regelmäßig wiederkehrenden Ausgaben im Zusammenhang mit Mobilfunklizenzen ausgesetzt und könnte zukünftig nicht in der Lage sein solche Mobilfunklizenzen zu erneuern oder zu erwerben.
- Wichtige Kunden oder Vertriebspartner könnten ihre Verträge mit der Telekom Austria Group kündigen und die Telekom Austria Group ist möglicherweise nicht in der Lage, ihre unmittelbaren oder mittelbaren Vertriebskanäle aufrecht zu erhalten, diese auszubauen oder Kundenpräferenzen für einen bestimmten Vertriebskanal im Vorfeld zu erkennen.
- Eine Insolvenz wichtiger Kunden oder internationaler Zulieferer könnte sich nachteilig auf die Erträge oder die Ertragskraft der Telekom Austria Group auswirken.
- Die Zahlungsunfähigkeit einer großen Zahl von kleinen Kunden könnte sich auf die Umsätze oder Ertragskraft der Telekom Austria Group auswirken.
- Aufgrund ihres hohen Schuldenstandes ist die Gruppe potenziellen Liquiditätsrisiken ausgesetzt.
- Wechselkurs- und Zinssatzrisiken hatten in der Vergangenheit nachteilige Auswirkungen auf die Entwicklung der Umsätze und der Kosten der Telekom Austria Group und dies könnte auch in Zukunft der Fall sein.
- Verschlechterungen des Ratings oder der Kreditkennzahlen der Telekom Austria, ihr Unvermögen, erforderliche Neufinanzierungen zu erhalten und Bedingungen, die in bestehenden Finanzierungsverträgen enthalten sind, könnten Refinanzierungskosten erhöhen und die Liquidität und Ertragskraft der Telekom Austria Group beeinträchtigen.
- Die Telekom Austria Group erhält möglicherweise die erforderlichen Genehmigungen für einige ihrer Transaktionen nicht oder erhält Genehmigungen möglicherweise nur unter Auflagen.
- Unvorhergesehene Ereignisse könnten dazu führen, dass der Versicherungsschutz der Telekom Austria Group unzureichend ist.
- Erhöhte Eigenmittelanforderungen für Banken infolge strengerer Regulierungsbestimmungen könnten zu höheren Kapitalkosten für die Telekom Austria Group führen.

Regulatorische, rechtliche und Compliance-Risiken

- Aufsichtsrechtliche Entscheidungen und Änderungen im Aufsichtsumfeld könnten das Geschäft der Telekom Austria Group nachteilig beeinflussen.
- Die Telekom Austria Group ist laufend an Streitigkeiten und Verfahren mit Aufsichts-, Wettbewerbs- und Finanzbehörden sowie Mitbewerbern und anderen Parteien beteiligt. Das Ergebnis solcher Verfahren ist in der Regel ungewiss. Endgültig abgeschlossene Verfahren könnten wesentliche nachteilige Auswirkungen auf die Ertrags- und Finanzlage der Telekom Austria Group haben.
- Mögliche Verstöße gegen Compliance-Vorschriften und die Identifizierung von wesentlichen Schwachstellen bei der internen Kontrolle der Finanzberichterstattung der Telekom Austria Group

könnten nachteilige Auswirkungen auf den Ruf, die Finanzlage und den Wert der Aktien der Telekom Austria Group haben.

- Kriminalität, Korruption und Geldwäsche in den Ländern, in denen die Telekom Austria Group tätig ist, könnten die Fähigkeit der Telekom Austria Group, ihre Geschäftstätigkeit auszuüben, wesentlich erschweren.

Länderrisiken, die sich auf die Geschäftstätigkeit der Telekom Austria Group auswirken

- Die Rechtssysteme sowie die wirtschaftlichen, sozialen und sonstigen Rahmenbedingungen in den CESEE-Ländern verzeichnen unterschiedliche Fortschritte bei der Erfüllung von EU-Standards.
- Ein Unvermögen der Telekom Austria Group, den verschiedenen makroökonomischen, wettbewerblichen und aufsichtsrechtlichen Herausforderungen in jedem der Märkte, in denen sie tätig ist, zu begegnen, könnte den Marktanteil der Gruppe verkleinern und zu einem Rückgang ihrer Umsätze und Ertragskraft führen.
- Wirtschaftliche Instabilität in den CESEE-Ländern könnte das Geschäft und die Ertragslage der Telekom Austria Group nachteilig beeinflussen.
- Die Telekom Austria Group könnte in den CESEE-Ländern dem Risiko von Enteignungen und Verstaatlichungen ausgesetzt sein.
- Die Volatilität der Währungen der CESEE-Länder könnte die Erträge der Telekom Austria Group nachteilig beeinflussen.
- Änderungen der Beziehungen zwischen den CESEE-Ländern und den Regierungen und Institutionen westlicher Länder könnten das Geschäft der Telekom Austria Group beeinträchtigen.
- Beziehungen, von denen CESEE-Länder im Hinblick auf ihre wirtschaftliche Entwicklung abhängig sind, könnten sich verschlechtern und so das Geschäft der Telekom Austria Group beeinträchtigen.
- Eine begrenzte Finanzinfrastruktur und Liquiditätsprobleme in den CESEE-Ländern könnten das Geschäft sowie die Ertrags- und Finanzlage der Telekom Austria Group nachteilig beeinflussen.
- In einigen CESEE-Ländern könnten Beschränkungen verfügt werden, welche die Rückführung von Gewinnen erschweren und damit ein Transferrisiko für die Telekom Austria begründen könnten.
- Mögliche soziale Unruhen in den CESEE-Ländern könnten das Geschäft der Telekom Austria Group beeinflussen.
- Die sich entwickelnden Rechtssysteme in den CESEE-Ländern sind mit Risiken und Unsicherheiten behaftet, die möglicherweise nachteilige Auswirkungen auf das Geschäft der Telekom Austria Group haben können.
- Ungewissheiten der Steuersysteme in den CESEE-Ländern könnten das Geschäft sowie die Ertrags- und Finanzlage der Telekom Austria Group nachteilig beeinflussen.

D.3	**Zentrale Angaben zu den Risiken in Bezug auf die Aktionärsstruktur, die**	**Risiken im Zusammenhang mit der Aktionärsstruktur, dem Angebot und den Neuen Aktien** • América Móvil kann die Telekom Austria auf der

	Aktien und den zentralen Risiken, die dem Angebot und der Zulassung zum Handel der Wertpapiere eigen sind	Hauptversammlung, im Aufsichtsrat und im Vorstand kontrollieren und wird dazu auch weiterhin in der Lage sein. • Bemühungen, um in bestimmten wichtigen Angelegenheiten der Hauptversammlung die Zustimmung der Hauptaktionäre der Telekom Austria zu erlangen, könnten die Telekom Austria in ihrer Fähigkeit, rasch auf geschäftliche Entwicklungen zu reagieren, behindern oder anderweitig beeinträchtigen. • Einige Mitglieder des Aufsichtsrats haben auch Führungspositionen im Management von América Móvil inne oder gehören dem Aufsichtsrat von Unternehmen des América Móvil-Konzerns an, was zu Interessenkonflikten führen kann. • Der Börsenkurs für die Aktien könnte volatil sein und durch zukünftige Verkäufe der Aktien am öffentlichen Markt nachteilig beeinflusst werden. • Eine geringere Anzahl von im Streubesitz befindlichen Aktien könnte die Liquidität der Aktien verringern und sich deshalb nachteilig auf deren Börsenkurs auswirken. • Im Fall der Insolvenz der Telekom Austria könnten die Aktionäre der Telekom Austria einen vollständigen Verlust des Werts ihrer Aktien erleiden. • Die Anfechtung der Beschlüsse der Hauptversammlung vom 14. August 2014 könnte negative Auswirkungen auf die Eintragung der Kapitalerhöhung aus den Neuen Aktien in das Firmenbuch haben. • Aktionäre sind dem Risiko einer Nichtausschüttung von Dividenden durch die Telekom Austria ausgesetzt. • Inwieweit die Telekom Austria zur Ausschüttung von Dividenden in der Lage ist, hängt hauptsächlich vom Mittelzufluss aus den Tochtergesellschaften der Telekom Austria ab. • Bei Aktionären, die nicht an dem Angebot teilnehmen, kann es möglicherweise zu einer wesentlichen Verwässerung des Eigenkapitalanteils kommen. • Sollte die Telekom Austria in Zukunft weitere Aktien begeben, könnte es zu einer Verwässerung der Beteiligungen der Aktionäre an der Telekom Austria kommen. • Die Rechte der Aktionäre einer österreichischen Gesellschaft können sich von den Rechten der Aktionäre eines in einer anderen Rechtsordnung errichteten Unternehmens unterscheiden. • Wechselkursschwankungen können den Wert der Aktien und die Dividenden für Anleger außerhalb der Eurozone beeinflussen. • Eine Aussetzung des Handels der Aktien an der Wiener Börse könnte den Aktienpreis nachteilig beeinflussen. • Sollte das Angebot nicht durchgeführt werden, werden die Bezugsrechte nicht mehr bestehen. • Der Wert der Bezugsrechte könnte volatil sein und hängt von unterschiedlichen Faktoren ab, wie dem Preis der Aktien.

E – ANGEBOT

E.1	**Gesamtnettoerlöse**	Dieses Angebot mit einem angestrebten Nettoerlös in Höhe von

	und geschätzte Gesamtkosten der Emission/des Angebots, einschließlich der geschätzten Kosten, die dem Anleger von der Emittentin oder dem Anbieter in Rechnung gestellt werden	EUR 1.000.000.000 (maximal) bezieht sich auf bis zu 221.500.000 auf den Inhaber lautende stimmberechtigte Stückaktien der Gesellschaft mit einem anteiligen Betrag am Grundkapital von EUR 2,181 je Aktie, die im Rahmen einer Kapitalerhöhung aus genehmigtem Kapital gegen Bareinlage neu ausgegeben werden. Die Bruttoerlöse aus dem Verkauf der Neuen Aktien abzüglich der Gesamtkosten der Gesellschaft für das Angebot fließen der Gesellschaft zu. Die Gesellschaft erwartet Bruttoerlöse aus dem Angebot in Höhe von rund EUR 1.012.255.000. Die Gesellschaft schätzt ihre Gesamtkosten (einschließlich der Provisionen der Konsortialbanken und der Gesellschaftsteuer in Höhe von 1 %) auf mindestens EUR 13.256.500. Unter der Annahme, dass die maximale Anzahl an Neuen Aktien platziert wird und der Rump Placement Angebotspreis der Höhe nach dem Bezugspreis entspricht, werden die erwarteten Nettoerlöse aus dem Angebot diesfalls rund EUR 998.998.500 betragen. Die Höhe der tatsächlich von der Gesellschaft aus dem Verkauf der Neuen Aktien erzielten Nettoerlöse hängt von der tatsächlichen Anzahl verkaufter Neuer Aktien, dem Rump Placement Angebotspreis, den tatsächlichen angebotsbezogenen Kosten ab, wird jedoch auf keinen Fall EUR 1.000.000.000 übersteigen. Abhängig von der tatsächlichen Anzahl verkaufter Neuer Aktien, dem Rump Placement Angebotspreis und den Provisionen können die Gesamtkosten des Angebots (einschließlich der Provisionen der Konsortialbanken und der Gesellschaftsteuer in Höhe von 1 %) auch bis zu rund EUR 16 Mio betragen. Betreffend die geschätzten Kosten, die dem Anleger von der Emittentin in Rechnung gestellt werden, siehe E.7.
E.2.a	**Gründe für das Angebot, Zweckbestimmung der Erlöse, geschätzte Nettoerlöse**	Die Gesellschaft beabsichtigt, die Nettoerlöse zur Neuaufstellung ihrer angestrebten Kapitalstruktur zur Aufrechterhaltung ihres Kreditrating von mindestens BBB (stabil) von Standard & Poor's zu verwenden. Dies wird die Telekom Austria Group in die Lage versetzen, strategische Investitionsvorhaben mit hoher Priorität zu verfolgen, durch die die operative Leistungsfähigkeit der Gruppe verstärkt und die Rückkehr zu einem nachhaltigen Wachstum in dem beschriebenen gesunden finanziellen Rahmen ermöglicht werden soll; dabei sind insbesondere die folgenden Maßnahmen geplant: (a) die Umsetzung des beschleunigten Rollouts einer Glasfaser-Infrastruktur in den Jahren 2015-2018 in Kombination mit den neuesten verfügbaren Technologien zur Sicherstellung einer effizienten Verwendung der Investitionsausgaben. Dadurch wird die Telekom Austria Group in die Lage versetzt, die steigende Nachfrage nach Dienstleistungen für hohe Bandbreiten zu erfüllen und die führende Stellung der Gruppe in Bezug auf Netzwerkstabilität im Österreich-Geschäft zu sichern. (b) die Finanzierung von sich gegebenenfalls bietenden, wertsteigernden M&A-Transaktionen, mit welchen die Telekom Austria Group ihre operative Strategie verstärkt, wobei die folgenden Ziele prioritär verfolgt werden: (i) Konsolidierung im Markt zur Stärkung des bestehenden operativen Geschäfts; (ii) weitere Umsetzung der Konvergenzstrategie der Telekom Austria Group mit dem Ziel einer Diversifizierung in Märkten, in welchen sie derzeit nur im Mobilgeschäft tätig ist, und zur Vertiefung der bestehenden

konvergierenden Aktivitäten; und (iii) Expansion durch Erschließung neuer Tätigkeitsfelder.

Betreffend die geschätzten Nettoerlöse, siehe E.1.

E.3	**Beschreibung der Angebotskonditionen**	Die Gesellschaft hat 443.000.000 auf den Inhaber lautende stimmberechtigte Stückaktien mit einem anteiligen Betrag am Grundkapital von EUR 2,181 je Aktie ausgegeben (die "**Bestehenden Aktien**" und zusammen mit den Neuen Aktien die "**Aktien**") und strebt einen Nettoerlös aus einer Kapitalerhöhung in Höhe von EUR 1.000.000.000 (maximal) im Wege des Angebots von bis zu 221.500.000 Neuen Aktien an. Die bestehenden Aktionäre der Gesellschaft (die "**Bestehenden Aktionäre**"), die um 24:00 Uhr (Mitternacht) Mitteleuropäischer Zeit am 7. November 2014 Bestehende Aktien halten, erhalten ein Bezugsrecht für jede Bestehende Aktie (die "**Bezugsrechte**") und sind zum Bezug der Neuen Aktien zu einem Preis von EUR 4,57 je Neuer Aktie (der "**Bezugspreis**") eingeladen (das "**Bezugsangebot**"). Bestehende Aktionäre, die ihre Bezugsrechte ausüben, können gegen Zahlung des Bezugspreises für jeweils 2 Bezugsrechte 1 Neue Aktie beziehen (das "**Bezugsverhältnis**"). Bestehende Aktionäre sind berechtigt, ihre Bezugsrechte innerhalb der Bezugsfrist auszuüben, welche am 10. November 2014 beginnt und voraussichtlich am 24. November 2014 endet (die "**Bezugsfrist**"). Die Bezugsrechte sind vorbehaltlich bestimmter Einschränkungen im Abschnitt "Übertragungs- und Verkaufsbeschränkungen" ("*Transfer and selling restrictions*") frei übertragbar und haben die ISIN AT0000A1AD41. Die Gesellschaft wird den Handel der Bezugsrechte an der Wiener Börse beantragen. Die Bezugsrechte werden voraussichtlich vom 12. November 2014 bis 19. November 2014 an der Wiener Börse gehandelt werden. Bezugsrechte, die vor Ablauf der Bezugsfrist nicht ausgeübt worden sind, verfallen wertlos. Bestehende Aktionäre, die nicht eine durch 2 teilbare Anzahl von Bezugsrechten halten, können ihre Bezugsrechte nicht vollständig oder gar nicht ausüben und werden daher als Folge des Angebots möglicherweise verwässert. Inhaber von Bezugsrechten können zusätzliche Bezugsrechte am Markt erwerben, um Neue Aktien erwerben zu können, oder ihre Bezugsrechte im Markt veräußern. Die Gesellschaft kann im Einvernehmen mit den Joint Bookrunners nach freiem Ermessen jederzeit die Bezugsfrist verlängern oder das Bezugsangebot abbrechen. Jeder der Kernaktionäre hat sich gegenüber der Gesellschaft dazu verpflichtet, am Angebot (wie unten definiert) teilzunehmen und die unten angeführte Anzahl Neuer Aktien zum Bezugspreis zu erwerben. Die Gesellschaft hat jeden der Kernaktionäre zur direkten Zeichnung der entsprechenden Anzahl Neuer Aktien zugelassen. América Móvil hat sich verpflichtet, 3.967.850 Neue Aktien entsprechend ihren 7.935.700 Bezugsrechten zum Bezugspreis zu erwerben. Carso Telecom hat sich verpflichtet, 128.267.215 Neue Aktien entsprechend ihren 256.534.431 Bezugsrechten zum Bezugspreis zu erwerben. ÖIAG hat sich verpflichtet, bis zu 62.958.867 Neue Aktien entsprechend ihren 125.917.735 Bezugsrechten zum Bezugspreis zu erwerben, sodass ihre Beteiligung am Grundkapital der Gesellschaft nach dem Angebot (wie unten definiert) möglichst exakt ihrer derzeitigen prozentuellen Beteiligung an der Gesellschaft (rund 28,42%) entspricht. Neue Aktien, die nicht im Rahmen des Bezugsangebots bezogen werden oder zu deren Übernahme sich die Kernaktionäre nicht

verpflichtet haben, werden zum Bezugspreis oder zu einem darüber liegenden Preis (der "**Rump Placement Angebotspreis**") im Rahmen eines Rump Placement (das "**Rump Placement**" und zusammen mit dem Bezugsangebot das "**Angebot**") angeboten, das Privatplatzierungen an qualifizierte Anleger in der Republik Österreich und in ausgewählten weiteren Ländern umfasst, darunter die Vereinigten Staaten von Amerika (die "**Vereinigten Staaten**" oder "**US**"), in denen die Platzierung bei qualifizierten institutionellen Käufern (*qualified institutional buyers*; "**QIBs**") im Sinne von Rule 144A nach dem US-Wertpapiergesetz von 1933 (*U.S. Securities Act of 1933*) in seiner jeweils geltenden Fassung (das "**US-Wertpapiergesetz**") erfolgt, sowie außerhalb der Vereinigten Staaten an bestimmte andere qualifizierte institutionelle Anleger gemäß Regulation S nach dem US-Wertpapiergesetz. Der endgültige Preis der im Rahmen des Rump Placement angebotenen Neuen Aktien wird auf Basis des Ergebnisses eines Bookbuilding-Verfahrens ermittelt wird aber EUR 7,15 nicht übersteigen. Die Angebotsfrist, während der Anleger im Rahmen des Rump Placement Kaufangebote für Neue Aktien abgeben können, beginnt am 24. November 2014 nach Börseschluss der Wiener Börse und endet voraussichtlich am 25. November 2014 (die "**Rump Placement Frist**" und zusammen mit der Bezugsfrist die "**Angebotsfrist**"). Die Rump Placement Frist kann nach dem freien Ermessen der Gesellschaft im Einvernehmen mit den Joint Bookrunners jederzeit verkürzt, verlängert oder beendet werden.

Die endgültige Anzahl Neuer Aktien wird von der Telekom Austria im Einvernehmen mit den Joint Bookrunners ermittelt. Das Bezugsverhältnis bleibt auch für den Fall unverändert, dass weniger als 221.500.000 Neue Aktien von der Telekom Austria begeben werden. Dies kann zu einer Erhöhung des Anteils (ausgedrückt als Prozentsatz bezogen auf das gesamte Grundkapital der Telekom Austria) eines Bestehenden Aktionärs führen, der seine Bezugsrechte in vollem Umfang ausübt.

Die Bestehenden Aktien (ISIN AT0000720008) sind zum Amtlichen Handel im Segment Prime Market unter dem Symbol "TKA" zugelassen. Die Neuen Aktien werden unter derselben ISIN notieren. Die Zulassung der Neuen Aktien zum Amtlichen Handel der Wiener Börse wird beantragt werden. Vorbehaltlich der Zulassung durch die Wiener Börse wird der Handel mit Neuen Aktien an der Wiener Börse voraussichtlich am oder um den 27. November 2014 im Segment Prime Market aufgenommen werden.

ADRs

Die Gesellschaft war zuvor an der New Yorker Börse über *American Depositary Receipts* ("**ADRs**") notiert. Mit Wirkung zum 17. Mai 2007 hat die Gesellschaft ihre Notierung an der New Yorker Börse eingestellt. Die ADRs werden weiterhin außerbörslich im Rahmen eines Sponsored Level 1 ADR-Programms gehandelt. Jedes ADR verbrieft zwei Bestehende Aktien. Die ADRs sind nicht an einer Wertpapierbörse in den Vereinigten Staaten notiert, und die Gesellschaft unterliegt nicht den Meldepflichten nach *sections* 13 oder 15(d) des US-amerikanischen Börsengesetzes von 1934 (*United States Exchange Act of 1934*) in der jeweils geltenden Fassung. Inhaber von ADRs, die im Rahmen des ADR-Programms der Gesellschaft von Drittverwahrern in Bezug auf ihre Beteiligung an den Aktien der Gesellschaft ausgegeben wurden, sind in Bezug auf die durch diese ADRs verbrieften Bestehenden

		Aktien nicht zur Zeichnung Neuer Aktien zugelassen. Da weder die Bezugsrechte noch die Neuen Aktien nach dem US-Wertpapiergesetz registriert sind oder sein werden, werden im Rahmen des Angebots keine neuen ADRs ausgegeben.
E.4	**Beschreibung aller für die Emission/das Angebot wesentlichen, auch kollidierenden Beteiligungen**	In Zusammenhang mit dem Angebot sind die Konsortialbanken ein Vertragsverhältnis mit der Gesellschaft eingegangen. Bei erfolgreicher Durchführung des Angebots erhalten die Joint Bookrunners eine Provision. Den Joint Bookrunners ist es gemeinsam mit ihren jeweiligen verbundenen Unternehmen im Zusammenhang mit dem Angebot erlaubt, Aktien auf eigene Rechnung zu erwerben, zu halten und zu verkaufen, und weiterhin auch außerhalb des Angebotes Aktien anzubieten oder zu verkaufen. Die Joint Bookrunners beabsichtigen nicht, die Größenordnung solcher Investitionen oder Transaktionen offenzulegen, sofern sie nicht gesetzlich dazu verpflichtet sind. Die Joint Bookrunners und die mit ihnen verbundenen Unternehmen erbrachten, erbringen und werden auch in Zukunft regelmäßig verschiedene Services als Investmentbanken, Kommerzbanken, Finanzberater oder in anderer Funktion an die Telekom Austria Gruppe erbringen und werden laufende Geschäftsbeziehungen mit der Telekom Austria Gruppe in ihrer Eigenschaft als Kreditinstitute oder als Kreditgeber unter Kredit- und/oder Garantieverträgen unterhalten, für welche sie in der Vergangenheit übliche Entlohnungen und üblichen Kostenersatz erhielten und weiter erhalten werden. Alle Investment-, Beratungs- und Finanztransaktionen mit den Joint Bookrunners werden zu drittüblichen Marktkonditionen durchgeführt.
E.5	**Name der Person/des Unternehmens, die/das Wertpapier zum Verkauf anbietet**	Die Neuen Aktien werden durch die Citigroup Global Markets Limited und die Deutsche Bank Aktiengesellschaft (die "**Joint Global Coordinators**") sowie die Erste Group Bank AG, die Raiffeisen Centrobank AG und die UniCredit Bank Austria AG (zusammen mit den Joint Global Coordinators die "**Joint Bookrunners**" oder die "**Konsortialbanken**") zum Verkauf angeboten.
	Bei Lock-up-Vereinbarungen die beteiligten Parteien und die Lock-up-Frist	Im Übernahmevertrag (der "**Übernahmevertrag**") hat sich die Gesellschaft gegenüber jeder der Konsortialbanken im rechtlich zulässigen Umfang verpflichtet, während des mit dem Datum des Übernahmevertrags beginnenden und sechs Monate nach dem Tag der Aufnahme des Handels mit Neuen Aktien an der Wiener Börse endenden Zeitraums ohne die vorherige schriftliche Zustimmung der Joint Bookrunners (die nicht ohne triftigen Grund versagt oder verzögert werden darf) die folgenden Handlungen nicht selbst vorzunehmen und (in Bezug auf die nachstehenden Absätze (i) und (ii)) dafür Sorge zu tragen, dass auch ihr Vorstand und ihr Aufsichtsrat die entsprechenden Handlungen nicht vornehmen: (i) Ausübung einer satzungsmäßigen Ermächtigung zur Erhöhung ihres Kapitals; (ii) Vorlage eines Kapitalerhöhungsbeschlussvorschlags in einer Hauptversammlung; (iii) Angebot, Verpfändung, Zuteilung, Ausgabe (außer soweit nach anwendbarem Recht verlangt) oder Verkauf von Anteilen an ihrem Kapital oder von Wertpapieren, die durch Umwandlung oder Ausübung oder Tausch zum Bezug von Anteilen an ihrem Kapital berechtigen, oder Eingehen einer Verkaufsverpflichtung, Verkauf einer Option oder eines vertraglichen Kaufrechts, Erwerb einer Verkaufsoption, Gewährung einer Kaufoption, eines

Kaufrechts oder sonstigen Kaufanspruchs, oder sonstige Übertragung oder Veräußerung, sei es unmittelbar oder mittelbar, in Bezug auf solche Anteile oder Wertpapiere oder Abschluss eines Swaps oder einer sonstigen Vereinbarung, die das mit dem Eigentum von Anteilen an ihrem Kapital verbundene wirtschaftliche Risiko ganz oder teilweise auf einen Dritten überträgt, unabhängig davon, ob die betreffende vorstehend aufgeführte Transaktion durch Lieferung von Anteilen an ihrem Kapital oder der oben genannten anderen Wertpapiere, durch Barleistung oder auf sonstige Weise erfüllt wird (außer zum Zweck der Ausgabe von Stammaktien oder Optionen auf Stammaktien an leitende Angestellte und Mitarbeiter der Gesellschaft oder einer Tochtergesellschaft der Gesellschaft im Rahmen eines üblichen Aktienoptionsprogramms für leitende Angestellte und/oder Mitarbeiter).

In separaten Vereinbarungen in Briefform verpflichteten sich América Móvil und Carso Telecom gegenüber der Gesellschaft und den Konsortialbanken und ÖIAG gegenüber den Konsortialbanken, dass sie während einer Frist, welche am heutigen Tag beginnt und sechs Monate nach dem ersten Tag, an welchem der Börsehandel mit den Neuen Aktien an der Wiener Börse beginnt, endet, ohne vorherige schriftliche Zustimmung der Joint Bookrunner die Bestehenden Aktien oder die Neuen Aktien (oder in solche umwandelbare oder austauschbare Wertpapiere), welche sie während obiger Frist halten, weder anbieten, verpfänden, platzieren, zuteilen, ausgeben (es sei denn, dies wäre nach zwingendem Recht erforderlich) oder verkaufen werden und sie sich verpflichten, diese nicht zu verkaufen, und keine Optionen oder sonstige Verträge abzuschließen, diese zu kaufen, und keine Option zum Verkauf dieser Aktien abzuschließen sowie keine Option, kein Recht oder keine Zusicherung zum Kauf dieser Aktien einzuräumen bzw. zu gewähren und diese Aktien nicht anderweitig (direkt oder indirekt) zu übertragen oder zu veräußern, und keine Swap- oder Tauschgeschäfte oder andere Geschäfte abzuschließen, mit denen das wirtschaftliche Risiko aus der Eigentümerschaft an solchen Bestehenden Aktien oder Neuen Aktien ganz oder teilweise an Dritte übertragen wird, gleich ob diese vorgenannten Geschäfte durch Übertragung der Bestehenden Aktien oder Neuen Aktien oder durch andere Wertpapiere oder durch Übertragung von Geld oder auf andere Weise vollzogen werden.

E.6	**Betrag und Prozentsatz der aus dem Angebot resultierenden unmittelbaren Verwässerung. Im Falle eines Zeichnungsangebots an die existierenden Anteilseigner Betrag und Prozentsatz der unmittelbaren Verwässerung, für den Fall, dass sie das neue Angebot nicht zeichnen**	Das Eigenkapital der Gruppe betrug zum 30. September 2014 EUR 1.301,7 Mio. (ohne nicht beherrschende Anteile) mit einem auf jede der 443.000.000 Bestehenden Aktien der Gesellschaft (bereinigt um 415.159 eigene Aktien) entfallenden Betrag von EUR 2,94. Nach Wirksamwerden des Verkaufs von 221.500.000 Neuen Aktien zum Bezugspreis von EUR 4,57 je Neuer Aktie für alle Neuen Aktien (ohne Berücksichtigung der Annahme, dass der Angebotspreis für die im Rahmen des Rump Placement verkauften Neuen Aktien möglicherweise über dem Bezugspreis liegt) hätte sich das Eigenkapital der Gruppe zum 30. September 2014 nach Abzug der erwarteten Konsortialführungsprovision und anderen angebotsbezogenen Kosten der Gesellschaft auf EUR 2.300,7 Mio. bzw. EUR 3,46 je Aktie belaufen. Dies entspricht einer unmittelbaren Verwässerung des Eigenkapitals von EUR 1,11 bzw. 24,2% je Aktie an Anleger, die Neue Aktien zum Bezugspreis erwerben, und einer unmittelbaren Steigerung des Nettovermögens je Aktie für Bestehende Aktionäre, die keine

		Neuen Aktien beziehen, von ca. EUR 0,52 bzw. rund 17,8%. Die Verwässerung je Aktie für neue Anleger wird ermittelt, indem das Eigenkapital je Aktie nach dem Angebot von dem Preis in Abzug gebracht wird, welcher von einem neuen Anleger gezahlt wird. Anleger sollen sich bewusst sein, dass die Verwässerung, so wie oben berechnet, auf der maximalen Anzahl an angebotenen Neuen Aktien sowie einem Rump Placement Angebotspreis basiert, welcher gleich hoch ist wie der Bezugspreis. Die tatsächliche Verwässerung wird auf Grundlage des tatsächlichen Nettoerlöses basierend auf der tatsächlichen Anzahl von ausgegebenen Neuen Aktien bestimmt und ist auch vom tatsächlichen Rump Placement Angebotspreis abhängig.
E.7	**Schätzung der Ausgaben, die dem Anleger von der Emittentin oder dem Anbieter in Rechnung gestellt werden**	Mit Ausnahme der üblichen Bankgebühren werden Anlegern keine Kosten durch die Gesellschaft oder die Konsortialbanken in Rechnung gestellt.

RISK FACTORS

Prospective investors should carefully review the following risk factors in conjunction with the other information contained in this Prospectus before making an investment in the Shares. If these risks materialize, individually or together with other circumstances, they may have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition. Telekom Austria Group believes that the factors described below represent the principal risks inherent in investing in the Shares, but Telekom Austria does not represent that the statements below are exhaustive. Additional risks not currently known to Telekom Austria Group or that it currently believes are immaterial may also adversely affect its business, results of operations and financial condition. Should any of these risks materialize, the trading price of the Shares could decline and investors could lose all or a part of their investment. The order in which the individual risks are presented does not provide an indication of the likelihood of their occurrence nor of the severity or significance of the individual risks.

Macroeconomic risks and market environment

An economic downturn or substantial slowdown in economic development in certain markets could adversely affect customer demand for Telekom Austria Group's products and services.

Telekom Austria Group's business is particularly dependent on general economic conditions in Austria as well as in the other markets in Central, Eastern and South-Eastern Europe ("**CESEE**") in which the Group has operations.

After several years of severe economic volatility, the global economy stabilized in 2013. In the European Union, the economic climate moderately improved in 2013 following a recession in 2012. However, while the economies of northern European countries experienced moderate improvements, the economies of southern European countries (including Italy, Spain, Portugal and Greece) remain relatively weak.

Since approximately 60% of Telekom Austria Group's revenues are generated in Austria, with the remaining revenues derived from other CESEE markets, any economic downturn or substantial slowdown in economic development that leads to a decrease in customer demand in these regions could have a significant impact on Telekom Austria Group's business. Moreover, budgetary crises or political volatility could have an adverse effect on the regional economy or exacerbate any negative economic trends, potentially leading to decreased customer demand for Telekom Austria Group's products and services.

If the economic recovery in CESEE does not strengthen, retail customer demand for Telekom Austria Group's products and services and the willingness of Telekom Austria Group's business customers to invest in information and communications technology may stagnate or decline. This could, in turn, have a material adverse effect on the business prospects, results of operations and financial condition of Telekom Austria Group.

Telekom Austria Group operates in a competitive industry and may not be able to maintain its market share, which could adversely affect its business.

The telecommunications industry is highly competitive, both in the fixed-line and mobile communications markets. Such competition has led to significant pricing pressure resulting in sharp price reductions in both mobile communications services and data services. There is a risk that volume increase will not be able to offset such price reductions as evidenced by several of the Group's mature markets. Moreover, price reductions for mobile communications have also accelerated fixed-to-mobile substitution, thereby reducing Telekom Austria Group's revenues from fixed-line services. Furthermore, Telekom Austria Group's competitors may offer products and services comparable or superior to those provided by Telekom Austria Group or adapt more quickly than Telekom Austria Group to evolving industry trends or changing market demands. In addition, Telekom Austria Group's competitors may pursue aggressive pricing strategies and offer products and services at prices that Telekom Austria Group cannot match. This could lead to a loss of market share in Telekom Austria Group's most important markets. Moreover, such competitors could make it more difficult for Telekom Austria Group to enter or expand in other markets, some of which may be critical for Telekom Austria Group's future strategy. New entrants such as mobile virtual network operators ("**MVNO**"), who have the right to access other operators' networks at wholesale prices in order to provide services, may further increase pressure on tariffs. Other factors that may increase competition include new forms of telecommunication that circumvent conventional tariff structures as well as licensing schemes and alternative technologies such as wireless access. Voice over IP ("**VoIP**") is a technology that has the potential to partially substitute existing technologies and services and reduce Telekom Austria Group's market share and revenues.

In addition, changes in government or EU regulations, such as for roaming and interconnection fees, which have already been announced, may require Group Companies to lower tariffs and fees. The materialization of any such risks could increase downward pressure on prices or lead to a decrease in the market share of Telekom Austria Group and could therefore have a material adverse effect on the business prospects, results of operations and financial condition of Telekom Austria Group.

Telekom Austria Group operates in a number of CESEE countries and is thus subject to individual country risks in CESEE.

Telekom Austria Group's operations are concentrated in CESEE. Some of these countries could suffer from significant economic, tax, legal and political changes. Furthermore, certain countries in which Telekom Austria Group currently operates, or may operate in the future, have materially different regulations, business environment, cultural norms and customer trends, all of which could make it difficult for Telekom Austria Group to successfully pursue its strategy. Moreover, changes in applicable rules and legislation due to geopolitical developments could make it difficult or impossible for Telekom Austria Group to maintain operations in certain countries. Negative developments or circumstances in these countries could have a material adverse effect on the business prospects, results of operations and financial condition of Telekom Austria Group.

For detailed information about the risks in important markets of Telekom Austria Group, see "Risk factors—Country risks affecting Telekom Austria Group's operations".

Risks relating to Telekom Austria Group's business

Telekom Austria Group may realize neither the expected level of demand for its products and services, nor the expected level or timing of revenues and profitability generated by those products and services, as a result of unsuccessful marketing strategies or lack of market demand.

There is a risk that Telekom Austria Group will not succeed in making customers sufficiently aware of existing and future products and services or in creating customer demand for these products and services at the prices Telekom Austria Group would want to charge. There is also a risk that Telekom Austria Group will not identify trends correctly, or that it will not be able to launch new products and services in the market at the right time, or that it will target the wrong customer group. In addition, Telekom Austria Group may not be able to launch new products and services in the market as quickly or price-competitively as its competitors.

As a result, Telekom Austria Group may realize neither the expected level of demand for its products and services, nor the expected level or timing of revenues generated by those products and services. This could materially adversely affect Telekom Austria Group's business prospects, results of operations and financial condition.

The telecommunications industry is significantly affected by rapid technological change and Telekom Austria may not be able to proactively anticipate or effectively react to these changes.

The telecommunications industry is characterized by rapidly changing technology and related changes in customer demand for new products and services at competitive prices. Technological change and the emergence of alternative technologies for the provision of telecommunications services that are technologically superior, cheaper or otherwise more attractive than those that Telekom Austria provides may render the Group's services less profitable, less viable or obsolete.

Technological developments may also shorten product life cycles and facilitate convergence of various segments in the telecommunications industry. As a result, there is a risk that new and established information and telecommunications technologies or products may not only fail to complement one another, but in some cases may even substitute for one another. Examples of this are VoIP and extensible messaging and presence protocol ("**XMPP**"), technologies that compete directly with traditional telephony services, particularly in the mobile consumer market (for example, Viber, Skype and WhatsApp). VoIP and XMPP have the potential to further reduce Telekom Austria Group's market share and revenues in its mobile voice and short message service ("**SMS**") business.

Telekom Austria may be required to deploy new technologies rapidly if subscribers begin demanding features of a new technology, such as increased bandwidth. When Telekom Austria selects and advances one technology over another, it may not be able to accurately predict which technology may prove to be the most economical, efficient or capable of attracting subscribers or stimulating usage, and Telekom Austria may develop or implement a technology that does not achieve widespread commercial success or that is not compatible with other newly developed technologies.

In addition, the rapid increase in popularity of multimedia content streamed through the telecommunications network and insufficient innovation on the side of telecommunications operators could lead to domination of other content or service providers and loss of direct customer relationships. As a result, Telekom Austria Group may lose part of its revenues and margins while being simultaneously required to invest more in modernization of its technologies.

Furthermore, Telekom Austria may not receive the necessary licenses to provide services based on these new technologies in the markets in which it operates or may be negatively impacted by unfavorable regulation regarding the usage of these technologies.

If Telekom Austria is unable to accurately predict which technology will prove to be the most economical, efficient or capable of attracting customers or stimulating usage, or react to or access technological changes in the telecommunications market, it could lose subscribers, fail to attract new subscribers or incur substantial costs and investments in order to maintain its subscriber base, all of which could have a material adverse effect on its business, financial condition and results of operations.

Technological change could increase competition, allow for new market entrants, render existing technologies obsolete, or require Telekom Austria Group to make substantial additional investments.

Telekom Austria Group's services are technology-intensive, and the development of new technologies could render its services non-competitive and require it to write down the book values of investments it has made in existing licenses and technologies.

Telekom Austria's competitors or new market entrants may introduce new or technologically superior telecommunication services before Telekom Austria does. As a result, Telekom Austria may be required to rapidly start providing more advanced telecommunication services or deploying newer technologies. This means that Telekom Austria Group must invest in the development of new products, technology and services so that it can continue to compete effectively with current or future competitors, which may reduce Telekom Austria Group's revenues or margins.

Additional competition may arise from IT companies which position themselves as full IT and telecommunications providers and compete strongly for the large corporate accounts. A lack of market acceptance of services based on third generation technology or fourth generation long-term evolution ("**LTE**") technology could also have a negative impact on revenues and results of operations, including the possibility that Telekom Austria Group will not be able to achieve a positive return on its investments in third generation and fourth generation LTE technology.

The development of broadband network usage for value-added services benefits existing companies and furthers the emergence of new companies that do not have a network (over-the-top players and content and service providers, including aggregators, search engines, handset makers, etc.). Competition to control customer relations with these players is intensifying and could erode the operators' market position. This direct relationship with customers is a source of value for the operators and to lose all or part of it to new entrants could affect revenue, margins, financial position and outlook.

Telekom Austria Group is already making substantial investments, and may have to make substantial additional investments in new technologies in order to remain competitive. New technologies that Telekom Austria Group chooses to develop or acquire, however, may not prove to be successful. In addition, Telekom Austria Group may not accurately predict how rapidly any competitor might implement a particular new technology. Furthermore, Telekom Austria Group may not receive the regulatory or intellectual property licenses needed to provide services based on new technologies in Austria or abroad. As a result, Telekom Austria Group might lose customers, fail to attract new customers or incur substantial costs to maintain its customer base.

Telekom Austria Group may not be able to successfully implement its convergence strategy to gain new customers through bundling of its voice, broadband and/or television services.

A significant component of Telekom Austria Group's strategy is to continue to retain existing and gain new customers through bundled offerings comprising mobile services, landline retail voice, landline internet, television and broadband services. The Group's ability to successfully implement its strategy may be adversely affected by broadband and mobile usage growing slower than expected or not at all or by increased competition for reasons such as the entry of new operators, technological developments introducing new platforms for internet or television access, or the provision by other operators of broadband connections superior or at more attractive terms to those which Telekom Austria Group can offer. The Group's ability to successfully implement its strategy may also be adversely affected if the Group experiences any network interruptions or problems related to its network infrastructure. Telekom Austria has invested substantially in the ability to offer customers bundles of mobile and fixed-line services. As of the date of this Prospectus, the Group seeks to expand its convergent capabilities. Should Telekom Austria Group be unsuccessful in increasing its operating revenues by bundling its service offerings or in cross-selling and up-selling its various products, this could lead to competitive disadvantages (meaning loss of customers) and thus have a material adverse effect on the Group's results of operations and financial condition.

The migration to next generation networks and other technological changes may require substantial investments in the future and may impair the value of existing investments which could have a negative impact on Telekom Austria Group's profitability.

Telekom Austria Group's business is capital intensive and requires significant amounts of investments. The Group has implemented an extensive capital expenditure program that will continue to require significant cash outlays in the foreseeable future. Among other things, Telekom Austria Group is in the process of evaluating the details and financial implications of a migration to next generation network (including migration to SDN – Software Defined Network and NFV – Network Function Virtualization) with particular consideration of existing investments in those markets in which it has not yet fully migrated to next generation network. The costs relating to the expansion of next generation network and its implications on Telekom Austria Group's business are expected to be substantial. The time frame for its development will depend on various factors including customer needs and competition. At this stage, however, it is too early to quantify the capital expenditure requirements or to give a time horizon for its implementation. As a result, these and other technological changes may lead to substantial investments in the future and might impair the value of existing investments which could have a negative impact on Telekom Austria Group's profitability. If Telekom Austria Group fails to implement the expansion of next generation network or other technological changes timely, this could lead to competitive disadvantages and thus have a material adverse effect on the Group's results of operations and financial condition.

Telekom Austria Group may require permits for its existing and planned infrastructure in some of the markets in which it operates and may be required to relocate parts of its network infrastructure.

Both mobile and fixed network operations of Telekom Austria Group require certain infrastructure and buildings to operate the Group's network. The Group may be required to obtain building permits and conclude lease contracts to roll out its infrastructure. In some markets, such as Bulgaria, Croatia and the Republic of Macedonia, local authorities may also require retrospective building permits or use permits for already existing infrastructure. Should the Group be unable to obtain such permits and lease contracts, the local operations of the Group may be impacted and the roll out of new infrastructure may be halted. In addition, local authorities in some of these markets may require the Group to relocate some or all of its already existing network infrastructure, which may lead to additional capital expenditures for the Group. Should the Group be required to relocate its network infrastructure, not be able to conclude necessary lease contracts or be denied any necessary building permits, it may incur additional expenditures or penalties in case of non-compliance. This could materially adversely affect Telekom Austria Group's business, results of operations and financial condition.

Pursuing strategic opportunities, Telekom Austria Group may acquire or sell assets or companies, or enter into joint ventures which could potentially deliver less revenues, cash flows and earnings than anticipated and may experience difficulties integrating acquired assets or companies in a timely

manner; suitable acquisition targets may not be identified and anticipated synergies may not be realized as expected.

The Group plans to continue to explore opportunities in the markets in which it operates to consolidate the market or increase product convergence. In addition, the Group may also pursue opportunities to grow in its target regions (CESEE). Whether the Group will consider an opportunity for investment depends on a variety of factors, such as maintaining the Group's credit rating of Baa2 with stable outlook by Moody's Investors Service, Inc. ("**Moody's**") and BBB with stable outlook by Standard & Poor's Financial Services LLC ("**Standard & Poor's**"), the likelihood of synergies with existing operations and full operational control by the Group. For example, in January 2013, Telekom Austria Group expanded its operations in Austria through the acquisition of YESSS! Telekommunikation GmbH ("**YESSS!**"), a discount mobile operator, which increased the Group's market share in Austria. Upon making significant acquisitions in the future, the performance of Telekom Austria Group will depend in part on whether it can successfully integrate such acquisitions in an effective and efficient manner. Telekom Austria Group may experience difficulties in integrating newly acquired assets and companies and the anticipated benefits of such acquisitions or joint ventures may not be realized fully (or at all) or may take longer to realize than expected. Such integration will be a complex, time consuming and expensive process and involve a number of risks, including the costs and expenses associated with any unexpected difficulties with respect to such assets and companies. Even if Telekom Austria Group is able to integrate newly acquired assets and companies successfully, this integration may not result in the realization of the full benefits of synergies, cost savings, revenues and cash flow enhancements, growth, operational efficiencies and other benefits as expected.

Due to the old age of some of its buildings, Telekom Austria Group may incur expenses, liabilities or limitations on its operations relating to the protection of such buildings as national landmarks or due to potential environmental issues.

Some of the buildings Telekom Austria Group owns are historic buildings protected under national landmark laws. Owners of such buildings are generally restricted by many regulations for the protection of national landmarks and such buildings may generally not be altered in any material manner. As owner of such protected buildings, Telekom Austria Group must comply with various upkeep and protection requirements. In addition, due to the materials commonly used during the time of construction of some of the Group's buildings, some of which today may be considered hazardous, and due to the fact that some of the buildings may be located on sites which may be contaminated or may contain hazardous objects or materials, the Group may face environmental liability or clean-up costs. Additionally, should any such hazardous materials, objects or contaminations cause any harm, the Group may also face additional liability. The Group cannot predict the cost of any such environmental liability, clean-up activities, or additional liability, nor can it predict any future costs or liabilities in relation to the old age of some of its buildings. In addition, the Group cannot quantify the costs to comply with current and future environmental and national landmark laws and regulations affecting the Group's buildings. Any costs and liabilities arising in connection with the old age of some of the Group's buildings and any clean-up or restoration activities carried out at such buildings may have a material adverse effect on the Group's business, results of operations and financial condition.

Telekom Austria's assets, such as goodwill and brands, are subject to the risk of impairment.

As of September 30, 2014, goodwill and other intangible assets, net, totaling EUR 3,773.5 million and deferred tax assets of EUR 119.1 million were carried on Telekom Austria's consolidated statement of financial position. The Group determines the value of the intangible assets in accordance with applicable accounting principles, and there is no systematic amortization of brands (except in rare cases where brands are foreseen not to be used anymore) or goodwill. The Group has recently carried out an impairment test due to a triggering event in segment Bulgaria as of June 30, 2014, which resulted in an impairment of goodwill and certain assets and impairment expenses in an aggregate amount of EUR 400.0 million in the six months ended June 30, 2014. A further impairment loss or impairment losses relating to other realized goodwill on Telekom Austria's balance sheet may have to be recognized if the expectations on which the current carrying amount are based are not fulfilled. In addition, deferred tax assets for tax loss carryforwards and write down of investments in segment Austria are recognized only if the related tax assets are generally utilizable and it is probable that taxable income will be available for these tax assets to be utilized. Deferred tax assets are calculated on the basis of management estimates on the expected timing and amount of income to be taxed and the future tax planning strategies. Therefore, deferred tax assets may have to be derecognized if the expectations on which the amount of deferred taxes are based are not fulfilled. An impairment loss with respect to goodwill and/or the derecognizing of deferred tax assets may have a material adverse effect on the Group's net assets, financial condition and results of operations.

As a result of Telekom Austria Group's large number of civil servants and protected employees in Austria, the Group is limited in its ability to adjust its operating expenses according to the changing market environment.

As of December 31, 2013, 51% of the Group's employees in its Austria segment were civil servants (*Beamte*) who cannot be dismissed without cause. Moreover, another 38% of the non-civil servant employees (19% of the employees) in Austria benefit from an enhanced protection against dismissal.

In the past, Telekom Austria Group has implemented early voluntary retirement packages for its employees; however, changes in Austrian law enacted several years ago no longer allow this. In view of the increasingly competitive environment in which Telekom Austria Group operates, such restrictions may have an adverse impact on its ability to implement restructuring measures and increase profitability.

IFRS accounting rules required a provision for redundancy programs (*Sozialpläne*), leaves of absence (*Dienstfreistellungen*) and the program under which civil servants of Telekom Austria Group change to the public service (*Staatsdienst*) in an amount of approximately EUR 810.0 million as of December 31, 2013. If it is not possible to implement measures to restructure the Group's workforce as required by the market environment, this may have a material adverse effect on the achievement of the Group's financial targets and profitability as well as its reputation.

The realization of any staff reduction program depends on a range of factors that are beyond Telekom Austria Group's control, such as general developments in the labor market or the demand for Telekom Austria Group's retrained labor force. If planned staff reduction targets are not achieved, this could have a material adverse effect on Telekom Austria Group's operating expenses and profitability.

System failures due to natural or human failure and the technological dependency on third parties may have an impact on Telekom Austria Group's reputation and the rate of customer satisfaction.

Telekom Austria Group operates complex information and network technology and its success largely depends on the continued and uninterrupted performance of its information technology, network systems and of certain hardware and data centers that it manages for its clients. Technical infrastructure outages cannot be ruled out. In the event of a power outage or data loss, Telekom Austria Group does not have a backup or alternative supply source for all components of its network. Despite the presence of certain backup systems and similar precautions Telekom Austria Group has taken, unanticipated problems affecting its systems could cause failures.

Sustained or repeated system failures that interrupt Telekom Austria Group's ability to provide service to its customers or otherwise meet its business obligations in a timely manner, including through the failure of billing systems or other back-office systems, could adversely affect Telekom Austria Group's reputation and result in a loss of customers and reputational damage, and may trigger claims for payment of damages or contractual remedies.

Telekom Austria Group's technical infrastructure (including the network infrastructure for fixed-line network services and mobile telecommunications services) may be damaged or disrupted by fire, lightning, flooding, earthquake and other catastrophes, technological failures, human errors, power loss, intentional wrongdoing, sabotage, hacking and other similar events. Unanticipated problems at Telekom Austria Group's facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of Telekom Austria Group's services and cause service interruptions. The disaster recovery, security, information protection and service continuity protection measures that Telekom Austria Group has undertaken or may in the future undertake, and its monitoring of network performance, may be insufficient to identify problems and prevent losses.

Moreover, Telekom Austria Group's infrastructure depends on third party software and hardware. Telekom Austria Group cannot be sure that its measures taken to safeguard its position against reliance on third party software and hardware will be effective under all circumstances. Damage or disruption to its infrastructure, technology or software, or malfunction thereof, may result in reduced user traffic and reduced revenues as well as increased costs, and might damage Telekom Austria Group's reputation and reduce customer satisfaction. The insurance policies of Telekom Austria to cover this type of incidents and risks may not be sufficient to cover all possible monetary losses from these incidents.

Telekom Austria Group's cooperation agreement with Vodafone may not be renewed or may be terminated.

Telekom Austria Group has a cooperation agreement with Vodafone, under which Vodafone provides products and services to Telekom Austria Group. This cooperation agreement provides benefits to Telekom Austria Group, such as joint procurement activities that may cease should this cooperation agreement expire without being renewed or if the agreement is terminated. When América Móvil launched a takeover offer on June 30, 2014, a change of control termination right of Vodafone under the cooperation agreement was triggered. The termination can be executed by each party with immediate effect during a 30 days period started October 31, 2014.

There is no guarantee that the Group will be able to conclude other cooperation agreements with similar benefits or that it will be able to conclude any further cooperation agreements at all. Should Vodafone make use of termination rights, in particular of its change of control termination right, or should the Group otherwise not be able to continue its cooperation with Vodafone, this may have a material adverse effect on the Group's operations and results.

Telekom Austria Group may not be able to retain, recruit or train sufficient management staff and skilled employees.

In addition to its technical staff, Telekom Austria Group largely depends on the performance of qualified management and executive staff. If Telekom Austria Group does not succeed to retain such management staff and employees in key positions or to recruit or train a sufficient number of new employees with corresponding qualifications, its market position would be at risk. This could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

The Group may be exposed to claims for compensation payments for the past and for higher payments in the future in connection with the calculation of pension contributions for civil servants employed with the Group.

According to the Austrian Law on the Restructuring of Postal and Telecommunication Services (*Poststrukturgesetz*, "**PTSG**"), the Company is obliged to reimburse all employment related expenses (*Aufwand für die Dienstbezüge*) of civil servants employed with Telekom Austria Group to the federal administration of the Republic of Austria. These reimbursements include the contribution to the federal pension system for civil servants working for the Group for the future pension entitlements of these civil servants. During the second half of 2012 and the first half of 2013, the Austrian Court of Audit (*Rechnungshof*) carried out an investigation of (among others) the mandatory pension contributions paid by Telekom Austria Group to the federal administration of the Republic of Austria. In its report of May 2014 the Court of Audit (*Rechnungshof*) stated that the Group has not correctly implemented the last legislative amendment of the statutory remuneration scheme for civil servants and, as a consequence, that its mandatory pension contributions paid to the federal administration of the Republic of Austria have been insufficient since 2005. According to the Court of Audit (*Rechnungshof*), the shortfall amounted to EUR 3.0 million for the year 2005 and EUR 3.6 million for the year 2011; figures for the other years were not given in detail by the Court of Audit (*Rechnungshof*). The matter is still in discussion and pending. There is a risk that the Group will be obliged to make additional payments for the years 2005 to 2014 and to bear higher coverage payments for its civil servants in the future. This could have a material adverse effect on the Group's results of operations and financial condition.

Alleged health risks of wireless communications devices could lead to litigation or decreased wireless communications usage or increased difficulty in obtaining sites for base stations and, as a result, adversely affect the financial condition and results of operations of Telekom Austria Group's wireless services business.

Media reports have suggested that radio frequency emissions from wireless mobile devices and cell sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. The World Health Organization has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health from emissions at levels below internationally recognized health and safety standards. Telekom Austria Group cannot provide assurance that research in the future will not establish links between radio frequency emissions and health risks.

Whether or not such research or studies conclude there is a link between radio frequency emissions and health, concerns about radio frequency emissions may discourage the use of wireless devices and may result in significant restrictions on the location and operation of cell sites by Telekom Austria Group and the usage of its wireless devices, telephones or products using wireless technology. Such restrictions on use could have material adverse effects on Telekom Austria Group's results of operations.

Telekom Austria Group cannot exclude that legislators, regulators or private litigants will refrain from taking other actions adverse to Telekom Austria Group, based on the purported health-related risks associated with radio frequency emissions. Any such litigation, legislation or adverse actions could negatively influence the development of Telekom Austria Group's mobile communication business, customer base or average usage per customer. Environmental objections may also impair Telekom Austria Group's ability to augment its infrastructure including, primarily, its mobile network, and reduce the willingness of contract partners to renew site contracts for mobile sites in the upcoming years. This may result in additional costs and loss of revenues in Telekom Austria Group's mobile communications businesses.

Shortcomings in Telekom Austria Group's supply and procurement process could negatively affect its product portfolio, revenues and profits.

Telekom Austria Group cooperates with a wide range of different suppliers for technical components and assemblies, as well as for software and other goods and information important to the conduct of Telekom Austria Group's business. Telekom Austria Group's contractors may want to extend delivery times, raise prices and limit supply due to their own shortages or changing business and product strategies. Furthermore, Telekom Austria Group's suppliers may be subject to litigation with respect to technology that is important for the conduct of Telekom Austria Group's business. Especially in times of economic turmoil, supply chains, credit access and financial stability of Telekom Austria Group's suppliers may be negatively affected, which could disrupt Telekom Austria Group's commercial relationship with them.

If Telekom Austria Group's suppliers fail to deliver quality products and services in a timely and cost-efficient manner, the ensuing disruptions in Telekom Austria Group's chain of supply could negatively affect Telekom Austria Group's product portfolio, cost structure, revenues and profits. Telekom Austria Group takes a variety of measures to reduce these risks, but it cannot be sure that these measures will be effective under all circumstances.

Telekom Austria Group faces substantial recurring expenses for spectrum licenses to maintain its mobile operations and may be unable to renew or acquire such licenses.

To operate its mobile communication network, Telekom Austria Group uses various spectrum bands in its markets for which it must acquire spectrum licenses from local regulators. Generally, such licenses are awarded at auctions conducted by the local regulators and have finite terms. Due to intense competition in some markets, fees for such licenses may be substantial. For example, in the fall of 2013, Telekom Austria Group participated in the Austrian multiband auction, in which the Group purchased spectrum for a total price of EUR 1.03 billion, securing half of the total spectrum auctioned. Some of this spectrum will replace spectrum that is expiring between 2015 and 2017. In addition, once a spectrum license has been granted, the licenses must be renewed at set intervals, such as in Bulgaria, where the Group recently prolonged its existing 2 x 11.2 MHz in the 900-MHz spectrum band and 2 x 10 MHz in the 1800-MHz spectrum band for a total amount of EUR 30.6 million until 2024. Finally, in some markets, such as Croatia, additional annual spectrum license fees may apply. As these fees are often set arbitrarily and license fees depend on the outcome of auctions, the Group cannot predict the cost of maintaining or expanding its operations in regards to such fees, which could be significant. Should these fees be more expensive than anticipated or should the Group fail to acquire or renew any spectrum licenses, this could have a material adverse effect on the Group's business, results of operations and financial condition.

Major customers or sales partners may decide to terminate their contracts with Telekom Austria Group and Telekom Austria Group may fail to maintain or further develop its direct and indirect distribution channels or fail to anticipate customer preference for a specific distribution channel.

Telekom Austria Group renders its services, directly or via sales partners, to a large number of customers. Major customers or sales partners may terminate their relationships with Telekom Austria Group which may result in the loss of revenues. For example, Austrian discount supermarket chain Hofer decided to end its exclusive sales agreement for the distribution of Telekom Austria Group's YESSS! discount brand as of December 31, 2014. Additionally, the Group may, in the future, be unable to renew its existing agreements with major customers or sales partners on commercially favorable terms or to maintain or further develop its direct and indirect distribution channels and may fail to anticipate customer preference for a specific distribution channel. Termination of significant relationships with major customers or sales partners or failure to attract new relationships or to maintain or further develop direct and indirect distribution channels or to anticipate customer preference for a specific distribution channel could prevent the Group from maintaining its market share, which could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

An insolvency of major customers or international suppliers may have an impact on Telekom Austria Group's revenues or profitability.

In the past, some of Telekom Austria Group's large wholesale customers faced severe liquidity constraints. Insolvencies or liquidity problems of these customers might expose Telekom Austria Group to risks in connection with settlement of Telekom Austria Group's accounts receivables. Insolvencies of major international suppliers of bandwidth could negatively impair availability of the connectivity Telekom Austria Group needs in order to provide services to its customers, thus having a material adverse effect on the Group's business, results of operations and financial condition.

The default of a large number of small customers may have an impact on Telekom Austria Group's revenues or profitability.

The Group is exposed to a counterparty default risk in connection with its business with small customers. This includes customer contracts with counterparties that have been particularly affected by the recent financial and economic conditions in the CESEE countries. The default of a large number of small customers might expose Telekom Austria Group to risks in connection with settlement of Telekom Austria Group's accounts receivables, which could have a material adverse effect on Telekom Austria Group's business, result of operations and financial condition.

Due to its high level of debt, the Group faces potential liquidity risks.

Telekom Austria Group's cash from operating activities, current cash resources, existing sources of external financing and the proceeds from this Offering could be insufficient to meet its capital needs after a period of twelve months following the date of this Prospectus, especially if sales decrease significantly and Telekom Austria Group fails to reduce its costs accordingly.

Disruptions in the financial markets, including the bankruptcy, insolvency or restructuring of a number of financial institutions, and restricted availability of liquidity could adversely impact the availability and cost of additional financing for Telekom Austria Group and could adversely affect the availability of financing already arranged or committed. Telekom Austria Group's liquidity could also be adversely impacted if its suppliers tighten terms of payment as the result of any decline in Telekom Austria Group's financial condition or if its customers were to extend their normal payment terms.

Exchange rate and interest rate risks have had, and may continue to have, an adverse effect on Telekom Austria Group's revenue and cost development.

Telekom Austria Group is exposed to currency risks, including currency translation risks, related to Telekom Austria Group's business activities outside of Austria, which are generally denominated in currencies other than the Euro, the Group's reporting currency. Generally, Telekom Austria Group takes measures to mitigate currency risks that may have an impact on its cash flows (known as a transaction risk), although there can be no guarantee that such measures will succeed. Currency risks have had a material adverse effect on Telekom Austria Group's results of operations when amounts in local currencies are translated into Euros and may have material adverse effect in the future. For example, in 2012 and

2013, the Group faced significant negative currency translation effects with respect to its operations in Belarus (concerning the Belarus currency devaluation, see "Risk factors—Country risks affecting Telekom Austria Group's operations—Volatility of CESEE currencies may adversely affect Telekom Austria Group's earnings.").

Telekom Austria Group is also exposed to Euro-interest rate risks. Interest rate risks arise as a result of fluctuations in interest rates affecting the level of interest payments due on the Group's floating rate indebtedness. There is the risk that Telekom Austria Group fails to identify relevant interest rate risks and even if it has identified such risks and taken measures to mitigate them, these measures could prove to be inadequate or insufficient.

Downgrades in the rating or a decline in the credit metrics of Telekom Austria, its inability to obtain new financing and covenants in existing financing agreements could increase refinancing costs and impair Telekom Austria Group's liquidity and profitability.

Telekom Austria is assigned a long-term rating of Baa2 with stable outlook by Moody's and BBB with stable outlook by Standard & Poor's. Possible future downgrades in the financial rating could impair Telekom Austria Group's ability to refinance its debt and have a material adverse effect on its business, results of operations and financial condition.

A portion of Telekom Austria Group's cash flow from operations is dedicated to the payment of interest and principal on its short-term borrowing and long-term debt. As of September 30, 2014 an amount of approximately EUR 280.7 million will become due within one year, and will not be available for other purposes. If Telekom Austria Group's credit metrics were to decline, the interest it pays under some of its credit facilities would increase, leading to an increase in the cost of additional financing that Telekom Austria Group may need, thereby negatively affecting its business, results of operations and financial condition.

Telekom Austria Group continues to depend on future financing and refinancing in the credit and capital markets and may not always be successful in securing such financing. Access to financing is dependent on a variety of financial, macroeconomic and other factors, many of which are beyond Telekom Austria Group's control. It is possible that its liquid funds and existing undrawn committed lines of credit will not be sufficient to cover Telekom Austria Group's refinancing and operational needs and that the Group will not obtain additional financing on favorable terms or at all.

Covenants contained in Telekom Austria Group's financing arrangements could equally limit its ability to finance its future operations and capital needs. If Telekom Austria Group breaches such covenants and is unable to cure the breach or obtain a waiver from the lenders, it could be in default under the terms of the respective arrangement. A default under any single financing arrangement could result in a default under other financing arrangements and could cause lenders under such other arrangements to accelerate such financing arrangements, in which case amounts under those arrangements would become due as well. In addition, in an event of default, the lenders under Telekom Austria Group's credit lines could terminate their commitments to extend credit to it or cease making loans, and Telekom Austria Group could be forced into bankruptcy or liquidation. This would have an immediate material adverse effect on Telekom Austria Group's liquidity and may have a material adverse effect on its business, results of operations and financial condition.

Telekom Austria Group may not obtain necessary approvals for some of its transactions or may obtain conditional approvals.

From time to time, Telekom Austria Group may need to obtain local authority approvals for certain of its transactions, ranging from merger approvals for acquisitions to permits for its infrastructure. There is no guarantee that the Group will receive the necessary approvals for such transactions. In addition, even if the Group receives these approvals, they may be based on certain conditions. If the Group is unable to obtain the necessary approvals, or only obtains conditional approvals, the Group may face additional expenses or be unable to finalize certain transactions at all, which could adversely affect Telekom Austria Group's business, future prospects, results of operations and financial condition.

Unexpected events may result in the insurance coverage of Telekom Austria Group being inadequate.

Telekom Austria Group has various insurance policies necessary for its ongoing business operations and believes that the current level of coverage is sufficient and customary in the industry to protect against risks associated with its business activities. Telekom Austria Group regularly reviews its insurance coverage and adjusts it where necessary. However, Telekom Austria Group may incur damages for which it has no or insufficient coverage, which could have a material adverse effect on Telekom Austria Group's business, financial position and results of operations.

Increased capital requirements for banks due to more stringent regulations could lead to higher costs of capital for Telekom Austria Group.

Due to more stringent financial regulations applicable to credit institutions, including increased capital requirements, banks may, among other things, be required to either raise additional own funds or limit their loan exposures, which in turn could result in higher costs of capital for Telekom Austria Group because of higher interest rates or non-availability of loans. This could have material adverse effects on Telekom Austria Group's business, results of operations and financial condition.

Regulatory, legal and compliance risks

Regulatory decisions and changes in the regulatory environment could adversely affect Telekom Austria Group's business.

Most of Telekom Austria Group's fixed net and mobile communications services, as well as its broadband service businesses, its television services, its international operations and investments are subject to extensive national and EU regulatory requirements.

Telecommunication services offered by a provider with significant market power are subject to extensive network access and price regulations. In Austria, 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 further possible reduction in mobile and fixed tariffs and fees, such as termination rates or roaming tariffs but also roll-out obligations and national roaming/wholesale access, could have a material adverse effect on Telekom Austria Group's earnings.

It is impossible to predict the precise impact of potential changes in the regulatory environment at EU and national level that may affect the business activities of Telekom Austria Group in the countries in which it operates. Changes in laws, regulations or government policy or adverse court decisions in any of those countries could adversely affect the Group's business and competitiveness. In all of these countries government agencies regularly intervene in the offerings and pricing of the Group's products and services. In particular, Telekom Austria Group's ability to compete effectively in existing or new markets could be adversely affected if regulators expand the restrictions and obligations to which Telekom Austria Group is subject or extend them to new services and markets. Additionally, the regulatory framework as well as interventions of government agencies may impede the Group's ability to grow and react to the initiatives of competitors and technological change. For example, Telekom Austria Group obtained permission from competition authorities to expand its operations in Austria through the acquisition of YESSS! only after a regulatory process that took several months to complete.

Furthermore, decisions by regulators regarding the granting, amendment or renewal of licenses and frequencies of Telekom Austria Group or of third parties could adversely affect the Group's future operations in the countries where it operates. On April 3, 2013, the European Parliament passed a legislative resolution regarding the European single market for electronic communications which is based on a legislative proposal for the creation of a European telecommunications single market, which was published by the European Commission in September 2013. The content of the package focuses on ways to abolish premium charges for roaming and international phone calls within Europe, on the legal protection of an open internet (net neutrality), on new and harmonized consumer rights as well as on harmonized spectrum assignments. The legislative proposal provides, among other things, for a reasonable approach to net neutrality as well as to a harmonization of spectrum auctions and license conditions. Furthermore, retail roaming fees shall be abolished in the EU as of December 15, 2015, which would have a severe impact on the entire European telecommunications industry, including the Group. The proposal is still subject to the approval of the Council of the European Union. If and when such approval might be given is unclear.

The current EU plans for the telecommunications industry concern all EU member states in which Telekom Austria Group operates and may adversely affect the activities of Telekom Austria Group in various ways. For example, these regulations strengthen the rights of customers and put a focus on stricter transparency in respect of prices and services as well as stricter data protection and data security provisions.

National regulatory authorities in some CESEE countries have recently announced plans to pursue the establishment of a Balkan roaming zone with significantly reduced prices for roaming: On September 29, 2014, the Ministers of Telecommunications of the Republic of Serbia, the Republic of Macedonia, Bosnia and Herzegovina and Montenegro signed a treaty on the reduction of roaming charges in public mobile networks. The treaty, which is open for other countries, envisages a gradual reduction in roaming fees in the respective countries with a view to adjust to EU standards within the next three years. In addition, the contracting countries agreed to launch an initiative towards the EU that the EU directive on roaming charges also applies to citizens of the Republic of Serbia. Kosovo, Albania and Turkey are expected to join this roaming zone. If such measures are implemented, this would cause a decline in the Group's revenues and profitability.

Concerning interconnection fees, national regulatory authorities need to follow the EC recommendation on termination rates when setting new levels for mobile termination rates ("**MTR**") or fixed termination rates ("**FTR**") in Europe, because – according to the European Commission recommendation of May 7, 2009 (2009/396/EC) – a pure long run incremental cost model is mandatory since January 1, 2013. The Austrian Telekom-Control-Commission (the "**TKK**") has already applied the new cost model in calculating new FTR and MTR rates which are valid from November 1, 2013. As a result, the symmetric MTR level has decreased from initially EUR 0.0201 to EUR 0.008049 per minute and FTRs have decreased from EUR 0.007, formerly the highest level in Europe, to EUR 0.00122 on average per minute.

On January 25, 2012, the European Commission published a proposal for a regulation of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation). The proposed regulation contains extensive obligations for companies in relation to procedures and mechanisms for dealing with personal data and rights of data subjects (for example information rights and right to be forgotten and to erasure of personal data). In case of a breach, the respective supervisory authorities would be able to impose fines of up to EUR 1,000,000 or, in case of an enterprise up to 2% of the Group's annual worldwide turnover. The proposed regulation has not yet been enacted and it is unclear if and when this may occur. If enacted as currently proposed, breaches of the data protection obligations laid down therein by Telekom Austria Group may have a material adverse effect on its business, results of operations and financial condition.

Telekom Austria Group could incur substantial costs to ensure its compliance with applicable regulations. If Telekom Austria Group fails to comply with such regulations, it could be subject to sanctions. The Group could also be subject to restrictions imposed by antitrust or competition authorities, which could prohibit certain actions or specific practices. Furthermore, regulators could adopt measures to lower the pricing of the Group's products and services. Any such risks could have a material adverse effect on Telekom Austria Group's business, results of operations or financial condition.

Telekom Austria Group is continuously involved in disputes and litigation with regulators, competition authorities, tax authorities, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on Telekom Austria Group's results of operations and financial condition.

Telekom Austria Group is subject to numerous risks relating to legal, regulatory and tax proceedings, to which Telekom Austria Group is currently a party or which could develop in the future (see also "Business—Litigation and arbitration"). Proceedings brought against Telekom Austria Group may result in judgments, settlements, fines, penalties, injunctions, or other results adverse to it, which could materially and negatively affect Telekom Austria Group's businesses, financial condition or results of operations, require material changes in Telekom Austria Group's operations, or cause Telekom Austria Group reputational harm. Litigation and regulatory proceedings, including patent infringement lawsuits, are inherently unpredictable. Telekom Austria Group establishes accruals for its litigation and regulatory matters according to accounting requirements, but the amount of loss ultimately incurred in relation to those matters may be substantially higher than the amounts accrued. In addition, while Telekom Austria Group seeks to prevent and detect employee misconduct, such as fraud, employee misconduct is not always possible to deter or prevent, and the extensive precautions Telekom Austria Group takes to prevent and detect this activity may not be effective in all cases, which could subject Telekom Austria Group to additional liability. Legal or regulatory proceedings in which Telekom Austria Group is or comes to be involved (or settlements thereof) may have a material adverse effect on Telekom Austria Group's business, results of operations or financial condition.

For example, on October 21, 2013, the TKK concluded an auction for frequency spectrums necessary for the existing mobile voice business ("**GSM**") and roll-out of the LTE mobile telephony generation. Telekom Austria Group acquired spectrum for a total of EUR 1.03 billion. The other auction participants, T-Mobile Austria GmbH ("**T-Mobile**") and Hutchison Drei Austria GmbH ("**Hutchison Drei Austria**") have appealed against this decision before the Austrian Constitutional Court (*Verfassungsgerichtshof*) and the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*) and while the former has already dismissed their appeals, a decision of the latter is still pending. Hutchison Drei Austria has meanwhile withdrawn its appeal; however, the appeal of T-Mobile at the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*) is still pending. Should T-Mobile's appeal be successful, there is a risk that the acquisition of the frequencies by T-Mobile, Hutchison Drei Austria and A1 Telekom Austria Aktiengesellschaft ("**A1**") is void and that the frequency auction has to be repeated. If the frequency auction has to be repeated, the outcome cannot be predicted and there is no guarantee that A1 will be able to secure the same frequency spectrum at the same price levels. In addition, if the frequency auction has to be repeated and the new licenses cannot be used by the end of 2015, A1 may face legal uncertainty regarding its operations, as a majority of 900 MHz band and all 1800 MHz band frequency spectrum licenses of A1 are expiring at the end of 2015. If the new licenses are not available for use by the time the old licenses expire, the Group's operations in Austria may be negatively affected. The Group's management expects a judgment in the course of 2014.

As further example, on February 2, 2012, Telekom Austria Group reached an agreement to acquire assets owned by Orange Austria Telecommunication GmbH ("**Orange Austria**") comprising base stations, frequencies, the mobile operator YESSS! and certain intellectual property rights for a total amount of approximately EUR 403.6 million (after purchase price adjustments). After the approvals of the Austrian Cartel Court (*Kartellgericht*) and the TKK (in relation to the acquisition of frequencies) were granted in November and December 2012, respectively, and Hutchison 3G Austria Holdings GmbH ("**Hutchison 3G Austria Holding**") completed its indirect acquisition of Orange Austria, the Group completed its acquisition of YESSS! and certain intellectual property rights from Orange Austria on January 3, 2013. Telekom Austria Group completed the acquisition of the base stations and frequencies from Orange Austria in the period until June 2014. In connection with the transaction, T-Mobile, which was not admitted as party in the approval procedure by the TKK, appealed the decisions of the TKK to the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*), which referred the case in one of the appeals to the European Court of Justice for a preliminary ruling. The respective proceedings are currently pending. In his opinion rendered on September 9, 2014, the Advocate General stated that T-Mobile has a right to appeal – and thus implicitely party status – if its market position is substantially affected. If T-Mobile's appeal succeeds, the approval procedure before the TKK would need to be renewed. If in the renewed proceedings TKK decided not to permit the acquisition of frequencies, there is a risk of reversal of Telekom Austria Group's frequency transaction. Separately, Telekom Austria has filed a law suit against Hutchison Drei Austria (as legal successor of Orange Austria) with the ICC (International Chamber of Commerce International Court for Arbitration) claiming damages of EUR 3.4 million for deficient base stations in connection with the acquisition of such base stations.

Potential breaches of compliance requirements or the identification of material weaknesses in Telekom Austria Group's internal control over financial reporting may have an adverse impact on Telekom Austria Group's corporate reputation, financial condition and the trading price of the Shares.

Public authorities including the Vienna prosecution office have been investigating Telekom Austria and some of its subsidiaries with respect to alleged unlawful behavior of former directors and employees in the past.

In a first trial held in February 2013, three of the four accused former members of the management were sentenced to imprisonment for embezzlement (*Untreue*) to the disadvantage of Telekom Austria by manipulating the Share price in 2004, which triggered bonus payments payable to around one hundred executive employees. Telekom Austria was awarded damages in an amount of EUR 9.9 million (which may, however, not be recoverable). The sentences are subject to appeal.

The Vienna prosecution office brought charges against a former member of the management of Telekom Austria, a former advertising agency manager and other individuals in January 2013. The accused were convicted of perjury (*falsche Beweisaussage*) and embezzlement (*Untreue*) to the disadvantage of Telekom Austria by arranging for an unapproved payment by Telekom Austria to the advertising agency. Telekom Austria was awarded damages in the amount of EUR 600,000. The sentences are subject to appeal.

In addition, the Vienna prosecution office brought charges against a former employee and three persons of another advertising agency for alleged embezzlement (*Untreue*) by paying to the former employee a severance payment of around EUR 586,000 to which he was not entitled.

Moreover, the Vienna prosecution office brought charges against a former member of the management of Telekom Austria, certain politicians and a lobbyist. They were sentenced for committing embezzlement (*Untreue*) to the disadvantage of Telekom Austria by arranging for a groundless payment by Telekom Austria. The damage suffered by Telekom Austria is estimated to amount to EUR 960,000. Telekom Austria has been awarded EUR 340,000 in the course of the criminal proceedings; Telekom Austria was referred by the criminal court to pursue its other open claims in civil proceedings.

Furthermore, in July 2013 the Vienna prosecution office brought charges against two former members of management for committing embezzlement (*Untreue*) to the disadvantage of Telekom Austria in connection with the sale of property. The damage suffered by Telekom Austria is estimated to amount to EUR 4.4 million. Both former members of the management were acquitted on April 11, 2014; however, the prosecutor appealed against the acquittal.

It is likely that further charges will be brought against former members of the management, contract partners or employees and other parties.

Telekom Austria Group may fail in remediating identified shortcomings at all or in a timely manner or may fail to identify all shortcomings. Telekom Austria Group takes adequate legal steps and remedies against persons involved in unlawful behavior (for example joining the criminal proceedings as civil claimant, filing civil lawsuits for damages or unjust enrichment). Such legal steps and remedies could prove to be inadequate at a later point in time. Should any shortcomings be proved or any further shortcomings be found to have happened, Telekom Austria Group could, in addition to reputational damage, be found liable for fines, damage or additional tax payments, which could have negative effects on the business, financial and earnings position of Telekom Austria Group. Currently a tax audit is conducted in Austria in connection with the alleged unlawful behavior of former directors and employees.

Failures, material weaknesses or other deficiencies in Telekom Austria Group's internal control over financial reporting may result in a deterioration of Telekom Austria Group's corporate image and negative market reactions, including a decline in the price of the Shares. This could also have a material adverse effect on the business, results of operations and financial condition of Telekom Austria Group.

Crime, corruption and money laundering in the countries where Telekom Austria Group operates may adversely affect Telekom Austria Group's ability to conduct its business.

Organized crime, including extortion and fraud, poses a risk to businesses in certain countries where Telekom Austria Group operates. Certain countries where Telekom Austria Group operates still face considerable weaknesses in the fight against corruption and organized crime. Property and employees may become targets of theft, violence or extortion. Threats or incidents of crime may force Telekom Austria Group to cease or alter certain activities or to liquidate certain investments, which may cause losses or have other negative impacts on Telekom Austria Group. Moreover, in certain countries where Telekom Austria Group operates there is a higher risk of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies and other purposes. Allegedly, there have also been instances in which government officials have engaged in selective investigations and prosecutions to further the interest of the government and individual officials. Furthermore, in certain countries where Telekom Austria Group operates, there have been allegations that members of the media regularly publish biased articles in return for payment. Telekom Austria Group's operations could be adversely affected by illegal activities, corruption or claims implicating Telekom Austria Group in such activities. Corruption and theft may also arise within Telekom Austria Group. Such activities may cause losses or have other material adverse effects on the reputation, business, results of operations and financial condition of Telekom Austria Group.

Country risks affecting Telekom Austria Group's operations

The legal systems, economies, social and other circumstances in CESEE countries are in different stages of the process of transformation towards EU standards.

Telekom Austria Group derives a significant portion of its earnings from operations in CESEE countries. The legal systems, economies, social and other circumstances in the CESEE region are in different stages of the process of transformation towards EU standards. As a result, Telekom Austria Group's CESEE operations are exposed to risks common to all regions that have recently undergone or are undergoing rapid political, economic and social change, including currency fluctuations, exchange control restrictions, an evolving regulatory environment, inflation, economic instability, political and social tensions, local market disruptions and labor unrest. These uncertainties could also affect the ability of Telekom Austria Group's customers or counterparties located in the region to obtain foreign exchange or credit and, therefore, to satisfy their obligations towards Telekom Austria Group. Political or economic disruptions or changes in laws and their application may harm the companies in which Telekom Austria Group has invested. This may significantly impair the value of these investments.

Telekom Austria Group's inability to address the various macroeconomic, competitive and regulatory challenges in each of the markets in which it operates could erode the Group's market share and cause a decline in its revenues and profitability.

Telekom Austria Group faces various macroeconomic, competitive and regulatory challenges in each of the markets in which it operates, as set forth in more detail below.

Austria

In 2013, the Group generated approximately 63% of its revenues in Austria. The Austrian market remains one of the most fiercely competitive and is among the markets with the lowest tariffs in Europe. Several of Telekom Austria Group's existing and potential competitors, such as T-Mobile and Hutchison Drei Austria, are affiliated with international telecommunications operators, some of which are incumbents in their own countries of origin, that have substantial financial resources. Competition from existing and new operators may result in loss of market share and further tariff reductions.

Telekom Austria Group also competes with MVNOs and service providers/resellers that offer wireless communications services without maintaining their own networks. The ability of these providers to attract customers away from traditional service providers such as Telekom Austria Group may have a negative impact on Telekom Austria Group's market share. The emergence of new MVNOs and service providers, in particular as a result of Hutchison Drei Austria's obligation to allow MVNOs on its infrastructure as part of the merger clearance condition in connection with the acquisition of Orange Austria, might also have a negative impact on Telekom Austria Group's market share and perpetuate downward pressure on tariffs.

In addition, Telekom Austria Group expects a further increase in competition from cable network operators and from competitors that have traditionally operated outside the telecommunications sector, such as major energy supply companies as well as non-traditional voice and data service providers, which could also have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Austria has one of the highest penetration rates of mobile communication in Europe, reaching 158.1% as of December 31, 2013. This figure reflects the ratio of Subscriber Identification Module ("**SIM**") cards, which usually identifies one mobile device, used by the population. As this number is above 100%, SIM and mobile devices outnumber the population in Austria, meaning that some customers use more than one mobile device. This market situation limits the possibility of increasing subscribers and bears a risk of declines in the average revenue per user ("**ARPU**").

As the Austrian market has become increasingly saturated, the focus of competition has been shifting from customer acquisition to customer retention via increasing the quality and value offered to existing customers. Accordingly, if Telekom Austria Group is unable to identify, retain and leverage high value customers without significantly declining ARPUs, its revenues may not develop as Telekom Austria Group has anticipated in its plans.

Competition among the various service providers/resellers is based on handset subsidies as well as low tariffs. If customer retention costs increase, a continuation of the low tariffs currently offered by Telekom Austria Group's competitors would have a material adverse effect on Telekom Austria Group's profitability.

Part of the challenge for Telekom Austria Group is to expand its A1 brand reputation to the convergent business without losing reputation, while implementing cost-saving measures. Telekom Austria Group's competitiveness could decline if the Group is unable to further successfully offer bundle products in the Austrian market at a sustainable price level.

Bulgaria

Bulgaria's market environment is characterized by a laggard domestic economy as well as strong competition. Stabilizing contract customers' voice ARPU is a critical challenge to maintaining the Group's margins. Competition in the market is expected to remain high in the near-term which may keep Telekom Austria Group's margin and high premium price positioning under pressure. Regulatory effects also continue to impact the Group's operational results in Bulgaria. A glide path, effective since July 1, 2012, led to a cut of 57.5% in national and of 70.6% in international termination rates. While in the past Bulgarian operators were allowed to charge considerably higher MTR for termination of calls from locations outside of Bulgaria, as of July 2012 the regulator aligned the international MTR with national MTR to the level outlined above. Further decreases in termination rates took place in January 2013, July 2013 and January 2014. As a result of the difficult market situation in Bulgaria, the Group impaired its Bulgarian asset Mobiltel EAD ("**Mobiltel**") in the amount of EUR 400.0 million.

Croatia

The Croatian market is dominated by persistent macroeconomic, regulatory and competitive pressures. Strong competitiveness of the market is driven by aggressive voice and data offers, which threaten the Group's increase in revenue. The Group's key differentiation from its "mobile only" competition in Croatia comprises the Group's offering of convergent products. In this regard, the Group may be able to sustain its ARPUs in order to monetize an increase in access lines.

Furthermore, the Group's margins are under pressure as a result of regulation. For example, during the past years, intense discussions have been led in Croatia regarding the introduction or abolition of a mobile tax. A mobile tax was abolished by the Croatian Parliament with effect as of January 1, 2012 only to be reintroduced a few weeks later. The mobile tax was finally abolished in July 2012. However, the Croatian government has again introduced new financial burdens on the mobile industry by tripling the annual spectrum usage fees in May 2014. Moreover, the introduction of the EU roaming glide path led to a reduction in roaming revenues in the second half of 2013.

Belarus

The Group's operations in Belarus are exposed to significant foreign exchange and inflationary pressures. If Telekom Austria Group fails to further reduce its foreign exchange dependency for operational and capital expenditures in Belarus, its cash flows could be negatively affected. Furthermore, Telekom Austria Group may be unable to further increase prices at close to the inflation rate for political or competitive reasons and if the Group increases prices, the demand for its products and services could decline.

Furthermore, the development of the Group's Belarusian operations may be hindered by competition. For example, Belarusian Cloud Technologies (beCloud) holds a monopoly on LTE in all frequency ranges and also shares an oligopoly with Beltelekom for international gateway services, which in the Group's view has led to unreasonable prices for international gateway services.

Additional Markets

In its additional markets (Slovenia, the Republic of Serbia, the Republic of Macedonia and, until the merger of the Group's former subsidiary mobilkom liechtenstein AG ("**mobilkom liechtenstein**") with Telecom Liechtenstein AG, which became effective on August 27, 2014, also Liechtenstein) ("**Additional**

Markets") segment, the Group faces a decline in prices for mobile telecommunications services through competition and regulation. If the Group is unable to compensate for such decline by growing its subscriber base, especially in the contract segment, and by higher usage, the Group's planned objectives may not be achieved. In addition, other mobile network operators' expansion of product offerings into the fixed net sector may result in a competitive disadvantage for Telekom Austria Group's mobile telecommunications operations in countries in which the Group offers only mobile communications services. Demand for telecommunications services in some of the countries of the Additional Markets segment suffers due to unemployment, government austerity measures and tax increases. Any measures of public budget reorganization in countries facing recession and introduction of additional taxes will decrease Telekom Austria Group's results of operations.

Should Telekom Austria Group fail to pre-empt and react successfully to the various macroeconomic, competitive and regulatory challenges in its markets, the Group's business, results of operations and financial condition could be materially adversely affected.

Economic instability in CESEE countries may adversely affect Telekom Austria Group's business and results of operations.

CESEE economies have suffered from the impact of the recent global economic crisis. The gross domestic product ("**GDP**") in the region was subject to a significant decline following 2009. Sharp declines in capital inflows caused reductions in domestic demand to exceed declines in GDP, with commensurately greater impact on consumption and living standards. Since 2009, the challenging macroeconomic conditions have influenced the Group's customer usage behavior (increasing their price sensitivity), in particular in Bulgaria and Croatia.

In addition, there is no assurance that CESEE countries will become as receptive to foreign trade and investment as they were prior to the economic crisis or that the region's foreign direct investment ratio will continue to increase comparable to the situation pre-crisis. Any further deterioration in the climate for foreign trade and investment could negatively affect the CESEE region's economy.

Even though CESEE countries' development projections for 2014 and 2015 show a slight increase in GDP, the recent economic recovery is fragile and could be interrupted by unforeseeable political and economic events. The possibility of an abrupt change of the political and economic environment became especially apparent in the context of the recent Ukraine crisis, which has led to severe tensions between Europe and Russia. This can in particular affect the economy of neighboring countries such as Belarus and Bulgaria.

Absence of an economic recovery or a deterioration of political or economic conditions in CESEE countries could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Telekom Austria Group could become subject to the risk of expropriation and nationalization in CESEE countries.

Most CESEE countries have in place legislation which provides for fair compensation in case of expropriation or nationalization of property. However, there can be no certainty that such protection would be enforced. It is possible that, due to a lack of experience in enforcing these provisions or due to political changes, legislative protection may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of Telekom Austria Group's assets, potentially with little or no compensation, could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Volatility of CESEE currencies may adversely affect Telekom Austria Group's earnings.

The Bulgarian Lev is pegged to the Euro (replacement of the Bulgarian Lev by the Euro is planned, but may be delayed due to inflation problems), as (*de facto*) is the Macedonian Denar. Croatia has, already in the 1990s, implemented a tightly managed float (with the Euro as reference) for its Croatian Kuna. Accordingly, the volatility of the Croatian Kuna against the Euro has been relatively low in recent years. An ongoing depreciation of Croatian Kuna against the Euro is however expected on the back of an increasing trade deficit and the still prevailing risk aversions towards frontier market assets. With effect from January 2, 2009, Belarus pegged the Belarusian Ruble to a basket of currencies made up of United States Dollar ("**USD**"), Euro and Russian Ruble in equal proportion. In May 2011, the Belarusian government devalued the nation's currency by approximately 53%. The introduction of a floating exchange rate in September 2011 was followed by a further devaluation of approximately 40%. Furthermore, in December 2011, Belarus was classified as a hyperinflationary economy according to IAS 29 due to its inflation rate in excess of 100% and other facts. Since 2012, the Belarusian Ruble experienced no politically induced devaluation but depreciated continuously against the Euro. Since 2001, the Serbian Dinar has (more and more loosely) been allowed to float against the Euro, with occasional interventions by the National Bank of the Republic of Serbia.

The pegging of currencies means that those currencies are susceptible to changes to the currency to which they are pegged. In addition, should the relevant authorities choose to remove or change the level of the pegging of their country's currency, greater volatility in that currency's exchange rates would arise, which in turn may have a material adverse effect on Telekom Austria Group's results of operations and financial condition.

Changes in the relationships between CESEE countries and western governments and institutions may affect Telekom Austria Group's business.

The relationships of each of the countries in the CESEE region with western governments and institutions vary. Bulgaria, Croatia and Slovenia, as EU member states, North Atlantic Treaty Organization ("**NATO**") members and World Trade Organization ("**WTO**") members, have a relatively close relationship with western governments. The Macedonian NATO membership has been rejected by Greece, putting the country behind in its pursuit of achieving a closer relationship with NATO. However, the Republic of Macedonia was officially admitted to the WTO in 2003, and, in 2007, joined the new Central European Free Trade Agreement, together with the Republic of Serbia and Croatia. The Republic of Serbia's relationships with western governments and institutions deteriorated following the unilateral declaration of independence of Kosovo in February 2008. Although the European Council decided on March 1, 2012 to grant the Republic of Serbia the status of an official candidate country to the EU, there is no guarantee that the Republic of Serbia's relationship with western governments and institutions will continue to strengthen. Following a dispute with Russia over energy supplies in early 2008, conciliatory efforts have been made by Belarus to improve its relationships with western governments and institutions. This has included the release of persons defined by western governments as political prisoners. Any deterioration in relationships between western governments and institutions and the CESEE countries may negatively affect such countries' economy and could thus have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Relationships upon which CESEE countries depend for their economic development may deteriorate and thus affect Telekom Austria Group's business.

Economic development in CESEE countries depends upon trade flows with regional neighbors. Belarus in particular imports a large proportion of its energy requirements from Russia and Russia accounts for roughly 50% of Belarus' exports. Similarly, Russia is a key trade partner and investor in Bulgaria, Croatia, the Republic of Serbia and the Republic of Macedonia. The status of diplomatic and commercial relations towards Russia has therefore a major influence on the political stability and the economic development in certain of the CESEE countries. The recent Ukraine crisis could pose substantial risks in this regard. As the EU and the USA have imposed large-scale economic sanctions against Russia as a response to the annexation of Crimea from Ukraine, CESEE countries may suffer from negative consequences on exports and energy imports. Significant deterioration in the CESEE countries' relations with regional neighbors, especially Russia, could negatively affect their economies and political stability which, in turn, could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Limited financial infrastructure and liquidity problems in CESEE countries may adversely affect Telekom Austria Group's business, results of operations and financial condition.

CESEE countries have a limited infrastructure to support a market system, with communications, banks and other financial infrastructure being generally less well developed and less regulated than their counterparts in more developed jurisdictions. Enterprises in CESEE countries frequently face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes, limited lending by the banking sector to the industrial sector and other factors. Many such enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees. In addition, as is the case from time to time in Belarus, foreign exchange liquidity problems may arise in certain markets, which may make it difficult to make payments from such markets. These challenges could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Restrictions may be imposed in some CESEE countries which could make the repatriation of profits difficult, hereby causing a transfer risk for Telekom Austria.

In some CESEE countries, Telekom Austria is exposed to the risk that restrictions, such as exchange controls, may be imposed on the free transfer of funds generated in these countries. Such restrictions could prevent the repatriation of the profits generated by Telekom Austria Group's subsidiaries in such countries and could therefore have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Potential social instability in CESEE countries may affect Telekom Austria Group's business.

The failure of governments and private enterprises in the CESEE region to pay full salaries on a regular basis and the failure of salaries and benefits in CESEE countries generally to keep pace with the rapidly increasing cost of living, have led in the past, and may lead in the future, to labor and social unrest, including strikes and political protests and demonstrations. These risks may increase considerably due to the effects of the ongoing European public debt crisis. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism, restrictions on foreign ownership and possible violence. In addition, in some CESEE markets, such as the Republic of Macedonia, tensions exist between ethnic groups, which could also lead to social instability. Social instability in CESEE countries could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

The evolving legal systems in CESEE countries are subject to risks and uncertainties, which may have an adverse effect on Telekom Austria Group's business.

CESEE governments have introduced various reforms to their legal systems. However, these legal systems remain in transition and are, therefore, subject to greater risks and uncertainties than more mature legal systems. In particular, risks associated with legal systems in the CESEE region include: (i) inconsistencies between and among the countries' constitutions and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of legislation; (iv) the fact that not all resolutions, order and decrees and other similar acts are readily available to the public or are available in an understandably organized form; (v) fast and frequent changes in laws and (vi) harsh and over-proportionate penalties.

The court systems in CESEE countries are in many cases understaffed and underfunded, and judges and courts remain inexperienced in the area of international transactions. Courts may have a large backlog of unresolved cases, which often causes proceedings to take several years. The court systems in CESEE countries are still developing and sometimes inefficient and slow. Independence may also, to a certain extent, be threatened by budgetary reliance on the national government. In addition, court claims can at times be used in the furtherance of political aims.

Enforcement of court orders and judgments can be difficult in practice. Enforcement procedures in CESEE countries are often time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient funds, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. Court orders are not always enforced or followed by law enforcement institutions.

These factors make judicial decisions in CESEE countries difficult to predict and effective redress uncertain, which could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Uncertainties in the tax systems in CESEE countries may adversely affect Telekom Austria Group's business, financial condition and results of operations.

CESEE countries have a number of laws related to various taxes imposed by both central and local authorities. These tax laws have not been in force for significant periods compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, tax laws in CESEE are subject to frequent changes and amendments.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organizations, including the tax authorities, creating uncertainties and areas of conflict. Tax returns, together with other legal compliance areas (for example customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorized to impose substantial penalties. These circumstances generally create tax risks in CESEE countries which are more significant than those typically found in countries with more developed tax systems.

In addition, competent authorities in CESEE countries could take positions with regard to interpretative issues which are different from those held in the past. This could have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

Risks relating to the shareholder structure, the Offering and the New Shares

América Móvil has, and will continue to have, the ability to control Telekom Austria in the Shareholders' Meeting, the Supervisory Board and the Management Board.

As of October 30, 2014, América Móvil (directly and indirectly) held 59.70% of the share capital and voting rights in Telekom Austria. As a result, as long as América Móvil holds the majority of the share capital and voting rights in Telekom Austria, it will have the ability to control Telekom Austria in, and ultimately determine the outcome of, important decisions to be taken by vote at Telekom Austria's shareholders' meeting (*Hauptversammlung*) ("**Shareholders' Meeting**"), including the election, appointment or removal of members of the Supervisory Board, approval of the annual financial statements, distribution or carry-forward of dividends, changes to the Articles of Association, capital increases or decreases, mergers, spin-offs, substantial sale of assets or any other decision that requires approval of Telekom Austria's shareholders, except in those cases where ÖIAG has veto rights.

In addition, eight out of the ten shareholder-elected members of the Supervisory Board were nominated by América Móvil, and two out of the three Management Board members will be nominated by América Móvil. As a consequence, América Móvil effectively also controls all decisions of the Supervisory Board and of the Management Board requiring a majority vote.

As a result of the continuing (direct and indirect) majority shareholding of América Móvil and its ability to nominate the majority of the members of the Supervisory Board and of the Management Board, América Móvil can exercise significant influence over Telekom Austria Group. Due to América Móvil's controlling influence, the Company's free float shareholders will not have the power to influence Telekom Austria Group in any meaningful way. Further, resolutions adopted by América Móvil in the Shareholders' Meeting or decisions taken by the Supervisory Board or the Management Board may raise, or be perceived to involve, conflicts of interest between América Móvil on the one hand and Telekom Austria Group on the other or between América Móvil on the one hand and the other shareholders of the Company on the other.

If América Móvil, through its votes at the Shareholders' Meetings or otherwise, was to exert influence on the Company in such a way as to conflict with the interests of Telekom Austria Group or the other shareholders of the Company, this could have a significant adverse effect on the Company's share price.

Any seeking of consent by Telekom Austria's main shareholders on certain important Shareholders' Meeting matters could delay or otherwise impact Telekom Austria's ability to react quickly to business developments.

According to the agreement between América Móvil, through its wholly owned subsidiary Carso Telecom, and ÖIAG entered into on April 23, 2014 for a 10 year term, which became effective on June 27, 2014, (the "**Shareholders' Agreement**"), as long as ÖIAG holds 25% plus one Share or more of the registered share capital of Telekom Austria until ÖIAG falls below 25% plus one Share for the first time, ÖIAG shall have veto rights on capital increases in Telekom Austria which would dilute ÖIAG's participation in

Telekom Austria below a participation corresponding to 25% plus one Share, capital increases in Telekom Austria's subsidiaries, the issuance of certain convertible instruments which would dilute ÖIAG's participation in Telekom Austria below a participation corresponding to 25% plus one Share, the appointment of the statutory auditors, related party transactions, the relocation of the headquarters and major business functions including research and development, sale of core businesses, and amendment of the corporate name of Telekom Austria and of trademarks of Telekom Austria Group. The necessity to seek these shareholders' consents might lead to lengthy or protracted shareholder decision processes or deadlocks, which could block decision procedures in Telekom Austria's corporate bodies, could delay or otherwise impact Telekom Austria's ability to react quickly to business developments and could therefore have a material adverse effect on the business prospects, results of operations and financial condition of Telekom Austria Group.

Certain Supervisory Board members also hold executive positions in the management of América Móvil or serve as members of supervisory boards in companies of América Móvil group, which may create conflicts of interest.

Mr. Carlos José García Moreno Elizondo, Mr. Carlos M. Jarque, Mr. Alejandro Cantú Jiménez and Mr. Oscar Von Hauske Solís, who are members of the Supervisory Board, also hold executive positions in the management of América Móvil or serve as members of the supervisory boards in companies of América Móvil group. To the extent that interests of América Móvil group are not fully aligned with interests of Telekom Austria Group, holding an executive position in the management of América Móvil or serving as a member of supervisory boards in companies of América Móvil group while at the same time being members of the Supervisory Board may potentially create conflicts of interest for Mr. García Moreno Elizondo, Mr. Jarque, Mr. Cantú Jiménez and Mr. Von Hauske Solís. If Mr. García Moreno Elizondo, Mr. Jarque, Mr. Cantú Jiménez and Mr. Von Hauske Solís, in their respective positions, were to exert influence on América Móvil in a way that conflicts with the interests of Telekom Austria Group this may have a material adverse effect on Telekom Austria Group's business, results of operations and financial condition.

The market price of the Shares may be volatile and could be adversely affected by future sales of the Shares in the public market.

The market price of the Shares may be volatile and subject to sudden and significant declines. Price declines can result from a variety of factors, including the difference between the results Telekom Austria announces and forecasts by equity analysts; important contracts, mergers, acquisitions and strategic partnerships involving the Group or its competitors; fluctuations in the Group's financial condition and operating results; changes in the economic or political environment in which the Group operates; and general share price volatility in the market where the Shares are listed or in the global equity markets overall. As a result, the investor may experience a material decline in the market price of the Shares.

Neither the Rights Offering Offer Price nor the Rump Placement Offer Price necessarily indicate the price at which the Shares will be traded on the Vienna Stock Exchange following the Offering. Investors may not be able to sell the New Shares they purchased rapidly or at the price they paid for them in the Rights Offering or Rump Placement if there is no active and liquid trading of the Shares.

In addition, the market price of the Shares could fall due to sales of a large number of the Shares in the market or the perception that such sales could occur. Should a main shareholder, or multiple shareholders, sell Shares in considerable quantities on the secondary market, or if the market becomes convinced that such sales will occur, it is possible that the Share price will decline. In particular, Carso Telecom will be required to sell Shares to the market within the consecutive 24 months to re-establish a certain minimum threshold, subject to certain terms and conditions, and América Móvil has undertaken that it and its subsidiaries will not acquire Shares (other than those resulting from the Offering) until such minimum threshold is reached again. As a result, investors may experience a material decline in the market price of the Shares.

A lower number of Shares in free float could decrease the liquidity of the Shares and therefore negatively affect the market price of the Shares.

Following the Public Takeover Offer and the conclusion of the Shareholders' Agreement, the number of Shares in free float has already decreased and could even decrease further following the Offering. A lower number of Shares in free float could further decrease the liquidity of the Shares, increase the volatility of the Share price, and could change the weighting of Telekom Austria Shares in stock indices, and thereby negatively affect trading volumes and consequently the market price of the Shares. A lower number of Shares may also negatively affect the possibility to sell such Shares and it may be impossible to sell such Shares at all or only at prices below the current market price.

In the event of the insolvency of Telekom Austria, Telekom Austria's shareholders could suffer a total loss in the value of their Shares.

Under the Austrian Insolvency Act (*Insolvenzordnung*), in the event of insolvency, a company's financial and trade creditors are generally entitled to receive payment from its assets before any assets are distributed among the company's shareholders. Thus, if Telekom Austria were to be declared insolvent, it would be very likely that all, or substantially all, of Telekom Austria's assets would be used to satisfy the claims of its creditors, and investors in the Shares would suffer a partial or complete loss of their investment.

The contestation of resolutions passed by the extraordinary Shareholders' Meeting held on August 14, 2014 may have a negative effect on the registration of the capital increase in relation to the New Shares into the Austrian companies register.

One Existing Shareholder has filed an action against the Company with the commercial court (*Handelsgericht*) of Vienna. Such action requests that the resolutions of the extraordinary Shareholders' Meeting held on August 14, 2014 are declared void and rescinded with respect to the election of Rudolf Kemler, Ronny Pecik, Elisabetta Castiglioni and Oscar von Hauske Solís as members of the Supervisory Board as well as with respect to the changes of the Articles of Association in sections 5, 8, 9, 11, 12, 17 and 18. It cannot be entirely excluded that the judge having authority over the registration of the capital increase in relation to the New Shares will refuse to register the capital increase into the Austrian companies register (*Firmenbuch*) (the "**Companies Register**") while such action is pending. Consequently, in such case, the Offering would need to be terminated. Once the capital increase in relation to the New Shares will be registered in the Companies Register, the capital increase will be effective irrespective of the ruling of the Austrian courts on such action. In addition, should the contestation be successful in court, the Company may be negatively affected as some or all of the corporate resolutions taken by the Company which would have required the presence or consent of some or all of the contested Supervisory Board members may become ineffective with retroactive effect thereby causing considerable uncertainty and requiring the repetition of some or all of past corporate resolutions.

Shareholders are exposed to the risk of a failure of Telekom Austria to make dividend payments.

Telekom Austria's ability to pay dividends in the future is uncertain. Telekom Austria's ability to pay dividends depends on, among other things, sufficient cash flows from operations. Furthermore, the Shareholders' Meeting could decide to withhold distributions. There can be no assurance that Telekom Austria will be able to pay a dividend or make any other return of capital to shareholders. In a worst case scenario, shareholders would not receive any dividend.

Telekom Austria's ability to pay dividends depends primarily on the inflow of funds from Telekom Austria's subsidiaries.

Telekom Austria's ability to pay dividends is based on Telekom Austria's unconsolidated financial statements prepared in accordance with the Austrian Commercial Code (*Unternehmensgesetzbuch*; the "**Commercial Code**") and the Austrian Stock Corporation Act (*Aktiengesetz*) ("**Stock Corporation Act**"). Dividends may be paid only from the annual net profit (*Bilanzgewinn*) recorded in Telekom Austria's unconsolidated annual financial statements as approved by the Supervisory Board or its Shareholders' Meeting. Accounting principles pursuant to the Commercial Code differ from IFRS in material respects. Consequently, the net profit (*Bilanzgewinn*) as shown in Telekom Austria's audited unconsolidated annual financial statements prepared in accordance with the Commercial Code and the consolidated profit after taxes as shown in Telekom Austria's audited consolidated annual financial statements prepared in accordance with IFRS can differ significantly. Telekom Austria is a holding company with limited operational activities. Its ability to pay dividends, therefore, depends primarily on the inflow of sufficient funds from its subsidiaries. The volume of these funds in turn largely depends on the net assets, financial position and results of operations of the relevant subsidiary and is subject to applicable local laws and regulatory requirements such as applicable tax laws and other restrictions. There can be no assurance that Telekom Austria will be able to pay dividends or meet its targeted dividend payout in the future.

The equity position of shareholders who do not participate in the Offering may be significantly diluted.

The Subscription Rights will lapse if they are not exercised during the Subscription Period. If shareholders fail to exercise the Subscription Rights granted to them, their proportional investment in Telekom Austria and their voting rights will be diluted. Accordingly, the percentage of Shares held by such shareholders in the share capital of Telekom Austria will fall in proportion to the percentage by which the share capital of Telekom Austria is increased without the shareholders participating in such increase.

Shareholders' interests in Telekom Austria may be diluted if Telekom Austria issues additional shares in the future.

In the future, Telekom Austria may raise further capital to finance its business activities. The issuance of equity securities, the exercise of any convertible bonds or bonds with warrants Telekom Austria may issue in the future, as well as the purchase of other enterprises or participations in enterprises in exchange for shares, if so approved by the Shareholders' Meeting, may lead to a commercial dilution of shareholders' interests in Telekom Austria. Under Austrian corporate law, shareholders have preferential statutory subscription rights (*Bezugsrechte*) in respect of any new shares issued by Telekom Austria in a capital increase in proportion to their shareholdings. Subscription rights may be excluded with a three quarters majority vote of the capital present/represented in the respective Shareholders' Meeting. Also, due to restrictions in other jurisdictions, such as the United States, shareholders outside Austria may be prohibited under applicable law or excluded under the terms of the capital increase from participating in future capital increases. Should any of these events occur, shareholders would suffer dilution, meaning the percentage of interest they hold in Telekom Austria and the percentage of voting rights they are entitled to exercise, would decrease.

Rights of shareholders in an Austrian corporation may differ from rights of shareholders in a corporation organized under the laws of another jurisdiction.

Telekom Austria is a joint stock corporation (*Aktiengesellschaft*) organized under the laws of Austria. The rights of Telekom Austria's shareholders are governed by the Articles of Association and by Austrian law. These rights may differ in some respects from the rights of shareholders in corporations organized in jurisdiction other than Austria. In addition, it may be difficult for investors to enforce the securities laws of other jurisdictions, or to prevail with a claim against Telekom Austria based on those laws.

Fluctuation in exchange rates may influence the value of the Shares and dividends for investors outside the Euro zone.

The Shares will be priced, quoted and traded in Euro. Accordingly, investors outside the Euro zone are subject to adverse movements in their local currency against the Euro, which may reduce the value of the Shares, as well as potential dividends paid in Euro in relation to the Shares.

A suspension of trading in the Shares on the Vienna Stock Exchange could adversely affect the share price.

With respect to securities publicly traded in Austria, the FMA is authorized to suspend or request the relevant regulated market on which securities are admitted to trading to suspend such securities from trading, if, in its opinion, the respective Telekom Austria's situation is such that continued trading would be detrimental to the investors' interest. The FMA is further authorized to instruct the Vienna Stock Exchange to suspend trading in Telekom Austria's securities in connection with measures taken against market manipulation and insider trading. The Vienna Stock Exchange must suspend trading in securities which no longer comply with the rules of the regulated market, unless such step would cause significant damage to investors' interests or the orderly functioning of the market. If the Vienna Stock Exchange does not do so, the FMA could demand the suspension of trading in securities if it is in the interest of the orderly functioning of the market and does not impair investors' interests. Existing orders are deemed void if trading is suspended. Any suspension of trading (other than for protecting investors' interest) could adversely affect the price and the liquidity of the Shares and, consequently, could have a negative effect on investors' ability to sell the Shares at a satisfactory price.

If this Offering is not consummated, the Subscription Rights will no longer exist.

If the Offering is terminated prior to registration of the capital increase in the Companies Register, the Offering will not take place and the Subscription Rights will no longer exist or become worthless. A reversal of Subscription Rights trading by the agent brokering the Subscription Rights transactions is excluded in such a case. Investors acquiring Subscription Rights will accordingly sustain a loss and costs incurred with respect to the acquisition of Subscription Rights or the subscription of New Shares will not be refunded.

The value of the Subscription Rights may be volatile and depends on various factors, including the price of the Shares.

The trading price of the Subscription Rights will not only depend on supply and demand for such Subscription Rights which may be affected by factors unrelated to the trading in the Shares, but also on the trading price of the Shares. Factors affecting the volatility of the trading price of the Shares, as described above, will magnify the volatility of the price of the Subscription Rights. A material decline in the price of the Shares may adversely affect the value of the Subscription Rights.

THE OFFERING

GENERAL

The Offering comprises up to 221,500,000 New Shares, which will be newly issued by the Company following a share capital increase from authorized capital against contribution in cash.

The New Shares will be no-par value ordinary bearer shares with a calculated notional amount of EUR 2.181 each. The New Shares will carry the right to vote in the Company's Shareholders' Meetings and full dividend rights as from January 1, 2014. The New Shares will have the same ISIN as the Company's Existing Shares, which is AT0000720008 (for further information on voting and dividend rights see "Information on the share capital of the Company, applicable regulations and description of the Articles of Association—Summary of the Articles of Association—Shareholders' rights—Voting rights and majority requirements" and "Information on the share capital of the Company, applicable regulations and description of the Articles of Association—Applicable provisions under Austrian law—General regulations on earnings appropriation and dividend payments").

The Offering includes the Rights Offering, a rights offering of the New Shares to the Company's Existing Shareholders at the Rights Offering Offer Price, and the Rump Placement, a rump placement of New Shares not subscribed for in the Rights Offering or committed by the Core Shareholders. The Rump Placement will consist of private placements to qualified investors in Austria and other selected countries, including in the United States to QIBs as defined in Rule 144A under the Securities Act, and outside of the United States to certain other eligible institutional investors in reliance on Regulation S under the Securities Act.

No action has been or will be taken in any jurisdiction other than Austria that would permit a public offering of the Subscription Rights or the New Shares. Investors, shareholders and depositary banks should inform themselves of, and observe, applicable laws and regulations.

The Offering may be terminated, suspended or extended in the absolute discretion of the Company in consultation with the Joint Bookrunners at any time. The Offering is subject to the registration of the capital increase in relation to the New Shares in the Companies Register.

Investors will not be charged with expenses by the Company or the Joint Bookrunners in connection with the Offering. Investors may, however, be charged with customary banking fees by their depository bank, custodian or other financial intermediary. Investors are, therefore, requested to inform themselves about these costs in connection with the Offering.

Participation of the Core Shareholders in the Offering

Each of the Core Shareholders has committed itself vis-à-vis the Company prior to the Offering to participate in the Offering and acquire the applicable numbers of New Shares at the Rights Offering Offer Price as described below, and the Company has admitted each of them for direct subscription of the applicable numbers of New Shares. América Móvil has committed itself to acquire at the Rights Offering Offer Price 3,967,850 New Shares according to its 7,935,700 Subscription Rights. Carso Telecom has committed itself to acquire at the Rights Offering Offer Price 128,267,215 New Shares according to its 256,534,431 Subscription Rights. ÖIAG has committed itself to acquire at the Rights Offering Offer Price up to 62,958,867 New Shares according to its 125,917,735 Subscription Rights such that its participation in the share capital of the Company after the Offering corresponds as closely as possible to its current pro-rata participation in the Company (approximately 28.42%).

Underwriters

The Joint Global Coordinators and Joint Bookrunners Citigroup Global Markets Limited and Deutsche Bank Aktiengesellschaft and the Joint Bookrunners Erste Group Bank AG, Raiffeisen Centrobank AG and UniCredit Bank Austria AG are acting as the underwriters in the Offering.

On November 7, 2014, the Management Board, with the approval of the Supervisory Board, has resolved to admit Deutsche Bank Aktiengesellschaft, Erste Group Bank AG, Raiffeisen Centrobank AG and UniCredit Bank Austria AG, acting on account of the Joint Bookrunners, for subscription of the New Shares that are not directly subscribed by the Core Shareholders in accordance with section 153 paragraph 6 Stock Corporation Act, with the obligation to offer these New Shares for subscription in the Rights Offering. New Shares, other than those New Shares committed to be subscribed by the Core Shareholders, for which Subscription Rights have not been exercised in the Rights Offering will be offered by the Joint Bookrunners in the Rump Placement, subject to certain restrictions as set out in "Transfer and selling restrictions".

Offer Price, Subscription Ratio, final number of New Shares

On November 7, 2014, the Management Board, with the approval of the Supervisory Board, has resolved to set the Rights Offering Offer Price at EUR 4.57 per New Share and the Subscription Ratio at 2:1. On November 6, 2014, the closing price of the Existing Shares on the Vienna Stock Exchange was EUR 5.849 per Existing Share.

The Rights Offering Offer Price was announced and published by the Company, including by way of an ad-hoc announcement, on November 7, 2014 and will be published in the official gazette (*Amtsblatt zur Wiener Zeitung*) ("**Official Gazette**") on November 8, 2014.

The final number of New Shares issued in the Offering will be determined on the basis of the number of New Shares subscribed for in the Rights Offering, the number of New Shares subscribed for by the Core Shareholders and the results of the Rump Placement on or about November 25, 2014 and is expected to be announced and published, including by way of an ad-hoc announcement on or about November 25, 2014 and by short notice in the Official Gazette shortly thereafter, and will be deposited with the FMA in accordance with the Capital Markets Act. The final number of New Shares will be equal to, or less than, the maximum number of New Shares offered according to this Prospectus.

The Subscription Ratio will be maintained despite any reduction of the final number of New Shares issued in the Offering. Accordingly, the participation in the Company's share capital of Existing Shareholders exercising their Subscription Rights in full will increase if less than 221,500,000 New Shares are issued. Holders of Subscription Rights wishing to exercise Subscription Rights are, therefore, requested to inform themselves of any consequences resulting from an increase of their participation in the Company's share capital.

The Rights Offering Offer Price for the New Shares subscribed in the Rights Offering and the Rump Placement Offer Price for the New Shares purchased in the Rump Placement will be due and payable on or about November 27, 2014 (the "**Closing Date**"). See also "The Offering—Form, delivery and settlement".

RIGHTS OFFERING

Exercise of Subscription Rights

Existing Shareholders holding Existing Shares as of 24:00 (midnight) CET on the Record Date, namely on November 7, 2014, will be granted one Subscription Right for each Existing Share held. Based on the Subscription Ratio of 2:1, every 2 Subscription Rights entitle their holder to subscribe for 1 New Share against payment of the Rights Offering Offer Price per New Share. The allocation of the Subscription Rights and the applicable notification will be made through the depositary bank, custodian or other financial intermediary through which the Existing Shareholders hold their Existing Shares.

The ex rights date for the Rights Offering is November 10, 2014. As of this date, the Existing Shares will be traded without Subscription Rights (ex Subscription Rights), and any persons acquiring Existing Shares on or after this date will not be allocated any Subscription Rights.

Existing Shareholders or holders of Subscription Rights who do not hold at least 2 Subscription Rights or an integral multiple thereof will not be able to exercise their Subscription Rights in full or at all and as a result of the Offering their ownership may therefore be diluted. Holders of Subscription Rights can acquire additional Subscription Rights on the market in order to subscribe for New Shares, or can sell their Subscription Rights on the market (see also "The Offering—Rights Offering—Trading and sale of Subscription Rights").

The Subscription Period during which holders of Subscription Rights may exercise Subscription Rights begins on November 10, 2014 and is expected to end on November 24, 2014. The Subscription Period may be extended or terminated at the absolute discretion of the Company in consultation with the Joint Bookrunners at any time. Any extension of the Subscription Period or termination of the Rights Offering will be published via electronic media, including the Company's website and in the Official Gazette as soon as possible thereafter.

Subscriptions for the New Shares will be accepted by UniCredit Bank Austria AG (*Bezugsstelle*; the "**Subscription Agent**"), as well as by all other credit institutions in Austria, during ordinary business hours. Holders of Subscription Rights who wish to exercise their Subscription Rights are required to exercise their Subscription Rights by instructing their depositary bank that maintains a securities account with OeKB or their financial institution that is a participant in Euroclear or Clearstream to subscribe for New Shares on their behalf in accordance with procedures established by the Company and the Subscription Agent, and any applicable additional procedures established by such bank or financial institution.

Holders of Subscription Rights are advised to inform themselves about the deadline for exercising their Subscription Rights imposed by the Subscription Agent as well as their depositary bank, custodian or other financial intermediary through which they hold their Subscription Rights (the "**Disposition Period**"). The Disposition Period may end before the end of the Subscription Period. Shareholders resident outside of Austria may be restricted in their ability to exercise Subscription Rights and are, therefore, advised to inform themselves of, and observe, any applicable restrictions (see also "The Offering—Rights Offering—Special considerations for U.S. shareholders regarding the exercise of Subscription Rights").

The preliminary result of the Rights Offering is expected to be announced and published by way of an ad-hoc announcement, on November 24, 2014 after termination of the Disposition Period.

The exercise of a Subscription Right is irrevocable and cannot be annulled, modified, cancelled or revoked. If a holder of Subscription Rights submits an invalid subscription or the Offering is terminated, claims with respect to bank fees and other investor costs incurred in connection with the subscription will be governed solely by the contractual relationship between such investor and the financial institution that accepted the subscription.

Subscription Rights not exercised by the end of the Subscription Period will expire without value. No compensation will be payable for Subscription Rights not exercised.

Trading of Subscription Rights

The Subscription Rights are freely transferable, subject to certain restrictions as set out in "Transfer and selling restrictions", and bear the ISIN AT0000A1AD41. The Company will apply for the trading of the Subscription Rights on the Vienna Stock Exchange. Trading of the Subscription Rights is expected to commence on November 12, 2014 and to end on November 19, 2014. Holders of Subscription Rights may sell their Subscription Rights in the market at any time prior to the end of this period. Persons who are interested in acquiring Subscription Rights may acquire Subscription Rights in the market at any time prior to the end of said period. The acquisition and exercise of Subscription Rights may be subject to certain restrictions (see "Transfer and selling restrictions" and "The Offering—Rights Offering—Special considerations for U.S. shareholders regarding the exercise of Subscription Rights"). Investors are therefore advised to inform themselves of, and observe, such restrictions. Trading of the Subscription Rights on the Vienna Stock Exchange will occur once a day via an auction.

Special considerations for U.S. shareholders regarding the exercise of Subscription Rights

The Subscription Rights and the New Shares have not been and will not be registered under the securities laws of any jurisdiction other than Austria. In particular, the Subscription Rights and the New Shares have not been and will not be registered under the Securities Act or any U.S. state securities laws, and Subscription Rights may be exercised only by or on behalf of those shareholders in the United States who are QIBs and who follow the instructions set forth below.

A QIB may exercise its Subscription Rights through the depository bank or clearing system participant through which such Subscription Rights are held in accordance with procedures established by such depository bank or clearing system participant. Such procedures will require that each QIB who retains investment discretion as to whether to exercise its Subscription Rights return to its depository bank or clearing system participant a duly completed and executed QIB Investment Letter ("**QIB Investment Letter**") certifying, among other things, that such QIB is a "qualified institutional buyer" and agrees to comply with the resale restrictions described under "Transfer and selling restrictions" and in the QIB

Investment Letter. The form of QIB Investment Letter may be requested from the Subscription Agent or downloaded from the Company's website (http://www.telekomaustria.com/en/ir/14887 and under http://www.telekomaustria.com/de/ir/14887). Subscription Rights may only be exercised before the end of the Subscription Period on November 24, 2014. QIBs who may wish to exercise Subscription Rights should consider that they may not be able to do so during normal U.S. business hours on November 24, 2014 and should consult their depository bank or clearing system participants to determine the effective deadline for their exercise of Subscription Rights.

RUMP PLACEMENT

Any New Shares not subscribed for in the Rights Offering or committed by the Core Shareholders will be offered at the Rump Placement Offer Price, a price equal to or above the Rights Offering Offer Price, but in no event higher than EUR 7.15, in the Rump Placement, meaning private placements to qualified investors in Austria and other selected countries, including in the United States to QIBs within the meaning of and pursuant to Rule 144A under the Securities Act and outside of the United States to certain other eligible institutional investors in reliance on Regulation S under the Securities Act. The maximum number of New Shares available for sale in the Rump Placement will be set at the beginning of the Rump Placement Period.

The Rump Placement Period is expected to begin on November 24, 2014 after market close of the Vienna Stock Exchange and is expected to end on November 25, 2014.

The Rump Placement Period may be shortened, extended or terminated at the absolute discretion of the Company in consultation with the Joint Bookrunners at any time. Any termination, shortening or extension of the Rump Placement Period will be announced and published via electronic media, including the Company's website under http://www.telekomaustria.com/en/ir/14887 and under http://www.telekomaustria.com/de/ir/14887, and by way of an ad-hoc announcement.

There will be no minimum and no maximum number of New Shares for which purchase orders may be submitted by prospective investors in the Rump Placement. Multiple purchase orders will be accepted. Prospective investors in the Rump Placement may withdraw any purchase orders placed until pricing and allocation.

No investor or class of investors will receive preferential treatment in respect of allocations in the Rump Placement. Carso Telecom may place orders in the Rump Placement. The number of New Shares, if any, allocated to an investor will be determined in the absolute discretion of the Company in consultation with the Joint Bookrunners. The right to reject any order in whole or in part is reserved. Prospective investors are therefore advised to contact their bank, broker or other financial adviser for details regarding the actual allocation of New Shares made to them. It is expected that information regarding allocations in the Rump Placement, if any, will be made available by these institutions on or about November 25, 2014.

The Rump Placement Offer Price will be determined on the basis of the outcome of a bookbuilding procedure by the Company in consultation with the Joint Bookrunners. Should the Rump Placement Offer Price for the New Shares determined in the bookbuilding exceed the Rights Offering Offer Price, the number of New Shares offered in the Rump Placement will be reduced so that the net proceeds from this Offering do not exceed the maximum admissible amount of EUR 1,000,000,000.

TERMINATION OF THE OFFERING

Pursuant to the underwriting agreement entered into by the Company and the Joint Bookrunners on the date of this Prospectus (the "**Underwriting Agreement**"), the obligations of the Joint Bookrunners are subject to the fulfillment of certain conditions such as the registration of the New Shares in the Companies Register and other customary conditions, and the Joint Bookrunners may terminate the Underwriting Agreement under certain circumstances, including the occurrence of certain events of *force majeure*, up until the Closing Date.

In the event of the termination of the Offering prior to the registration of the New Shares in the Companies Register, all exercised Subscription Rights as well as all purchase orders placed in the Rump Placement will become void. Since a reversal of the Subscription Rights trading by the agent brokering the Subscription Rights transactions is excluded in such a case, investors acquiring Subscription Rights may accordingly sustain a loss and costs incurred with respect to the acquisition of Subscription Rights and the subscription of New Shares will not be refunded. If a termination of the Underwriting Agreement occurs prior to the settlement on the Closing Date, but after registration of the New Shares in the Companies Register or at a time when the registration of the New Shares cannot be prevented, the New Shares subscribed for in the Rights Offering as well as the New Shares subscribed directly by the Core Shareholders will nevertheless be delivered against payment on the Closing Date.

If an investor has sold New Shares to a third party prior to the delivery of such New Shares and is unable to meet its obligations to deliver the New Shares to such third party due to the termination of the Underwriting Agreement by the Joint Bookrunners, the selling investor bears the risk of being unable to fulfill its delivery obligation. Any legal recourse will arise exclusively from and be limited to the contractual relationship between the investor and such third party.

FORM, DELIVERY AND SETTLEMENT

The New Shares will be represented, together with the Shares, by one modifiable global certificate that is deposited with OeKB, Am Hof 4, A-1010 Vienna, Austria.

Delivery of the New Shares against payment of the Rights Offering Offer Price, respectively the Rump Placement Offer Price, is expected to take place on the Closing Date through the book-entry facilities of OeKB, Euroclear and Clearstream.

ADMISSION TO THE VIENNA STOCK EXCHANGE AND COMMENCEMENT OF TRADING

The Existing Shares (ISIN AT0000720008) are listed on the Official Market in the prime market segment under the symbol "TKA". The New Shares will have the same ISIN. Application will be made to list the New Shares on the Official Market of the Vienna Stock Exchange. Subject to the approval of the Vienna Stock Exchange, trading in the New Shares on the Vienna Stock Exchange is expected to commence in the prime market segment on or about November 27, 2014.

ADRS

The Company was previously listed on the New York Stock Exchange via American depositary receipts ("**ADRs**"). Effective May 17, 2007, the Company withdrew its listing on the New York Stock Exchange. The ADRs continue to be traded over the counter under a sponsored level 1 ADR program. Each ADR represents two Existing Shares.

The Company's ADRs are issued under a deposit agreement between the Company and The Bank of New York Mellon (the Depositary) dated November 17, 2000. The ADRs are not listed on any securities exchange in the United States and the Company is not subject to the reporting requirements of sections 13 or 15(d) of the United States Exchange Act of 1934, as amended.

Holders of ADRs issued by third-party depositaries in respect of their holdings in the Company's Shares in connection with the Company's ADR program will not be permitted to effect subscription for New Shares in respect of the Existing Shares that are represented by such ADRs.

As the Subscription Rights and the New Shares have not been and will not be registered under the Securities Act, no new ADRs will be issued in the Offering.

INTERESTS OF PARTIES PARTICIPATING IN THE OFFERING

The Joint Bookrunners have entered into a contractual relationship with the Company in connection with the Offering. Upon completion of the Offering, the Joint Bookrunners will receive a commission, as described under "Underwriting". In connection with the Offering, the Joint Bookrunners and their respective affiliated companies will be able to acquire Shares for their own accounts and hold, purchase or sell for their own accounts and can also offer or sell Shares outside of the Offering. The Joint Bookrunners do not intend to disclose the scope of such investments or transactions if not required by law.

The Joint Bookrunners and their respective affiliated companies have provided, currently provide or may provide in the future various investment banking, commercial banking, financial advisory and/or similar services to companies of the Telekom Austria Group on a regular basis, and maintain normal business relationships with the companies of the Telekom Austria Group in their capacity as credit institutions or as lenders under credit and/or guarantee facilities, for which they have received and may continue to receive customary fees and expenses. All investment, consulting and financial transactions with the Joint Bookrunners are conducted on an arm's length basis. For additional information on transactions between Telekom Austria Group and the Joint Bookrunners see "Underwriting".

For information on the interests of the Core Shareholders see "The Offering—General—Participation of the Core Shareholders in the Offering" and "Transactions and legal relationships with related parties―Business relationships with related parties".

EXPECTED TIMETABLE FOR THE OFFERING

The following table sets out the expected timetable for the Offering. This timetable is of an indicative nature and may change as circumstances require. The timetable should be read in conjunction with the more detailed description of the Offering contained in this section.

Date	Event
November 7, 2014	Approval of the Prospectus by the FMA
November 7, 2014	Publication of the Prospectus
November 7, 2014, 24:00 (midnight) CET	Record Date
November 8, 2014	Publication of the subscription notice
November 10, 2014	Ex rights date (as of this date, the Existing Shares will be traded without Subscription Rights)
November 10, 2014	Start of Subscription Period
November 12, 2014 until November 19, 2014	Trading of Subscription Rights on the Vienna Stock Exchange
November 24, 2014	End of Subscription Period (end of Rights Offering)
November 24, 2014	Publication of preliminary result of the Rights Offering (expected to occur after market close of the Vienna Stock Exchange)
November 24, 2014, after market close of the Vienna Stock Exchange, until November 25, 2014	Rump Placement
November 25, 2014	Determination and publication of the final results of the Rights Offering and the Rump Placement, including the final number of New Shares sold and determination of the Rump Placement Offer Price
November 25, 2014	Allocation of the New Shares placed in the Rump Placement to investors
November 27, 2014	Registration in the Companies Register of the capital increase relating to the New Shares
November 27, 2014	Closing Date for the Offering; Delivery of the New Shares placed in the Rights Offering against payment of the Rights Offering Offer Price and delivery of the New Shares placed in the Rump Placement against payment of the Rump Placement Offer Price
November 27, 2014	Start of trading in the New Shares

REASONS FOR THE OFFERING, USE OF PROCEEDS AND ESTIMATED NET AMOUNT OF THE PROCEEDS

The Company will receive the gross proceeds from the sale of the New Shares less the total costs of the Offering incurred by the Company. The Company targets gross proceeds from the Offering of approximately EUR 1,012,255,000. The Company estimates that its total costs (including commissions of the Underwriters and capital contribution tax (*Gesellschaftsteuer*) of 1%) will amount to at least EUR 13,256,500. Under the assumption that the maximum number of New Shares will be placed and that the Rump Placement Offer Price is equal to the Rights Offering Offer Price, the targeted net proceeds from the Offering would in this case amount to approximately EUR 998,998,500. However, the actual net proceeds the Company will receive from the sale of the New Shares depend on the actual number of New Shares sold, the Rump Placement Offer Price, the actual Offering related costs but will in no case exceed EUR 1,000,000,000. Depending on the actual number of New Shares sold, the Rump Placement Offer Price and the commissions, the total costs of the Offering (including commissions of the Underwriters and capital contribution tax (*Gesellschaftsteuer*) of 1%) could amount up to approximately EUR 16 million.

The Company intends to use the net proceeds to re-establish its target capital structure allowing it to maintain a credit rating of at least BBB (stable) by Standard & Poor's. This will allow Telekom Austria Group to pursue strategic investment priorities with the aim to strengthen the Group's operational performance and to return to a sustainable growth profile within the stated sound financial framework, in particular to implement the following measures:

(a) Accelerated roll-out of a fiber infrastructure during the years 2015 – 2018 in combination with latest available technologies to ensure capital expenditure ("**CAPEX**") efficiency. This will allow Telekom Austria Group to meet increasing demand for high bandwidth services and safeguard the Group's network quality leadership in the Austria segment.

(b) Financing of value accretive M&A opportunities that strengthen Telekom Austria Group's operational strategy thereby maintaining the following priorities: (i) in-market consolidation to strengthen existing operations; (ii) continued pursuit of Telekom Austria Group's convergence strategy to diversify in markets that are currently mobile-only and to enhance existing convergent operations; and (iii) expansion via new operations.

DIVIDEND POLICY

GENERAL INFORMATION ON DIVIDEND PAYMENTS

Each of the Company's shareholders is entitled to receive dividends, if and to the extent that the distribution of dividends is proposed by the Management Board and the Supervisory Board and resolved by the Shareholders' Meeting. The shareholders' shares of the profits are distributed in proportion with the payments that have been made for the pro rata amount of the share capital of the shares. Dividend payments on Shares in any given financial year are resolved upon in the following year by the Shareholders' Meeting on the basis of a proposal made by the Management Board and the Supervisory Board, without the Shareholders' Meeting being bound by such proposal.

A dividend distribution decided upon by the Shareholders' Meeting will fall due 30 days after the decision is made by the Shareholders' Meeting, unless it makes a decision to the contrary.

The Company's decision to pay dividends is assessed by the Management Board primarily on the basis of the Company's unconsolidated financial statements prepared in accordance with the Commercial Code. Accounting principles pursuant to the Commercial Code differ from IFRS in material respects. Dividends may be paid only after the relevant balance sheet date from the net profit (*Bilanzgewinn*) recorded in the Company's unconsolidated annual financial statements as approved by the Supervisory Board or by the Shareholders' Meeting. In determining the amount available for distribution, the annual profit after taxes must be adjusted to account for any accumulated undistributed net profit or loss from previous years as well as for withdrawals from or allocations to reserves. Certain reserves must be established by law, and allocation to such reserves must therefore be deducted from the annual profit after taxes in order to calculate the annual net profit.

Dividends paid by the Company may be subject to Austrian withholding tax. For further information, see "Taxation—Austrian taxation considerations—Income tax and corporate income tax—Taxation of dividends".

EARNINGS AND DIVIDEND PER SHARE

The Company distributed dividends in the amount of EUR 22.1 million (EUR 0.05 per Share outstanding) for each of the financial years ended December 31, 2013 and 2012 and dividends in the amount of EUR 168.2 million (EUR 0.38 per Share outstanding) for the financial year ended December 31, 2011.

The table below shows the Company's profit/loss for the period and the profit/loss per Share on a consolidated basis:

	For the financial year ended December 31,		
in TEUR (unless indicated otherwise)	**2013**	**2012**	**2011**
Net Result[1]	109,700	104,011	-252,806
Attributable to:			
Owners of the parent[1]	86,547	103,869	-251,972
Non-controlling interests	60	142	-834
Hybrid capital holders	23,093	-	-
Basic and fully diluted earnings per Share (*in EUR*)[1]	0.20	0.24	-0.57

[1] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendments to IAS 19.

Source: Company information.

DIVIDEND PAYOUT RATIO

The Company's dividend policy is based on a floor of EUR 0.05 per Share and targets a sustainable pay-out level that has the capacity to grow over time. At the beginning of each financial year, the respective intended dividend will be announced. After the end of a financial year, based on actual results, potential additional cash pay-out to shareholders may be defined, taking into consideration free cash flow generation, the Group's target capital structure as well as CAPEX requirements. For the financial years 2014 and 2015, Management intends to pay a dividend of EUR 0.05 per Share (including New Shares). However, the decision on whether and in what amount dividends are to be distributed in the future will depend on a series of factors. The timing and amount of future dividend payments, if any, will depend on the Company's financial performance, including, among other factors, its earnings, its general financial condition and liquidity situation, general conditions in the markets in which the Company operates, and legal, tax and regulatory considerations as well as such other factors as the Management Board and Supervisory Board may consider relevant. Furthermore, the Company's ability to pay dividends depends on the amount of dividends received from its subsidiaries. In addition, the Company's ability to pay dividends may be limited by operation of the covenants and restrictions set forth in the terms and conditions of the 5.625% EUR 600 million perpetual subordinated fixed rate bonds subject to interest rate reset (ISIN XS0877720986) (the "**Hybrid Bond**") pursuant to which, among others, the Company must pay any outstanding deferred interest payments (in whole but not in part) under the Hybrid Bond if the Shareholder's Meeting resolves on the payment of any dividend, other distribution or other payment on any share of any class of the Company (other than a dividend, distribution or payment which is made in the form of ordinary shares of the Company). Currently, no interest under the Hybrid Bond has been deferred. For further information on the Hybrid Bond, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Outstanding Financial Debt".

In addition, the Shareholders' Meeting may not approve the distribution resolution proposed by the Management Board and the Supervisory Board. See also "Risk Factors—Risks relating to the shareholder structure, the Offering and the New Shares—América Móvil has, and will continue to have, the ability to control Telekom Austria in the Shareholders' Meeting, the Supervisory Board and the Management Board." and "Risk Factors—Risks relating to the shareholder structure, the Offering and the New Shares—Telekom Austria's ability to pay dividends depends primarily on the inflow of funds from Telekom Austria's subsidiaries."

CAPITALIZATION AND INDEBTEDNESS

The following tables set forth the capitalization and indebtedness of Telekom Austria Group (i) as of September 30, 2014 and (ii) as of September 30, 2014 adjusted to reflect the Offering and the receipt of proceeds assuming targeted net proceeds of EUR 1,000,000,000 (maximum). Data presented in the table below should be analyzed together with financial information presented in the Consolidated Financial Statements and other sections of this Prospectus.

Capitalization

	Actual as of September 30, 2014	**As adjusted to reflect the Offering and the application of the use of proceeds therefrom**
in EUR million (unless indicated otherwise)	(unaudited)	
Total current liabilities	**-1,369.07**	**-1,269.07**
of which guaranteed[1]	0	0
of which secured[2]	0	0
of which unsecured / unguaranteed	-1,369.07	-1,269.07
Total non-current liabilities	**-4,741.74**	**-4,741.74**
of which guaranteed[1]	0	0
of which secured[2]	0	0
of which unsecured / unguaranteed	-4,741.74	-4,741.74
Equity[3]	**-1,635.51**	**-2,634.51**
of which common stock	-966.18	-1,449.27
of which treasury shares	7.80	7.80
of which additional paid in capital	-582.62	-1,098.53
of which hybrid capital	-591.19	-591.19
of which available-for-sale reserve	-0.11	-0.11
of which hedging reserve	42.11	42.11
of which translation adjustments	455.82	455.82
of which non-controlling interests	-1.15	-1.15
Capitalization (total)[4]	**-7,746.33**	**-8,745.33**
Cash and cash equivalents	**265.39**	**1,164.39**

[1] The Issuer does not have any guaranteed liabilities.
[2] The Issuer does not have any secured liabilities.
[3] Assuming that 221,500,000 New Shares will be issued at a price of EUR 4.57 per New Share.
[4] Excluding retained earnings.

Source: Interim Consolidated Financial Statements and Company information.

Net indebtedness

in EUR million (unless indicated otherwise))	Actual as of September 30, 2014	As adjusted to reflect the Offering and the application of the use of proceeds therefrom
	(unaudited)	
A. Cash	66.7	66.7
B. Cash equivalent	198.7	1,097.7
C. Trading securities	7.6	7.6
D. Liquidity (A)+(B)+(C)	**273.0**	**1,172.0**
E. Current financial receivable	**69.0**	**69.0**
F. Current bank debt	-0.1	-0.1
G. Current portion of non-current debt	-194.2	-94.2
H. Other current financial debt	-86.5	-86.5
I. Current financial debt (F)+(G)+(H)	**-280.8**	**-180.8**
J. Net current financial indebtedness (I)-(E)-(D)	**61.3**	**1,060.3**
K. Non-current bank loans	-597.3	-597.3
L. Bonds issued[1]	-3,028.6	-3,028.6
M. Other non-current loans	-	-
N. Non-current financial indebtedness (K)+(L)+(M)[2]	**-3,625.9**	**-3,625.9**
O. Net financial indebtedness (J)+(N)[2]	**-3,564.6**	**-2,565.6**

[1] Relates to the Hybrid Bond issued and the 4.250% Bond (maturing 2017), the 6.375% Bond (maturing 2016), the 4.000% Bond (maturing 2022), the 3.500% Bond (maturing 2023), and the 3.125% Bond (maturing 2021).
[2] Figures do not include non-current financial receivables and investments in the amount of EUR 33.8 million.

Source: Interim Consolidated Financial Statements and Company information.

The Company has no off-balance sheet arrangements as of the date of this Prospectus.

NO MATERIAL ADVERSE CHANGE

There has been no material adverse change in the Group's financial or trading position since September 30, 2014.

WORKING CAPITAL STATEMENT

The Company is of the opinion that cash flow from operating activities and cash and other liquid resources from other existing sources of financing available to the Group constitute sufficient working capital to cover all of its foreseeable payment obligations over the next twelve months following the date of this Prospectus.

DILUTION

The Group's shareholders' equity as of September 30, 2014 was EUR 1,301.7 million (excluding non-controlling interests), or EUR 2.94 per each of the 443,000,000 Existing Shares of the Company (as adjusted for the 415,159 treasury shares). After giving effect to the sale of 221,500,000 New Shares assuming a price of EUR 4.57 per New Share for all New Shares (if the Rump Placement Offer Price equals the Rights Offering Offer Price), the Group's shareholders' equity as of September 30, 2014 would have been EUR 2,300.7 million or EUR 3.46 per share, after deduction of the expected underwriting fees and other expenses of the Offering incurred by the Company. This represents an immediate dilution in shareholders' equity of EUR 1.11 or 24.2% per share to investors purchasing New Shares at the Rights Offering Offer Price and an immediate increase of approximately EUR 0.52 or approximately 17.8% in the net assets per share for Existing Shareholders not subscribing New Shares. Dilution per share to new investors is determined by subtracting shareholders' equity per share after the Offering from the price paid by a new investor.

Investors should be aware that dilution, as calculated above, is based on the maximum number of New Shares offered and on a Rump Placement Offer Price equal to the Rights Offering Offer Price. The actual dilution will be determined on the basis of the actual net proceeds based on the actual number of New Shares issued and is also contingent on the actual Rump Placement Offer Price.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables provide selected financial information as of and for the nine months ended September 30, 2014 and 2013 as well as the financial years ended December 31, 2013, 2012 and 2011 derived from the Consolidated Financial Statements, which are included in this Prospectus. The German language original of the Audited Consolidated Financial Statements have been audited by Deloitte for the year ended December 31, 2013 and by KPMG for the years ended December 31, 2012 and 2011. The Consolidated Financial Statements included in this Prospectus are translations of the original German language documents. Prospective investors are encouraged to read the information contained in this section in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations".

CONSOLIDATED FINANCIAL STATEMENTS OF PROFIT OR LOSS / OPERATIONS

	Nine months ended September 30,		Financial year ended December 31,		
	2014	**2013**	**2013**	**2012**	**2011**
in TEUR	(unaudited)			(audited)	
Operating revenues	2,987,714	3,128,269	4,183,949	4,329,703	4,454,626
Other operating income	91,719	56,934	87,079	82,086	100,379
Materials	-341,750	-375,953	-547,302	-474,677	-442,044
Employee expenses, including benefits and taxes[2]	-626,179	-618,307	-845,872	-833,268	-805,042
Other operating expenses	-1,077,502	-1,165,835	-1,590,496	-1,648,095	-1,780,575
Operating expenses[2]	-2,045,430	-2,160,096	-2,983,669	-2,956,040	-3,027,661
EBITDA comparable[1, 2]	**1,034,003**	**1,025,107**	**1,287,359**	**1,455,749**	**1,527,343**
Restructuring	-12,073	-35,299	-45,185	-34,685	-233,703
Impairment and reversal of impairment	-400,000	0	0	0	-248,906
EBITDA incl. effects from restructuring and impairment tests[2]	**621,930**	**989,808**	**1,242,174**	**1,421,064**	**1,044,735**
Depreciation and amortization	-644,543	-645,061	-864,606	-963,972	-1,052,376
Operating income[2]	**-22,613**	**344,747**	**377,568**	**457,093**	**-7,641**
Interest income	10,508	12,537	16,123	16,937	16,942
Interest expense	-147,404	-151,648	-200,853	-232,674	-216,773
Foreign exchange differences	-569	-3,002	-4,278	2,494	-43,533
Other financial result	127	-55	-137	-425	-4,544
Result from investments in affiliates	118	213	1,697	981	1,089
Financial result	-137,219	-141,956	-187,447	-212,687	-246,819
Earnings before taxes[2]	**-159,832**	**202,790**	**190,121**	**244,405**	**-254,460**
Income taxes[2]	-30,155	-43,542	-80,421	-140,394	1,654
Net result[2]	**-189,988**	**159,249**	**109,700**	**104,011**	**-252,806**

[1] EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses. It consists of the sum of operating revenues and other operating income reduced by operating expenses.

[2] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendments to IAS 19.

Source: Consolidated Financial Statements.

CONSOLIDATED FINANCIAL STATEMENTS OF FINANCIAL POSITION

	September 30,	December 31,		
	2014	2013	2012	2011
in TEUR	(unaudited)		(audited)	
ASSETS				
Cash and cash equivalents	265,387	201,334	600,763	459,952
Short-term investments	7,641	9,882	85,123	165,972
Accounts receivable – trade, net of allowances	607,781	683,843	751,102	758,939
Receivables due from related parties	778	58	7	85
Inventories	124,818	127,273	152,942	157,706
Prepaid expenses	113,605	101,684	106,692	101,010
Income tax receivable	23,709	22,162	21,140	40,633
Non-current assets held for sale	694	962	881	134
Other current assets	97,976	73,995	90,602	67,015
Total current assets	**1,242,389**	**1,221,193**	**1,809,252**	**1,751,446**
Investments in associates	39,399	4,979	3,661	3,699
Financial assets long-term	6,296	5,247	7,872	13,897
Goodwill	1,194,613	1,581,906	1,289,501	1,289,714
Other intangible assets, net	2,578,859	2,590,269	1,522,577	1,619,339
Property, plant and equipment, net	2,194,305	2,308,127	2,426,436	2,462,174
Other non-current assets	38,718	25,243	30,767	34,521
Deferred tax assets[1]	119,116	123,006	167,083	275,676
Receivables due from related parties, long-term finance	0	0	0	106
Total non-current assets[1]	**6,171,305**	**6,638,779**	**5,447,896**	**5,699,126**
TOTAL ASSETS[1]	**7,413,694**	**7,859,972**	**7,257,148**	**7,450,572**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Short-term borrowings	-280,806	-230,284	-1,049,424	-1,014,185
Accounts payable – trade	-447,176	-573,836	-590,783	-684,025
Current provisions and accrued liabilities	-269,264	-301,369	-301,789	-311,573
Payables due to related parties	-4,273	-5,891	-7,775	-9,816
Income tax payable	-35,566	-34,658	-37,158	-41,259
Other current liabilities	-162,162	-137,098	-171,454	-184,642
Deferred income	-169,825	-159,134	-163,710	-166,517
Total current liabilities	**-1,369,073**	**-1,422,271**	**-2,322,093**	**-2,412,018**
Long-term debt	-3,625,945	-3,737,702	-2,831,983	-2,935,053
Employee benefit obligations[1]	-170,987	-164,332	-161,642	-136,187
Non-current provisions	-833,576	-881,355	-923,146	-888,208
Deferred tax liabilities	-95,159	-105,264	-115,176	-127,250
Other non-current liabilities and deferred income	-16,077	-16,441	-84,014	-74,178
Total non-current liabilities	**-4,741,745**	**-4,905,094**	**-4,115,961**	**-4,160,878**
Common stock	-966,183	-966,183	-966,183	-966,183
Treasury shares	7,803	7,803	8,196	8,196
Additional paid-in capital	-582,618	-582,618	-582,896	-582,896
Hybrid capital	-591,186	-591,186	0	0
Retained earnings[1]	332,635	132,638	236,128	225,206
Available-for-sale reserve	-111	15	191	805
Hedging reserve	42,108	45,717	48,459	27,887
Translation adjustments	455,824	442,296	438,062	410,243
Equity attributable to equity holders of the parent[1]	**-1,301,727**	**-1,511,518**	**-818,042**	**-876,743**
Non-controlling interests	-1,148	-1,089	-1,052	-934
TOTAL STOCKHOLDERS' EQUITY[1]	**-1,302,876**	**-1,512,607**	**-819,094**	**-877,677**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY[1]	**-7,413,694**	**-7,859,972**	**-7,257,148**	**-7,450,572**

[1] Comparative amounts for the financial years ended December 31, 2012 and 2011 were restated as a result of the amendment to IAS 19.

Source: Consolidated Financial Statements.

CONSOLIDATED FINANCIAL STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Financial year ended December 31,		
	2014	**2013**	**2013**	**2012**	**2011**
in TEUR	(unaudited)		(audited)		
Cash flow from operating activities	674,016	789,523	1,051,564	1,047,922	1,213,275
Cash flow from investing activities	-490,956	-780,832	-2,021,368	-636,288	-854,751
Cash flow from financing activities	-119,111	-24,826	569,555	-269,566	-3,673
Effect of exchange rate changes	-412	1,328	1,803	-49	1,274
Monetary loss on cash and cash equivalents	517	-186	-983	-1,208	-16,367
Change in cash and cash equivalents	64,053	-14,993	-399,429	140,811	339,756
Cash and cash equivalents at beginning of the year	201,334	600,763	600,763	459,952	120,196
Cash and cash equivalents at end of the year	265,387	585,770	201,334	600,763	459,952

Source: Consolidated Financial Statements.

ADDITIONAL KEY FINANCIAL FIGURES

	As of, and for the nine months ended, September 30,		As of, and for the financial year ended, December 31,		
	2014	**2013**	**2013**	**2012**	**2011**
in TEUR (unless indicated otherwise)	(unaudited)		(audited, unless otherwise indicated)		
Operating revenues	2,987,714	3,128,269	4,183,949	4,329,703	4,454,626
EBITDA comparable[1, 5]	1,034,003	1,025,107	1,287,359	1,455,749	1,527,343
EBITDA comparable margin (in % of revenues)[2, 5]	34.6	32.8	30.8	33.6	34.3
Capital expenditure[3]	472,514	492,998	1,779,085	728,223	738,979
Net debt[2, 4]	3,530,890	2,708,843	3,695,754	3,248,869	3,380,313

[1] EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses. It consists of the sum of operating revenues and other operating income reduced by operating expenses.
[2] Unaudited.
[3] Capital expenditure does not include additions for asset retirement obligations. Capital expenditure is defined as additions to property, plant and equipment and intangible assets as reported in the cash flow statement under cash flow from investing activities.
[4] Net debt is defined as financial liabilities less cash and cash equivalents, investments, finance lease receivables and derivative financial instruments for hedging activities.
[5] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendments to IAS 19.

Source: Consolidated Financial Statements and Company information.

ADDITIONAL KEY OPERATING FIGURES

	September 30,		December 31,		
	2014	**2013**	**2013**	**2012**	**2011**
in TEUR (unless indicated otherwise)	(unaudited)		(audited, unless otherwise indicated)		
Number of mobile customers (in thousands)[1,2]	19,903	20,187	20,117	19,626	20,266
Number of fixed line customers (in thousands)[2]	2,639	2,623	2,637	2,603	2,609
FTE	16,350	16,243[3]	16,045	16,446	17,217[3]
Thereof in Austria	8,806	9,136	8,804	9,077	9,292
Thereof international	7,371	6,948	7,076	7,205	7,762
Thereof corporate	173	158	165	164	164

[1] As of the second quarter of 2013 the methodology for counting mobile subscribers was changed. Previous quarters of 2012 and 2013 were adjusted retrospectively.
[2] Unaudited.
[3] The figure does not correspond to the sum of the numbers in the column regarding FTE due to rounding adjustments.

Source: Consolidated Financial Statements and Company information.

CONSOLIDATED SEGMENT REPORTING

	Nine months ended September 30,		Financial year ended December 31,		
	2014	2013	2013	2012	2011
in TEUR	(unaudited)		(audited)		
AUSTRIA					
External revenues	1,805,849	1,976,003	2,637,497	2,763,741	2,919,434
Intersegment revenues	15,951	16,287	21,081	23,394	22,630
Total revenues	1,821,800	1,992,289	2,658,578	2,787,134	2,942,064
Earnings before income taxes[1]	177,623	153,882	148,652	256,862	79,205
BULGARIA					
External revenues	274,399	296,140	395,720	448,316	500,021
Intersegment revenues	2,032	3,896	3,729	20,752	27,670
Total revenues	276,431	300,036	399,449	469,068	527,692
Earnings before income taxes	-352,226	55,049	62,235	49,925	37,157
CROATIA					
External revenues	275,961	284,011	377,487	405,380	403,046
Intersegment revenues	6,349	9,693	11,708	15,005	17,685
Total revenues	282,309	293,704	389,194	420,385	420,731
Earnings before income taxes	15,318	37,303	39,604	63,148	63,212
BELARUS					
External revenues	275,258	243,950	331,676	301,174	260,774
Intersegment revenues	12	48	55	61	99
Total revenues	275,270	243,997	331,731	301,235	260,873
Earnings before income taxes	71,130	59,428	78,702	36,056	-261,968
ADDITIONAL MARKETS					
External revenues	356,247	328,166	441,569	411,093	371,351
Intersegment revenues	6,988	9,237	11,918	15,510	25,004
Total revenues	363,235	337,402	453,487	426,603	396,355
Earnings before income taxes	27,138	25,409	33,711	16,325	44,541

[1] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendments to IAS 19.

Source: Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of Telekom Austria Group's financial condition and results of operations is based on, and should be read in conjunction with, Telekom Austria Group's Consolidated Financial Statements and other financial information contained in this Prospectus. This review contains forward-looking statements that involve risk, uncertainties and assumptions. See "Forward-Looking Statements". The Group's actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including those discussed in "Risk Factors" and elsewhere in this Prospectus.

OVERVIEW OF TELEKOM AUSTRIA GROUP

Telekom Austria Group is Austria's largest telecommunications provider by market share. It is also a leading telecommunication provider which served approximately 23 million customers in seven countries across the CESEE region as of September 30, 2014. In the last fifteen years, Telekom Austria Group was transformed from a state-owned telecommunications division into a leading international telecommunications group with subsidiaries in seven European countries. Based on market share, it is the number one mobile operator in Austria and Bulgaria, and number two in all other markets in which it operates, except for the Republic of Serbia, where Telekom Austria Group is, however, reporting strong year-on-year growth rates. Austria is the Group's home market, and accounted for 61.0% of its revenues and 58.2% of its EBITDA comparable from fixed and mobile operations in the nine months ended September 30, 2014.

The Group's portfolio of products and services covers fixed and mobile voice telephony, fixed-line and mobile broadband internet, multimedia services, internet protocol television ("**IPTV**"), cable TV and satellite TV, data and IT applications, wholesale and payment services. Telekom Austria Group seeks to combine these services and to provide customers with convergent product offers, which allow customers to bundle services, such as mobile communications, broadband internet access and, in some markets, television services. The Group provides these services to its customers through local brand, local sales and local service organizations in the respective markets. The business in each market is operated locally, with central coordination and guidance from the Group's headquarters in Vienna.

The Group has five geographically operating segments: Austria, Bulgaria, Croatia, Belarus and an Additional Markets segment in which it bundles its operations of its remaining markets. The Group operates via different subsidiaries and brand names in its core markets. As of September 30, 2014, in Austria (61.0% of revenues and 58.2% of its EBITDA comparable), the Group's subsidiary, A1, is a fully integrated fixed and mobile operator offering consumers and business customers bundled product packages for fixed net, mobile communication, internet and TV. In Bulgaria (9.3% of revenues and 11.0% of its EBITDA comparable), the Group operates its subsidiary Mobiltel, which follows the Group's convergence strategy by establishing a basis for the expansion of its services portfolio with convergent products. In Croatia (9.4% of revenues and 7.2% of its EBITDA comparable), the Group's subsidiary VIPnet d.o.o. ("**VIPnet**") also offers convergent bundle products, thereby utilizing all its market capabilities. In Belarus (9.2% of revenues and 13.2% of its EBITDA comparable), the Group's subsidiary unitary enterprise velcom ("**velcom**") offers mobile voice and data communication and value-added services to the Group's local customers.

Through its Additional Markets segment, (12.2% of revenues and 10.2% of its EBITDA comparable as of September 30, 2014), Telekom Austria Group primarily offers mobile voice and data communication services to customers in Slovenia, the Republic of Serbia and the Republic of Macedonia. Following the acquisition of blizoo DOOEL Skopje ("**blizoo Macedonia**") in July 2014, the Group also includes fixed-line operations in the Republic of Macedonia.

KEY FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

Management believes that the following are the key factors that have affected Telekom Austria Group's results of operations in the financial years ended December 31, 2013, 2012 and 2011, as well as in the nine months ended September 30, 2014, and are likely to continue to affect its results of operations.

General economic conditions and consumer spending

Following the global financial crisis in 2008 and the subsequent European sovereign debt crisis, many European countries, specifically Southern and Eastern Europe, experienced an economic slowdown which in some parts is still being felt. These unfavorable economic conditions included a general contraction in consumer spending resulting from, amongst other reasons, reduced consumer confidence, falling GDP, rising unemployment rates and uncertainty in the macroeconomic environment.

While the telecommunications industry is less cyclical compared with other sectors, it is still impacted by general economic conditions and specifically consumer spending. This in turn impacts the Group's subscriber base and revenues and consumers may also delay the upgrade of their existing mobile devices. In addition, recessionary conditions have impacted the development prospects in the Group's operating markets in terms of new value-added services and traffic, in particular from business subscribers. The Austrian economy, which is the Group's largest market by revenue, was relatively resilient throughout recent years compared to other European countries and operating markets, such as Bulgaria or Croatia, however the increase in GDP was still low, particularly in 2013 and 2012.

Regulations

Regulations significantly impact the Group's operations and the rest of the telecommunication industry in Europe. Roaming, for example, is a major source of revenue for the Group, but is continuously diminished by regulations issued by the European Union. This is the result of a highly interventionist and consumer-centric approach to regulation in the European Union, which has decreased both retail and wholesale prices for roaming services and interconnection fees.

Furthermore, the European Parliament has recently voted in favor of a proposal ending mobile retail roaming fees by the end of 2015 for customers travelling within the European Union. The proposal is still subject to the approval of the Council of the European Union. If and when such approval might be given is unclear (see "Regulatory environment—Connected continent – EU regulation proposal"). These measures will, if implemented, lead to an increase in the usage of roaming services while drastically lowering the fees the Group may levy for roaming services, which will ultimately impact the Group's profit in segments subject to EU regulations. The Group estimates that roaming regulation will have a significant impact on telecom operators in the Mediterranean and Alpine countries of Central and Southern Europe, including Austria, Slovenia and Croatia, where many mobile base stations have been installed primarily to serve tourists.

Competition

Unlike the telecommunication markets in the United States or China, the European market is highly fragmented with more than 100 telecommunication providers. As a result of this fragmentation, strong competition developed especially in mature markets, such as in the Group's core market Austria, where price pressure significantly lowered prices on a continuous basis. The Group's revenues have been significantly impacted by competitive pressures in the last three financial years, particularly in Austria, Croatia and Bulgaria.

Exchange rate changes and hyperinflation in Belarus

The Group is exposed to exchange rate fluctuations in many of its international markets. Specifically, Belarus has been affected by volatile exchange rates which have significantly impacted the Group's results of operations. For instance, in the financial year ended December 31, 2013, the Group's revenues were impacted by a negative currency effect from its operations in Belarus of EUR 50.9 million.

In addition, Belarus has been classified as a hyperinflationary economy and hyperinflation accounting according to IAS 29 has been applied to the Belarusian segment since the fourth quarter of 2011. As a result of the change to hyperinflation accounting the Group incurred an impairment of the goodwill relating to the Group's Belarus entities of EUR 279.0 million in the financial year ended December 31, 2011.

Increasing use of data services

A key driver for the Group's revenues is the increasing use of mobile as well as fixed-line data services. They are linked to the popularity of smartphones and mobile computing devices as well as growing demand for IPTV services. Across the markets in which the Group operates, the smartphone penetration rate has significantly increased in the last years and has resulted in a significant increase in mobile data usage. The increasing demand for data centric services has partially offset negative revenue effects and the Group seeks to continue to benefit from this trend going forward.

Employee structure in Austria

More than a quarter of the Group's employees and more than half of the active Group employees in Austria are Austrian civil servants, benefiting from mandatory salary increases and other benefits that cause employee expenses to increase each year. Despite cost cutting programs to lower employee expenses, this and other particularities of the Austrian employee structure of the Group, including passive employees who receive salary-like payments until they retire while no longer working at the Group, are directly affecting the Group's results on an annual basis. For more information on the particularities of the Group's Austrian employee structure, see "Business—Employees—Austrian particularities".

Handset subsidies

Historically, in many markets in which the Group is active, in particular in Austria, operators have subsidized customer purchases of mobile communication devices to attract new customers as well as to retain existing customers. These subsidies have become an essential part of a contract with a mobile provider and can make up to the full purchase price of mobile devices. This has made handset subsidies a costly but key marketing instrument and drives a large part of the Group's material costs. In recent years, particularly between the financial years 2012 and 2013, increases in handset subsidies had a significant impact on the Group's profitability. In early 2014 the Group decided to lower handset subsidies significantly.

Convergence

The ability to offer customers bundles of mobile and fixed-line services is a competitive differentiator that has appeal to both retail and business customers. Customers find it convenient to buy mobile and fixed-line services from a single supplier and pay a single bill. The improved user experience offered by such bundles has also reduced the level of churn compared to churn levels for customers who only contract for mobile services. In some convergent markets, such as Bulgaria and Croatia, the number of fixed-line customers is also growing after stagnation or decreases in the past. The Group's bundled services have also helped to return to access-line growth in Austria. Given the positive effects of convergence, the Group seeks to expand its convergent capabilities, such as in the Republic of Macedonia, where the Group has purchased a fixed-line operator in July 2014, which complements the Group's already existing mobile telecommunications operations.

Network upgrades and acquisitions

With the growing penetration of smartphones and the increasing demand for data services, upgrading and maintaining the Group's network is essential to providing services to the Group's customers. The perception of the network's quality is an important factor for the companies of Telekom Austria Group to be able to retain and attract customers. The upgrade and maintenance of its network has a direct impact on expenses and the capital expenditures the Group incurs each year. For example, in the fall of 2013, Telekom Austria Group participated in the Austrian multiband auction, in which the Group purchased spectrum for a total price of EUR 1.03 billion, securing half of the total spectrum auctioned. In addition to improving its network quality, this will enable the Group to roll out LTE nationally throughout Austria.

In addition to network upgrades, the Group is also actively pursuing investment opportunities to expand its customer base. In January 2013, the Group expanded its operations in Austria through the acquisition of the Austrian discount mobile operator YESSS!, investing a total of approximately EUR 403.6 million (after purchase price adjustments). The Group therefore leveraged a strategic opportunity to acquire additional customers complementary to its existing portfolio. Such acquisitions and mobile network upgrade investments have significantly affected key performance indicators such as capital expenditures, net debt and revenues.

EXPLANATION OF KEY LINE ITEMS

Operating revenues

Operating revenues consist of the Group's revenue from providing services and selling equipment to its customers. Operating revenues are stated net of value-added tax and other taxes, collected from the customers on behalf of tax authorities.

Operating revenues are principally generated from (i) fixed-line services and (ii) mobile communications services. 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, television, 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.

Operating revenues can also stem from various other services, such as long distance and local service revenue, sale of merchandise, set-up of customer lines, and from agreements with other telecommunication operators granting access to existing capacity within its physical network, roaming services, prepaid services and activation revenues.

Other operating income

Other operating income consists of rental revenue, own work capitalized and all other income, such as research and educational tax credits. Own work capitalized represents the work performed for own purposes consisting mainly of employee costs and direct overheads capitalized as part of property, plant and equipment as well as internally developed software.

Materials

The line item "Materials" consists mainly of expenses related to handsets and other mobile telecommunication devices, which may be subsidized by some of the Group's companies, especially in Austria. In addition, materials for the maintenance and repair of the Group's infrastructure also fall under this line item, as well as other materials that may be purchased by the Group.

Employee expenses, including benefits and taxes

Employee expenses, including benefits and taxes consists of all expenses related to employees such as salaries, wages, severance payments, service awards, bonuses, provision of vacation not taken and related taxes.

Other operating expenses

Other operating expenses consists of all other expenses related to the Group's operations, which includes repairs and maintenance, advertising and marketing, commissions, legal consulting, other consulting, energy, transportation and training expenses, among other expenses.

The following table provides a breakdown of other operating expenses for the financial years ended December 31, 2011, 2012 and 2013 and for the nine months ended September 30, 2013 and 2014:

	Nine months ended September 30,		Financial year ended December 31,		
	2014	2013	2013	2012	2011
in TEUR	(unaudited)		(audited)		
Interconnection	237,472	313,178	401,428	439,249	457,774
Repairs and maintenance	120,179	119,930	169,011	167,525	165,542
Services received	140,860	136,322	204,186	216,566	236,867
Concession cost	28,230	27,716	n.a.	n.a.	n.a.
Advertising and marketing	99,856	114,026	158,558	158,221	216,825
Other support services	107,972	106,546	149,009	152,695	155,027
Rental and lease expenses	123,462	119,820	160,812	154,488	148,604
Commissions	52,257	55,514	76,887	73,144	75,121
Bad debt expenses	29,893	34,320	37,985	49,885	65,667
Other consulting	7,267	9,898	12,220	17,449	14,005
Legal consulting	3,354	3,604	5,007	6,668	6,281
Travel expenses	11,395	11,658	16,216	17,207	19,104
Other taxes	10,335	9,840	15,146	12,558	13,285
Energy	42,084	42,651	58,258	58,364	52,510
Transportation	20,632	19,959	27,575	30,201	29,120
Training expenses	4,750	5,062	7,887	9,934	11,945
Net loss from retirement of fixed assets	0	0	8,538	4,330	7,117
Other	37,504	35,791	81,773	79,609	105,779
Other operating expenses	**1,077,502**	**1,165,835**	**1,590,496**	**1,648,095**	**1,780,575**

Source: Consolidated Financial Statements and Company information.

EBITDA comparable

EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses. It consists of the sum of operating revenues and other operating income reduced by operating expenses.

Restructuring

Restructuring consists of the expenses related to the comprehensive restructuring program of the Group initiated in the Austria segment in 2008 and other restructuring programs as they may be implemented from time to time in the Austria segment and includes, among other expenses, expenses for social plans for employees whose employments will be terminated in a socially responsible way. This item exclusively reflects restructuring measures in Austria and may fluctuate significantly from year to year, depending on restructuring measures taken within the Austria segment.

Impairment and reversal of impairment

Impairment and reversal of impairment represents the reduction in the value of goodwill, other intangible assets, and property, plant, and equipment of the Group as a result of events that lead to such impairments and also include any gains if such impairments are reversed.

Depreciation and amortization

Depreciation and amortization refers to the depreciation and amortization of the Group's intangible assets (except goodwill) and its property, plant and equipment. The principal assets that contribute to depreciation and amortization are the Group's network infrastructure, software, licenses and customers base.

Financial result

The Group's financial result is the sum of interest income and expense, foreign exchange differences, other financial result, and result from investments in affiliates.

Interest income is mainly generated from loans and receivables, bank deposits, available-for-sale financial assets and net gain on hedging transactions. Interest expenses principally include interest payments on the Group's bonds and other financial liabilities as well as expenses for the Group's restructuring provisions, employee benefit obligations, asset retirement obligations and hedging transactions.

The following table provides a breakdown of the financial results for the financial years ended December 31, 2011, 2012 and 2013 and for the nine months ended September 30, 2013 and 2014:

	Nine months ended September 30,		Financial year ended December 31,		
	2014	2013	2013	2012	2011
in TEUR	(unaudited)			(audited)	
Interest income	10,508	12,537	16,123	16,937	16,942
Interest expense	-147,404	-151,648	-200,853	-232,674	-216,773
Foreign exchange differences	-569	-3,002	-4,278	2,494	-43,533
Other financial result	127	-55	-137	-425	-4,544
Result from investments in affiliates	118	213	1,697	981	1,089
Financial result	**-137,219**	**-141,956**	**-187,447**	**-212,687**	**-246,819**

Source: Consolidated Financial Statements.

Income taxes

As the Group principally operates in Austria, its tax expense is mainly related to the Austrian statutory income tax rate of 25% of pre-tax income. However, due to various effects, especially foreign tax rate differentials and deferred tax impacts, the Group's effective income tax rate was different in previous years. For more information see note 30 to the Consolidated Financial Statements for the financial year ended December 31, 2013.

Critical accounting policies

The preparation of the Consolidated Financial Statements requires the Group's 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, the Group's management has made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty which bear a significant risk of necessitating a material adjustment to the carrying amounts of assets and liabilities within the next financial year. For all sensitivity analyses, the remaining parameters of the original calculation remain unchanged, thus no possible correlation effects are taken into account.

- 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.
- Impairments: The impairment test for goodwill, other intangible assets and property, plant and equipment 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.
- Anticipated lifespan of assets: 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.
- 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. Compensation expense and liabilities could materially differ from the estimated amount if the underlying parameters were to change.
- 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.

- Restructuring (includes provisions for onerous contracts according to IAS 37 as well as provisions for social plans according to IAS 19): 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.

All estimates and assumptions are based on current circumstances and appraisals. Forward-looking estimates and assumptions made as of the relevant balance sheet date with a view to future business performance take account of circumstances prevailing at the time of preparation of the Consolidated Financial Statements and future trends considered realistic for the global and industry environment. Actual amounts can vary from the estimated amounts due to changes in the operating environment that are at variance with the assumptions and beyond management control. If such changes occur, the assumptions and, if necessary, the carrying amounts of affected assets and liabilities are revised accordingly.

SEGMENT REPORTING

The Group prepares its reporting on operating segments in accordance with IFRS 8. The accounting policies of the segments are the same as those of the Group. 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 "Extended Board", which regularly convenes in extended board meetings, is Telekom Austria Group's chief operating decision maker. It consists of the Management Board (Group CEO, Group CFO and Group CTO) as well as the Group officers of Telekom Austria who represent human resources and marketing.

The Austria segment comprises convergent products (fixed and mobile) for voice telephony, internet access, data and IT solutions, value-added services, wholesale services, IPTV (broadcasting and video-on-demand ("**VoD**")), sale of end-user terminal equipment, mobile business solutions and mobile payment solutions in Austria.

The Bulgaria segment comprises convergent products (fixed and mobile) for voice telephony, internet access, value-added services, wholesale services, IPTV (broadcasting and VoD), sale of end-user terminal equipment, mobile business solutions and mobile payment solutions in Bulgaria. In addition, it is planned to offer SAT TV starting in the fourth quarter of the financial year ending December 31, 2014.

The Croatia segment comprises convergent products (fixed and mobile) for voice telephony, internet access, value-added services, wholesale services, IPTV (broadcasting and VoD) and SAT TV, sale of end-user terminal equipment, mobile business solutions and mobile payment solutions in Croatia.

The Belarus segment comprises mobile products for voice telephony, internet access, value-added services, wholesale services, sale of end-user terminal equipment, fixed-line services for selected business customers in Belarus.

The Additional Markets segment comprises mobile products for voice telephony, internet access, value-added services, wholesale services in Slovenia, the Republic of Serbia and the Republic of Macedonia. In addition, fixed-line services have been offered in the Republic of Macedonia since the acquisition of blizoo Macedonia.

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 following table sets forth an overview of the Group's segments and their external, internal and total revenues, as well as their earnings before income taxes for the financial years ended December 31, 2011, 2012 and 2013 and for the nine months ended September 30, 2013 and 2014:

	Nine months ended September 30,		Financial year ended December 31,		
	2014	2013	2013	2012	2011
in TEUR	(unaudited)		(audited)		
AUSTRIA					
External revenues	1,805,849	1,976,003	2,637,497	2,763,741	2,919,434
Intersegment revenues	15,951	16,287	21,081	23,394	22,630
Total revenues	1,821,800	1,992,289	2,658,578	2,787,134	2,942,064
Earnings before income taxes[1]	177,623	153,882	148,652	256,862	79,205
BULGARIA					
External revenues	274,399	296,140	395,720	448,316	500,021
Intersegment revenues	2,032	3,896	3,729	20,752	27,670
Total revenues	276,431	300,036	399,449	469,068	527,692
Earnings before income taxes	-352,226	55,049	62,235	49,925	37,157
CROATIA					
External revenues	275,961	284,011	377,487	405,380	403,046
Intersegment revenues	6,349	9,693	11,708	15,005	17,685
Total revenues	282,309	293,704	389,194	420,385	420,731
Earnings before income taxes	15,318	37,303	39,604	63,148	63,212
BELARUS					
External revenues	275,258	243,950	331,676	301,174	260,774
Intersegment revenues	12	48	55	61	99
Total revenues	275,270	243,997	331,731	301,235	260,873
Earnings before income taxes	71,130	59,428	78,702	36,056	-261,968
ADDITIONAL MARKETS					
External revenues	356,247	328,166	441,569	411,093	371,351
Intersegment revenues	6,988	9,237	11,918	15,510	25,004
Total revenues	363,235	337,402	453,487	426,603	396,355
Earnings before income taxes	27,138	25,409	33,711	16,325	44,541

[1] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendments to IAS 19.

Source: Consolidated Financial Statements.

RESULTS OF OPERATIONS

The following table sets forth an overview of Telekom Austria Group's profit and loss for the financial years ended December 31, 2011, 2012 and 2013 and for the nine months ended September 30, 2013 and 2014:

	Nine months ended September 30,		Financial year ended December 31,		
	2014	2013	2013	2012	2011
in TEUR	(unaudited)		(audited)		
Operating revenues	2,987,714	3,128,269	4,183,949	4,329,703	4,454,626
Other operating income	91,719	56,934	87,079	82,086	100,379
Materials	-341,750	-375,953	-547,302	-474,677	-442,044
Employee expenses, including benefits and taxes[2]	-626,179	-618,307	-845,872	-833,268	-805,042
Other operating expenses	-1,077,502	-1,165,835	-1,590,496	-1,648,095	-1,780,575
Operating expenses[2]	**-2,045,430**	**-2,160,096**	**-2,983,669**	**-2,956,040**	**-3,027,661**
EBITDA comparable[1, 2]	**1,034,003**	**1,025,107**	**1,287,359**	**1,455,749**	**1,527,343**
Restructuring	-12,073	-35,299	-45,185	-34,685	-233,703
Impairment and reversal of impairment	-400,000	0	0	0	-248,906
Depreciation and amortization	-644,543	-645,061	-864,606	-963,972	-1,052,376
Operating Income[2]	**-22,613**	**344,747**	**377,568**	**457,093**	**-7,641**
Financial result	-137,219	-141,956	-187,447	-212,687	-246,819
Earnings before Taxes[2]	**-159,832**	**202,790**	**190,121**	**244,405**	**-254,460**
Income taxes[2]	-30,155	-43,542	-80,421	-140,394	1,654
Net result[2]	**-189,988**	**159,249**	**109,700**	**104,011**	**-252,806**

[1] EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses. It consists of the sum of operating revenues and other operating income reduced by operating expenses.
[2] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendments to IAS 19.

Source: Consolidated Financial Statements.

COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

The following table sets forth an overview of the Group's profit and loss statement for the nine months ended September 30, 2014 and 2013.

	Nine months ended September 30,		
	2014	2013	Change in %
in TEUR	(unaudited)		
Operating revenues	2,987,714	3,128,269	-4.5%
Other operating income	91,719	56,934	61.1%
Materials	-341,750	-375,953	-9.1%
Employee expenses, including benefits and taxes	-626,179	-618,307	1.3%
Other operating expenses	-1,077,502	-1,165,835	-7.6%
Operating expenses	**-2,045,430**	**-2,160,096**	**-5.3%**
EBITDA comparable[1]	**1,034,003**	**1,025,107**	**0.9%**
Restructuring	-12,073	-35,299	-65.8%
Impairment and reversal of impairment	-400,000	0	-
Depreciation and amortization	-644,543	-645,061	-0.1%
Operating Income	**-22,613**	**344,747**	**-106.6%**
Financial result	-137,219	-141,956	-3.3%
Earnings before Taxes	**-159,832**	**202,790**	**-178.8%**
Income taxes	-30,155	-43,542	-30.7%
Net result	**-189,988**	**159,249**	**-219.3%**

[1] EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses. It consists of the sum of operating revenues and other operating income reduced by operating expenses.

Source: Interim Consolidated Financial Statements and Company information.

Operating revenues

Operating revenues decreased by EUR 140.6 million, or 4.5%, from EUR 3,128.3 million for the nine months ended September 30, 2013 to EUR 2,987.7 million for the nine months ended September 30, 2014.

The decrease in operating revenues was primarily due to revenue declines in Austria, Bulgaria and Croatia. The Austrian revenues included negative non-recurring effects of EUR 28.2 million from the introduction of a new fixed-line billing system interface. Negative effects from foreign currency translations stemming primarily from Belarus amounted to EUR 33.7 million. Excluding both of these effects, the Group's revenues would have decreased by 2.5%.

The following table sets forth the source of external revenue by segment for the nine months ended September 30, 2014 and 2013.

	Nine months ended September 30,		
	2014	**2013**	**Change in %**
in TEUR	(unaudited)		
Austria	1,805,849	1,976,003	-8.6%
Bulgaria	274,399	296,140	-7.3%
Croatia	275,961	284,011	-2.8%
Belarus	275,258	243,950	12.8%
Additional Markets	356,247	328,166	8.6%

Source: Interim Consolidated Financial Statements and Company information.

Austrian external revenues declined by 8.6% to EUR 1,805.8 million in the nine months ended September 30, 2014, compared to EUR 1,976.0 million in the nine months ended September 30, 2013. The revenue decline in Austria was mainly due to lower airtime revenues and lower interconnection revenues resulting from a reduction in termination rates in November 2013. Lower subsidies for handsets and other devices partially helped to support profitability but hurt equipment revenues, whereas growth in TV and fixed-line broadband subscriptions helped to stem the decline in fixed-line service revenues.

Bulgarian external revenues declined by 7.3% to EUR 274.4 million in the nine months ended September 30, 2014, compared to EUR 296.1 million in the nine months ended September 30, 2013. The Bulgarian revenue decline was mainly driven by ongoing macroeconomic and competitive pressure as well as negative regulatory effects related to visitor roaming and mobile termination rate cuts.

Croatian external revenues declined by 2.8% to EUR 276.0 million in the nine months ended September 30, 2014, compared to EUR 284.0 million in the nine months ended September 30, 2013. The Croatian revenue decline was mainly driven by weakness in the mobile business, negative regulatory effects and the increase of frequency usage fees in June.

In Belarus, external revenues increased by 12.8% to EUR 275.3 million in the nine months ended September 30, 2014, compared to EUR 244.0 million in the nine months ended September 30, 2013. Revenues in Belarus were mainly driven by a continuation of strong operational trends driven by price increases, upselling effects and high demand for tablets and data.

In the Additional Markets segment, external revenues increased by 8.6% to EUR 356.2 million in the nine months ended September 30, 2014, compared to EUR 328.2 million in the nine months ended September 30, 2013. This revenue increase was mainly driven by the strategic focus on the contract business, which reaped positive results for Slovenia and the Republic of Serbia, while the Republic of Macedonia struggled with competitive price pressure and falling prepaid subscriber numbers, as well as the effects of termination rate cuts which weighed on revenues.

Other operating income

Other operating income increased by EUR 34.8 million, or 61.1%, from EUR 56.9 million for the nine months ended September 30, 2013 to EUR 91.7 million for the nine months ended September 30, 2014. The increase in other operating income was primarily due to an one-off effect in the amount of EUR 27.6 million relating to the merger of mobilkom liechtenstein with Telecom Liechtenstein AG, which closed on August 27, 2014. As of the closing, mobilkom liechtenstein is no longer consolidated in the segment Additional Markets, but the 24.9% interest, which Telekom Austria Group holds in the merged entity Telecom Liechtenstein AG, is reported on an at equity basis.

Materials

Material expenses decreased by EUR 34.2 million, or 9.1%, from EUR 376.0 million for the nine months ended September 30, 2013 to EUR 341.8 million for the nine months ended September 30, 2014. The decrease in material expenses was primarily due to lower subsidies for handsets and similar devices.

Employee expenses, including benefits and taxes

Employee expenses, including benefits and taxes, increased by EUR 7.8 million, or 1.3%, from EUR 618.3 million for the nine months ended September 30, 2013 to EUR 626.2 million for the nine months ended September 30, 2014. The increase in employee expenses, including benefits and taxes, was primarily due to contractually fixed salary increases.

Other operating expenses

The following table provides an overview of the Group's other operating expenses for the nine months ended September 30, 2014 and 2013.

	Nine months ended September 30,		
	2014	**2013**	**Change in %**
in TEUR	(unaudited)		
Interconnection	237,472	313,178	-24.2%
Repairs and maintenance	120,179	119,930	0.2%
Services received	140,860	136,322	3.3%
Concession cost	28,230	27,716	1.9%
Advertising and marketing	99,856	114,026	-12.4%
Other support services	107,972	106,546	1.3%
Rental and lease expenses	123,462	119,820	3.0%
Commissions	52,257	55,514	-5.9%
Bad debt expenses	29,893	34,320	-12.9%
Other consulting	7,267	9,898	-26.6%
Legal consulting	3,354	3,604	-6.9%
Travel expenses	11,395	11,658	-2.3%
Other taxes	10,335	9,840	5.0%
Energy	42,084	42,651	-1.3%
Transportation	20,632	19,959	3.4%
Training expenses	4,750	5,062	-6.2%
Net loss from retirement of fixed assets	0	0	-
Other	37,504	35,791	4.8%
Other operating expenses	**1,077,502**	**1,165,835**	**-7.6%**

Source: Interim Consolidated Financial Statements and Company information.

Other operating expenses decreased by EUR 88.3 million, or 7.6%, from EUR 1,165.8 million for the nine months ended September 30, 2013 to EUR 1,077.5 million for the nine months ended September 30, 2014. The decrease in other operating expenses was primarily due to lower interconnection expenses.

Operating expenses

Operating expenses decreased by EUR 114.7 million, or 5.3%, from EUR 2,160.1 million for the nine months ended September 30, 2013 to EUR 2,045.4 million for the nine months ended September 30, 2014. The decrease in operating expenses was primarily due to a reduction of EUR 169.3 million in Austria stemming from lower subsidies and termination rates.

EBITDA comparable

EBITDA comparable increased by EUR 8.9 million, or 0.9%, from EUR 1,025.1 million for the nine months ended September 30, 2013 to EUR 1,034.0 million for the nine months ended September 30, 2014. The increase in EBITDA comparable was primarily due to an increase in other operating income combined with a decrease in material and other operating expenses that more than offset lower operating revenues and slightly increased employee expenses.

Restructuring

Restructuring charges decreased by EUR 23.2 million, or 65.8%, from EUR 35.3 million for the nine months ended September 30, 2013 to EUR 12.1 million for the nine months ended September 30, 2014. The decrease in restructuring charges was primarily due to fewer employees accepting the social plan in the first nine months of 2014 compared to the first nine months of 2013.

Impairment and reversal of impairment

Impairment and reversal of impairment increased by EUR 400.0 million from nil for the nine months ended September 30, 2013 to EUR 400.0 million for the nine months ended September 30, 2014. The increase in impairment and reversal of impairment related to the impairment of EUR 400.0 million booked for Mobiltel, following a change in the weighted average cost of capital of the Bulgarian segment as well as changed medium-term macroeconomic expectations for Bulgaria.

Depreciation and amortization

Depreciation and amortization slightly decreased by EUR 0.5 million, or 0.1%, from EUR 645.1 million for the nine months ended September 30, 2013 to EUR 644.5 million for the nine months ended September 30, 2014.

Operating income

Operating income decreased by EUR 367.4 million, or 106.6%, from EUR 344.7 million for the nine months ended September 30, 2013 to a negative EUR 22.6 million for the nine months ended September 30, 2014. The decrease in operating income was primarily due to the impairment of EUR 400.0 million in Bulgaria.

Financial result

The financial result rose by EUR 4.7 million, or 3.3%, from a negative EUR 142.0 million for the nine months ended September 30, 2013 to a negative result of EUR 137.2 million for the nine months ended September 30, 2014. The rise in financial result was primarily due to lower interest expense.

Earnings before taxes and income taxes

Earnings before taxes decreased by EUR 362.6 million, or 178.8%, from EUR 202.8 million for the nine months ended September 30, 2013 to a negative EUR 159.8 million for the nine months ended September 30, 2014. Income taxes decreased by EUR 13.4 million, or 30.7%, from EUR 43.5 million for the nine months ended September 30, 2013 to EUR 30.2 million for the nine months ended September 30, 2014. The decrease in income taxes was primarily due to deferred tax benefit relating to the EUR 400.0 million impairment recognized in Bulgaria.

Net result

Net result decreased by EUR 349.2 million, or 219.3%, from EUR 159.2 million for the nine months ended September 30, 2013 to a negative EUR 190.0 million for the nine months ended September 30, 2014. The decrease in net result was primarily due to lower revenues and the recognition of the EUR 400.0 million impairment recognized in Bulgaria.

Assets and stockholders' equity

Total assets amounted to EUR 7,413.7 million as of September 30, 2014, representing an increase of 0.7% compared to EUR 7,363.6 million as of September 30, 2013. Non-current assets increased by 9.8% from EUR 5,621.1 million as of September 30, 2013 to EUR 6,171.3 million as of September 30, 2014, due to the acquisition of frequencies mainly in Austria, which increased other intangibles by net EUR 1,038.3 million (67.4%), whereas the bookvalue of goodwill decreased by EUR 387.4 million (-24.5%) mainly due to the impairment in Mobiltel. Current assets decreased by 28.7% from EUR 1,742.5 million as of September 30, 2013 to EUR 1,242.4 million as of September 30, 2014, mainly due to the decrease of cash and cash equivalents as a consequence of the acquisition of frequencies by EUR 320.4 million and the reduction in accounts receivables by EUR 138.7 million.

As of September 30, 2014, stockholders' equity amounted to EUR 1,302.9 million, representing a decrease of 16.6% from EUR 1,562.0 million as of September 30, 2013. Non-current liabilities increased by 10.8% to EUR 4,741.7 million as of September 30, 2014 from EUR 4,279.5 million as of September 30, 2013, caused mainly by the acquisition of frequencies in Austria and the issuance of bonds in December 2013 in the amount of EUR 750 million. Current liabilities decreased by 10.1% to EUR 1,369.1 million as of September 30, 2014 from EUR 1,522.1 million as of September 30, 2013, mainly due to a decrease in accounts payables and a decrease in other current liabilities.

COMPARISON OF THE GROUP'S RESULTS FOR THE FINANCIAL YEARS ENDED DECEMBER 31, 2013 AND 2012

The following table sets forth an overview of the Group's profit and loss for the financial year ended December 31, 2013 and December 31, 2012.

	Financial year ended December 31,		
	2013	**2012**	**Change in %**
in TEUR	(audited)		
Operating revenues	4,183,949	4,329,703	-3.4
Other operating income	87,079	82,086	6.1
Materials	-547,302	-474,677	15.3
Employee expenses, including benefits and taxes[2]	-845,872	-833,268	1.5
Other operating expenses	-1,590,496	-1,648,095	-3.5
Operating expenses[2]	**-2,983,669**	**-2,956,040**	**0.9**
EBITDA comparable[1, 2]	**1,287,359**	**1,455,749**	**-11.6**
Restructuring	-45,185	-34,685	30.3
Impairment and reversal of impairment	0	0	-
Depreciation and amortization	-864,606	-963,972	-10.3
Operating income[2]	377,568	457,093	-17.4
Financial result	-187,447	-212,687	-11.9
Earnings before taxes[2]	**190,121**	**244,405**	**-22.2**
Income taxes[2]	-80,421	-140,394	-42.7
Net result[2]	**109,700**	**104,011**	**5.5**

[1] EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses. It consists of the sum of operating revenues and other operating income reduced by operating expenses.
[2] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendments to IAS 19.

Source: Audited Consolidated Financial Statements and Company information.

Operating revenues

Operating revenues decreased by EUR 145.8 million, or 3.4%, from EUR 4,329.7 million for the financial year ended December 31, 2012 to EUR 4,183.9 million for the financial year ended December 31, 2013. The decrease in operating revenues was primarily due to price competition and regulatory effects, such as tariff reductions required by EU laws, in the Group's key Austria, Bulgaria and Croatia segments. In addition, economic developments, especially in Bulgaria and Croatia, also negatively impacted revenues. Lastly, especially in the Group's mature markets such as Austria, stagnant demographic developments and market saturation resulted in only moderate customer increase.

The following table sets forth the source of external revenue by segment for the financial year ended December 31, 2013 and 2012.

	Financial year ended December 31,		
	2013	**2012**	**Change in %**
in TEUR	(audited)		
Austria	2,637,497	2,763,741	-4.6
Bulgaria	395,720	448,316	-11.7
Croatia	377,487	405,380	-6.9
Belarus	331,676	301,174	10.1
Additional Markets	441,569	411,093	7.4

Source: Audited Consolidated Financial Statements and Company information.

The external revenues decreased in all segments, except for Belarus and Additional Markets. The Austrian and Croatian segments showed moderate decreases in external revenues of 4.6% and 6.9%, respectively, mainly due to intense price competition and tariff reductions required by EU law.

In Austria, income from monthly fee and traffic charges fell by 3.8% as lower income resulting from the migration of existing customers to all-in tariffs could not be compensated by higher monthly fees. In addition, lower roaming income from customers abroad and the decline in the fixed-line voice business contributed to the decline.

In Bulgaria, external revenues fell by 11.7%, mainly as a result of a weak economy, which had a negative impact on demand and the purchasing power of customers. Furthermore, the Group's business was impacted by an intensive competitive environment and decreasing MTRs and roaming charges imposed by regulatory changes.

In Croatia, higher revenues from monthly fees resulting from customer growth only partially offset lower revenues from mobile connection fees due to declining prices and customer migration to all-in tariffs.

In the Belarus segment external revenues increased by 10.1% from EUR 301.2 million in the financial year ended December 31, 2012 to EUR 331.7 million in the financial year ended December 31, 2013 despite negative currency effects which impacted revenues by EUR 50.9 million. This was mainly due to customer increase and inflation-related price adjustments. Equipment revenues in Belarus also climbed as a result of a greater number of handsets sold as well as an increased demand for smartphones and attractively priced tablets.

Within the Additional Markets segment, decreases in total revenues in Liechtenstein and Slovenia were fully offset by external revenue increases in the Republic of Serbia and the Republic of Macedonia by 13.9% and 7.5%, respectively.

Other operating income

Other operating income increased by EUR 5.0 million, or 6.1%, from EUR 82.1 million for the financial year ended December 31, 2012 to EUR 87.1 million for the financial year ended December 31, 2013. The increase in other operating income was driven by higher rental revenue and higher own work capitalized which consists mainly of employee costs and direct overheads that are capitalized.

Materials

Expenses for materials increased by EUR 72.6 million, or 15.3%, from EUR 474.7 million for the financial year ended December 31, 2012 to EUR 547.3 million for the financial year ended December 31, 2013. The increase in materials was primarily due to the Group's increased marketing discounts (handset subsidies) for mobile phone devices and other mobile devices as part of its marketing strategy to attract more customers in the Austria segment, as well as an increase in expenses for network maintenance.

Employee expenses, including benefits and taxes

Employee expenses, including benefits and taxes, increased by EUR 12.6 million, or 1.5%, from EUR 833.3 million for the financial year ended December 31, 2012 to EUR 845.9 million for the financial year ended December 31, 2013. The increase in employee expenses, including benefits and taxes, was primarily due to annual salary increases as a result of collective bargaining agreements in Austria.

Other operating expenses

The following table provides an overview of the Group's other operating expenses for the financial year ended December 31, 2013 and 2012.

in TEUR	Financial year ended December 31, 2013	2012	Change in %
	(audited)		
Interconnection	401,428	439,249	-8.6
Repairs and maintenance	169,011	167,525	0.9
Services received	204,186	216,566	-5.7
Advertising and marketing	158,558	158,221	0.2
Other support services	149,009	152,695	-2.4
Rental and lease expenses	160,812	154,488	4.1
Commissions	76,887	73,144	5.1
Bad debt expenses	37,985	49,885	-23.9
Other consulting	12,220	17,449	-30.0
Legal consulting	5,007	6,668	-24.9
Travel expenses	16,216	17,207	-5.8
Other taxes	15,146	12,558	20.6
Energy	58,258	58,364	-0.2
Transportation	27,575	30,201	-8.7
Training expenses	7,887	9,934	-20.6
Net loss from retirement of fixed assets	8,538	4,330	97.2
Other	81,773	79,609	2.7
Other operating expenses	**1,590,496**	**1,648,095**	**-3.5**

Source: Audited Consolidated Financial Statements and Company information.

Other operating expenses decreased by EUR 57.6 million, or 3.5%, from EUR 1,648.1 million for the financial year ended December 31, 2012 to EUR 1,590.5 million for the financial year ended December 31, 2013. The decrease in other operating expenses was primarily due to lower interconnection expenses as a result of less usage and lower fees in the transit business, which decreased from EUR 439.2 million in the financial year ended December 31, 2012 to EUR 401.4 million in the financial year ended December 31, 2013 and because of lower roaming expenses (included in the line item "services received") as well as bad debt expenses, which decreased from EUR 49.9 million to EUR 38.0 million because of improved billing and debt collection processes. The decreases were partially offset by higher rental and lease expenses as a result of regular annual increases in rents, commissions paid, repairs and maintenance and certain other smaller expense items.

Operating expenses

Operating expenses increased by EUR 27.6 million, or 0.9%, from EUR 2,956.0 million for the financial year ended December 31, 2012 to EUR 2,983.7 million for the financial year ended December 31, 2013. The increase in operating expenses was primarily due to an increase in expenses for materials as a result of the Group's increased expenses relating to its marketing strategy to attract more customers.

EBITDA comparable

EBITDA comparable decreased by EUR 168.4 million, or 11.6%, from EUR 1,455.7 million (33.6% of operating revenues) for the financial year ended December 31, 2012 to EUR 1,287.4 million (30.8% of operating revenues) for the financial year ended December 31, 2013. The decrease in EBITDA comparable and in the EBITDA comparable margin was primarily due to (i) a decrease in operating revenues as a result of strong competition, regulatory developments, and unfavorable economic and demographic developments and (ii) higher materials costs that are related to the Group's marketing strategy to attract more customers and retain existing customers. The developments were partially offset by lower other operating expenses, principally lower interconnection expenses, bad debt expenses and roaming expenses (included in the line item "services received").

Restructuring

Restructuring expenses increased by EUR 10.5 million, or 30.3%, from EUR 34.7 million for the financial year ended December 31, 2012 to EUR 45.2 million for the financial year ended December 31, 2013. The increase in restructuring was principally a result of costs for social plans for employees as part of layoffs in

Austria and future expenses for Austrian civil servants who no longer provide services to Telekom Austria Group, but whose employment cannot be terminated due to their civil servant status.

Depreciation and amortization

Depreciation and amortization decreased by EUR 99.4 million, or 10.3%, from EUR 964.0 million for the financial year ended December 31, 2012 to EUR 864.6 million for the financial year ended December 31, 2013. The decrease in depreciation and amortization was primarily due to the write-down of the acquired mobile customer base of Mobiltel in Bulgaria in June 2012, which impacted amortization in financial year 2012. In addition, declining investments in assets in recent years and an increasing share of total assets of the Group reaching the end of their depreciation period contributed to the development.

Operating income

Operating income decreased by EUR 79.5 million, or 17.4%, from EUR 457.1 million for the financial year ended December 31, 2012 to EUR 377.6 million for the financial year ended December 31, 2013. The decrease in operating income was primarily due to lower revenues as a result of strong competition, regulatory developments, unfavorable economic and demographic developments and additional expenses for mobile devices as part of the Austria segment's marketing strategy to attract more customers. The development was offset in part by significantly lower depreciation and amortization costs as a result of an aging total asset base and lower investments in recent years (for example, the completed write-down of the acquired mobile customer base of Mobiltel in Bulgaria in June 2012 and lower write-downs for fixed line infrastructure).

Financial result

The negative financial result decreased by EUR 25.2 million, or 11.9%, from EUR 212.7 million for the financial year ended December 31, 2012 to EUR 187.4 million for the financial year ended December 31, 2013. Interest expenses decreased from EUR 232.7 million in the financial year ended December 31, 2012 to EUR 200.9 million in the financial year ended December 31, 2013. This decrease in interest paid was primarily due to lower interest expense of the Group resulting from refinancing existing debt with the Hybrid Bond that carried a lower interest rate (5.625%) than the bonds it replaced. The lower interest expenses were partially offset by changes in exchange gains and losses in the same period.

Earnings before taxes and income taxes

Earnings before taxes decreased by EUR 54.3 million, or 22.2%, from EUR 244.4 million for the financial year ended December 31, 2012 to EUR 190.1 million for the financial year ended December 31, 2013. Income taxes paid on earnings before taxes decreased by EUR 60.0 million, or 42.7%, from EUR 140.4 million for the financial year ended December 31, 2012 to EUR 80.4 million for the financial year ended December 31, 2013. The decrease in income taxes was primarily due to the lower earnings before taxes, but also due to tax benefits relating to the issuance of the Hybrid Bond.

Net result

Net result increased by EUR 5.7 million, or 5.5%, from EUR 104.0 million for the financial year ended December 31, 2012 to EUR 109.7 million for the financial year ended December 31, 2013. While EBITDA comparable fell significantly as a result of lower revenues and higher expenses relating to the Group's marketing strategy, a significant decrease in amortization and depreciation, lower interest expenses due to refinancing and lower income taxes more than compensated the decrease in EBITDA comparable.

Assets and stockholders' equity

Total assets amounted to EUR 7,860.0 million as of December 31, 2013, representing an increase of 8.3% compared to the previous year's level of EUR 7,257.1 million. Non-current assets increased by 21.9% from EUR 5,447.9 million as of December 31, 2012 to EUR 6,638.8 million as of December 31, 2013, mainly due to an increase in licenses held and acquired through spectrum auctions that took place in various markets in 2013, in particular in Austria. Current assets decreased by 32.5% from EUR 1,809.3 million as of December 31, 2012 to EUR 1,221.2 million as of December 31, 2013 mainly due to a decrease in cash and cash equivalents related to the payment for spectrum licenses in Austria, acquisitions and the decrease in operating revenues.

As of December 31, 2013, stockholders' equity amounted to EUR 1,512.6 million, representing an increase of 84.7% from EUR 819.1 million as of December 31, 2012, mainly due to the issuance of the Hybrid Bond. Non-current liabilities increased by 19.2% to EUR 4,905.1 million as of December 31, 2013 from EUR 4,116.0 million as of December 31, 2012, caused mainly by an increase in long-term debt, which was due to new bonds and lower current portion of long-term debt than in the previous year. Current liabilities decreased by 38.8% to EUR 1,422.3 as of December 31, 2013 from EUR 2,322.1 as of December 31, 2012, mainly due to a decrease in short-term borrowings resulting from lower current portion of long-term debt than in the previous year.

COMPARISON OF RESULTS FOR THE FINANCIAL YEARS ENDED DECEMBER 31, 2012 AND 2011

The following table sets forth an overview of Telekom Austria's profit and loss statements for the financial years ended December 31, 2012 and 2011.

	Financial year ended December 31,		
	2012	**2011**	**Change in %**
in TEUR	(audited)		
Operating revenues	4,329,703	4,454,626	-2.8
Other operating income	82,086	100,379	-18.2
Materials	-474,677	-442,044	7.4
Employee expenses, including benefits and taxes[2]	-833,268	-805,042	3.5
Other operating expenses	-1,648,095	-1,780,575	-7.4
Operating expenses[2]	**-2,956,040**	**-3,027,661**	**-2.4**
EBITDA comparable[1, 2]	**1,455,749**	**1,527,343**	**-4.7**
Restructuring	-34,685	-233,703	-85.2
Impairment and reversal of impairment	0	-248,906	-100.0
Depreciation and amortization	-963,972	-1,052,376	-8.4
Operating income[2]	**457,093**	**-7,641**	**-**
Financial result	-212,687	-246,819	-13.8
Earnings before taxes[2]	**244,405**	**-254,460**	**-**
Income taxes[2]	-140,394	1,654	-
Net result[2]	**104,011**	**-252,806**	**-**

[1] EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses. It consists of the sum of operating revenues and other operating income reduced by operating expenses.
[2] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendments to IAS 19.

Source: Audited Consolidated Financial Statements and Company information.

Operating revenues

Operating revenues decreased by EUR 125.0 million, or 2.8%, from EUR 4,454.6 million for the financial year ended December 31, 2011 to EUR 4,329.7 million for the financial year ended December 31, 2012. The decrease in operating revenues was primarily due to intense competition in practically all of the Group's markets as well as regulatory changes that reduced roaming and termination rates and continued difficult economic developments in the Group's core markets.

The following table sets forth the source of external revenue by segment for the financial year ended December 31, 2012 and 2011.

	Financial year ended December 31,		
	2012	**2011**	**Change in %**
in TEUR	(audited)		
Austria	2,763,741	2,919,434	-5.3
Bulgaria	448,316	500,021	-10.3
Croatia	405,380	403,046	0.6
Belarus	301,174	260,774	15.5
Additional Markets	411,093	371,351	10.7

Source: Audited Consolidated Financial Statements and Company information.

The Group's Austria and Bulgaria segments both reported a decrease in external revenue. The Group's external revenues in the Austrian market decreased by 5.3% and were principally affected by intensified competition and regulatory requirements that impacted roaming and interconnection charges as well as continued fixed-to-mobile substitution (namely, a large number of households cancelling their fixed-lines and relying on mobile lines only). In Bulgaria, intense competition and drastic regulatory burdens as well as unfavorable economic conditions resulted in a decrease of external revenues by 10.3%.

In Croatia, the Group's external revenue increased slightly by 0.6% due to an increase in equipment sales, higher interconnection revenues and the acquisition of B.net.

In Belarus, the Group grew its operating revenue by 15.5%, despite negative currency translation effects of EUR 15.1 million and a hyperinflationary local economy. The increase in operating revenues was mainly due to inflation induced price increases, strong demand for smartphones, higher usage as well as strong increase of the mobile broadband base.

The Group's Additional Markets segment's external revenue grew by 10.7%. Slovenia increased its operating revenues by 3.6%, mainly due to higher fees and traffic revenues. In the Republic of Serbia and the Republic of Macedonia, revenue increases of over 12%, respectively, were driven by an increase in customers in both markets. Liechtenstein reported a decrease in operating revenues.

Other operating income

Other operating income decreased by EUR 18.3 million, or 18.2%, from EUR 100.4 million for the financial year ended December 31, 2011 to EUR 82.1 million for the financial year ended December 31, 2012. The decrease in other operating income was primarily due to a one-off effect resulting from the sale of the A1 subsidiary Mass Response Service GmbH as well as changes in own work capitalized.

Materials

Expenses for materials increased by EUR 32.6 million, or 7.4%, from EUR 442.0 million for the financial year ended December 31, 2011 to EUR 474.7 million for the financial year ended December 31, 2012. The increase in materials was primarily due to an increase in handset subsidies as well as increasing demand for higher value handsets.

Employee expenses, including benefits and taxes

Employee expenses, including benefits and taxes, increased by EUR 28.2 million, or 3.5%, from EUR 805.0 million for the financial year ended December 31, 2011 to EUR 833.3 million for the financial year ended December 31, 2012. The increase in employee expenses, including benefits and taxes, was primarily due to a one-off effect in the Austria segment relating to changes in the calculation of restructuring provisions in Austria, contractually agreed annual salary increases and severance payments related to personnel reductions in Austria and Croatia.

Other operating expenses

The following table provides an overview of the Group's other operating expenses for the financial year ended December 31, 2012 and 2011.

	Financial year ended December 31,		
	2012	2011	Change in %
in TEUR	(audited)		
Interconnection	439,249	457,774	-4.0
Repairs and maintenance	167,525	165,542	1.2
Services received	216,566	236,867	-8.6
Advertising and marketing	158,221	216,825	-27.0
Other support services	152,695	155,027	-1.5
Rental and lease expenses	154,488	148,604	4.0
Commissions	73,144	75,121	-2.6
Bad debt expenses	49,885	65,667	-24.0
Other consulting	17,449	14,005	24.6
Legal consulting	6,668	6,281	6.2
Travel expenses	17,207	19,104	-9.9
Other taxes	12,558	13,285	-5.5
Energy	58,364	52,510	11.1
Transportation	30,201	29,120	3.7
Training expenses	9,934	11,945	-16.8
Net loss from retirement of fixed assets	4,330	7,117	-39.2
Other	79,609	105,779	-24.7
Other operating expenses	**1,648,095**	**1,780,575**	**-7.4**

Source: Audited Consolidated Financial Statements and Company information.

Other operating expenses decreased by EUR 132.5 million, or 7.4%, from EUR 1,780.6 million for the financial year ended December 31, 2011 to EUR 1,648.1 million for the financial year ended December 31, 2012. The decrease in other operating expenses was primarily due to a decrease in advertising and marketing expenses from EUR 216.8 million in the financial year ended December 31, 2011 to EUR 158.2 million in the financial year ended December 31, 2012 as a result of cost saving initiatives. In addition, lower interconnection expenses and declining costs for services received as a result of lower interconnection rates and lower bad debt expenses as a result of improved billing and debt collection processes helped to decrease other operating expenses.

Operating expenses

Operating expenses decreased by EUR 71.6 million, or 2.4%, from EUR 3,027.7 million for the financial year ended December 31, 2011 to EUR 2,956.0 million for the financial year ended December 31, 2012. The decrease in operating expenses was primarily due to a reduction in expenses for maintenance, marketing and advertising, lower interconnection expenses and declining costs for services received as a result of lower interconnection rates and lower bad debt expenses. The decrease was partially offset by employee expense increases and higher material costs for handsets.

EBITDA comparable

EBITDA comparable decreased by EUR 71.6 million, or 4.7%, from EUR 1,527.3 million (34.3% of operating revenues) for the financial year ended December 31, 2011 to EUR 1,455.7 million (33.6% of operating revenues) for the financial year ended December 31, 2012. The decrease in EBITDA comparable was driven by a decrease in external revenues in the Group's Austria and Bulgaria segment as a result of competition and a tough regulatory and economic environment as well as a one-off effect resulting from the sale of a subsidiary that lowered other operating income. The revenue and other operating income decreases were offset in part by lower other operating expenses, mainly as a result of lower advertising and marketing expenses.

Restructuring

Restructuring expenses decreased by EUR 199.0 million, or 85.2%, from EUR 233.7 million for the financial year ended December 31, 2011 to EUR 34.7 million for the financial year ended December 31, 2012. The decrease in restructuring was primarily due to higher expenses in the financial year ended December 31, 2011 in connection with a restructuring program in Austria, while there were no comparable restructuring costs in the financial year ended December 31, 2012.

Impairment and reversal of impairment

Impairment and reversal of impairment amounted to EUR 248.9 million in the financial year ended December 31, 2011, while there were no impairments in the financial year ended December 31, 2012. In the financial year 2011, the goodwill relating to the Group's Belarus entities was fully impaired because of changes to hyperinflation accounting.

Depreciation and amortization

Depreciation and amortization decreased by EUR 88.4 million, or 8.4%, from EUR 1,052.4 million for the financial year ended December 31, 2011 to EUR 964.0 million for the financial year ended December 31, 2012. The decrease in depreciation and amortization was primarily due to a write-down of Mobiltel's mobile customer base in Bulgaria.

Operating income

Operating income increased by EUR 464.7 million, from a loss of EUR 7.6 million for the financial year ended December 31, 2011 to a gain of EUR 457.1 million for the financial year ended December 31, 2012. The 2011 operating income was influenced by lower operating revenues, high restructuring expenses and an impairment relating to the goodwill of the Group's Belarus entities, which was partially offset by lower other operating expenses.

Financial result

The financial result decreased by EUR 34.1 million, or 13.8%, from a loss of EUR 246.8 million for the financial year ended December 31, 2011 to a loss of EUR 212.7 million for the financial year ended December 31, 2012. While interest expense increased as a result of higher interest on the Group's bonds and loans as well as restructuring provisions, the Group's results were significantly impacted by foreign exchange losses in the financial year ended December 31, 2011 (EUR 96.6 million) compared to lower foreign exchange losses in the financial year ended December 31, 2012 (EUR 14.8 million) because of more favorable currency exchange rates.

Earnings before taxes and income taxes

Earnings before taxes increased from a loss of EUR 254.5 million for the financial year ended December 31, 2011 to a gain of EUR 244.4 million for the financial year ended December 31, 2012. Consequently, income tax payments changed significantly, from a tax gain of EUR 1.7 million for the financial year ended December 31, 2011 to income tax expenses of EUR 140.4 million for the financial year ended December 31, 2012. Next to the changes in earnings before taxes, the change was primarily due to the activation of tax assets and the impact from deferred taxes.

Net result

Net result improved by EUR 356.8 million, from a loss of EUR 252.8 million for the financial year ended December 31, 2011 to a positive net result of EUR 104.0 million for the financial year ended December 31, 2012. While EBITDA comparable decreased in 2012 principally as a result of a decrease in operating revenues, net results in the financial year ended December 31, 2011 was impacted by several significant negative effects: (i) restructuring costs of EUR 233.7 million, (ii) an impairment of the Group's Belarus entities of EUR 279.0 million, (iii) higher depreciation and amortization and (iv) significant foreign exchanges losses of EUR 96.6 million. The net result in the financial year ended December 31, 2012 was meanwhile impacted by higher income taxes as earnings before taxes reversed from a loss in 2011 to a gain of EUR 244.4 million in 2012 and because of the impact of deferred taxes and the activation of tax assets.

Assets and stockholders' equity

Total assets amounted to EUR 7,257.1 million as of December 31, 2012, representing a decrease of 2.6% compared to the previous year's level of EUR 7,450.6 million. Non-current assets declined by 0.4% from EUR 5,699.1 million as of December 31, 2011 to EUR 5,447.9 million as of December 31, 2012, mainly due to a reduction in deferred tax assets. Current assets increased by 3.3% from EUR 1,751.4 million as of December 31, 2011 to EUR 1,809.3 million as of December 31, 2012, mainly due to an increase in cash and cash equivalents.

As of December 31, 2012, stockholders' equity amounted to EUR 819.1 million, representing a decrease of 6.7% from EUR 877.7 million as of December 31, 2011, mainly due to an increase in negative retained earnings and translation adjustments. Non-current liabilities decreased by 1.1% to EUR 4,116.0 million as of December 31, 2012 from EUR 4,160.9 million as of December 31, 2011, caused mainly by a decrease in long-term debt. Current liabilities decreased by 3.7% to EUR 2,322.1 as of December 31, 2012 from EUR 2,412.0 as of December 31, 2011, mainly due to a decrease in accounts payable.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended September 30, 2014 and the financial years ended December 31, 2013, 2012 and 2011 Telekom Austria Group's principal source of liquidity was cash flows from operations and external funding through bonds issued on Austrian and international debt capital markets as well as bank loans. The Group's management believes the Group has sufficient resources to meet its liquidity requirements, including debt services, for the next twelve months.

PERIOD-TO-PERIOD ANALYSIS OF CASH FLOWS

The following table sets forth an overview of the Group's cash flows for the financial years ended December 31, 2011, 2012 and 2013 and for the nine months ended September 30, 2013 and 2014.

	Nine months ended September 30,		**Financial year ended December 31,**		
	2014	**2013**	**2013**	**2012**	**2011**
in TEUR	(unaudited)			(audited)	
Net result[1]	-189,988	159,249	109,700	104,011	-252,806
Adjustments to reconcile net result to cash flow					
Depreciation and amortization	1,044,543	645,061	864,606	963,972	1,301,282
Employee benefit obligation – non-cash	3,108	10,974	11,861	16,504	7,633
Bad debt expenses	29,893	34,320	37,985	49,885	65,667
Change in deferred taxes	-5,208	2,588	29,877	97,217	-51,886
Result from investments in affiliates	751	66	-1,419	-981	599
Share-based compensation	2,366	-1,023	-378	15	1,713
Change in asset retirement obligation – non-cash	5,049	5,929	7,839	8,357	7,039
Provision for restructuring – non-cash	21,432	46,026	54,836	63,497	222,070
Result on sale of investments	-75	136	218	495	3,970
Result on disposal/retirement of equipment	-2,789	-434	8,538	4,330	7,117
Gain on monetary items – non-cash	593	-96	-1,062	-4,112	-30,431
Other	6,908	6,718	14,615	-7,286	57,668
Gross cash flow	916,585	909,514	1,137,217	1,295,903	1,339,633
Accounts receivable - trade	-5,334	-30,795	36,311	-43,758	-13,936
Receivables due from related parties	-742	-66	-72	15	-18
Inventories	4,322	7,249	25,878	6,677	-9,959
Prepaid expenses and other assets	-55,520	5,960	1,189	-8,784	-1,716
Accounts payable - trade	-126,117	-46,593	-28,708	-94,334	-23,871
Employee benefit obligation	-16	-8,315	-7,902	-6,554	-8,099
Provisions and accrued liabilities	-95,044	-87,934	-92,513	-97,751	-53,550
Other liabilities and deferred income	37,415	42,739	-18,013	-1,452	-11,854
Payables due to related parties	-1,533	-2,234	-1,822	-2,041	-3,355
Change in assets and liabilities	-242,569	-119,991	-85,652	-247,981	-126,358
Cash flow from operating activities	674,016	789,523	1,051,564	1,047,922	1,213,275
Capital expenditures	-472,514	-492,998	-1,779,085	-728,223	-738,979
Acquisitions of subsidiaries, net of cash acquired	-24,679	-330,827	-330,932	-44	-135,749
Sale of subsidiaries, net of cash disposed	-4,458	-45	-25	1,080	928
Sale of properties, plant, equipment, intangible assets	8,712	7,096	10,772	5,672	4,940
Purchase of investments	-7,034	-555,377	-564,155	-766,737	-111,323
Proceeds from sale of investments	9,016	591,320	642,057	851,964	125,431
Cash flow from investing activities	-490,956	-780,832	-2,021,368	-636,288	-854,751
Proceeds from issuance of long-term debt	0	297,459	1,040,274	838,425	755,274
Principal payments on long-term debt	-57,345	-757,223	-932,223	-918,909	-224,095
Change in short-term borrowings	-3,900	-36,693	-10,126	13,842	-185,162
Issuance of Hybrid Bond	0	588,248	588,248	0	0
Dividends paid	-55,963	-22,152	-22,152	-168,198	-331,923
Settlement of derivative financial instruments	0	-65,142	-65,142	0	0
Deferred consideration paid for business combinations	-1,904	-29,323	-29,323	-34,727	-17,767
Cash flow from financing activities	-119,111	-24,826	569,555	-269,566	-3,673
Effect of exchange rate changes	-412	1,328	1,803	-49	1,274
Monetary loss on cash and cash equivalents	517	-186	-983	-1,208	-16,367
Change in cash and cash equivalents	64,053	-14,993	-399,429	140,811	339,756
Cash and cash equivalents at beginning of the year	201,334	600,763	600,763	459,952	120,196
Cash and cash equivalents at end of the year	265,387	585,770	201,334	600,763	459,952

[1] Comparative amounts for the financial year ended December 31, 2012 were restated as a result of the amendments to IAS 19.

Source: Consolidated Financial Statements.

The following table sets forth an overview of the Group's working capital changes for the financial years ended December 31, 2011, 2012 and 2013 and for the nine months ended September 30, 2013 and 2014.

	Nine months ended September 30,		Financial year ended December 31,		
	2014	**2013**	**2013**	**2012**	**2011**
in TEUR	(unaudited)		(audited)		
Accounts receivable - trade	-5,334	-30,795	36,311	-43,758	-13,936
Inventories	4,322	7,249	25,878	6,677	-9,959
Accounts payable - trade	-126,117	-46,593	-28,708	-94,334	-23,871
Working capital change	**-127,129**	**-70,139**	**33,481**	**-131,415**	**-47,766**

Source: Consolidated Financial Statements.

Cash flows for the nine months ended September 30, 2014 and 2013

Cash flows from operating activities

Cash flow from operating activities decreased from EUR 789.5 million in the nine months ended September 30, 2013 by EUR 115.5 million, or 14.6%, to EUR 674.0 million in the nine months ended September 30, 2014. The decrease in cash flow from operating activities was primarily due to increased cash requirements for working capital.

Cash flows from investing activities

Cash flow from investing activities decreased from a cash outflow of EUR 780.8 million in the nine months ended September 30, 2013 by EUR 289.8 million, or 37.1%, to a cash outflow of EUR 491.0 million in the nine months ended September 30, 2014. The decrease in cash flow from investing activities was primarily due to the acquisition of YESSS! and other assets from Orange Austria, as well as the investments of the proceeds from the issuance of the Hybrid Bond, both in January 2013.

Cash flows from financing activities

Cash flow from financing activities decreased from a cash outflow of EUR 24.8 million in the nine months ended September 30, 2013 by EUR 94.3 million to a cash outflow of EUR 119.1 million in the nine months ended September 30, 2014. The decrease in cash flow from operating activities was primarily due to the issuance of the Hybrid Bond in January 2013, which supported the financing cash flow in 2013. Principal payments on long-term debt increased due to maturing bank debt. Dividends paid were also higher in the first nine months of 2014, as they included dividends to shareholders as well as holders of the Hybrid Bond.

Cash flows for financial years ended December 31, 2013 and 2012

Cash flows from operating activities

Cash flow from operating activities increased from EUR 1,047.9 million in the financial year ended December 31, 2012 by EUR 3.6 million, or 0.3%, to EUR 1,051.6 million in the financial year ended December 31, 2013. While EBITDA comparable decreased significantly from EUR 1,455.7 million to EUR 1,287.4 million, a positive development in the working capital (cash outflows from working capital of EUR 131.4 million in the financial year ended December 31, 2012 compared to cash inflows of EUR 33.5 million in the financial year ended December 31, 2013), primarily due to lower cash requirements for accounts payable – trade and accounts receivable – trade.

Cash flows from investing activities

Cash outflow from investing activities increased from EUR 636.3 million in the financial year ended December 31, 2012 by EUR 1,385.1 million, or 217.7%, to EUR 2,021.4 million in the financial year ended December 31, 2013. The increase in cash outflow from investing activities was primarily due to increased capital expenditures in connection with the acquisition of additional mobile spectrum and the mobile operator YESSS! in Austria.

Cash flows from financing activities

Cash flow from financing activities changed from a cash outflow of EUR 269.6 million in the financial year ended December 31, 2012 by EUR 839.1 million to a cash inflow of EUR 569.6 million in the financial year ended December 31, 2013. The change in cash flow from financing activities was primarily due to the issuance of the Hybrid Bond as well as higher dividends paid in the financial year ended December 31, 2012 for the previous financial year.

Cash flows for financial years ended December 31, 2012 and 2011

Cash flows from operating activities

Cash flow from operating activities decreased from EUR 1,213.3 million in the financial year ended December 31, 2011 by EUR 165.4 million, or 13.6%, to EUR 1,047.9 million in the financial year ended December 31, 2012. The decrease was the result of both a decrease in EBITDA comparable from EUR 1,527.3 million in the financial year ended December 31, 2011 to EUR 1,455.7 million in the financial year ended December 31, 2012 and a higher cash outflow from changes in working capital (a cash outflow of EUR 47.7 million in the financial year ended December 31, 2011 compared to EUR 131.4 million in the financial year ended December 31, 2012), which was primarily due to higher investments in the fourth quarter of the financial year ended December 31, 2011 causing cash outflows in the financial year ended December 31, 2012.

Cash flows from investing activities

Cash outflow from investing activities decreased from EUR 854.8 million in the financial year ended December 31, 2011 by EUR 218.5 million, or 25.6%, to EUR 636.3 million in the financial year ended December 31, 2012. The decrease in cash outflow from investing activities was primarily due to fixed-term deposit investments that the Group carried out in the financial year ended December 31, 2011 but not in the financial year ended December 31, 2012, and was partially offset by lower dividend payments.

Cash flows from financing activities

Cash outflow from financing activities increased from EUR 3.7 million in the financial year ended December 31, 2011 by EUR 265.9 million to EUR 269.6 million in the financial year ended December 31, 2012. The increase in cash outflow from financing activities was primarily due to principal payments on long-term debt.

OUTSTANDING FINANCIAL DEBT

The Group has issued several mid-term bonds. In addition, the Group has various fixed and variable loans outstanding. As of September 30, 2014, the average cost of debt was approximately 4.12% and had an average term to maturity of 4.63 years.

The table below shows the Group's long-term indebtedness, as of September 30, 2014.

in TEUR	**As of September 30, 2014** (unaudited)
Bonds	**3,028,614**
4.250% Bond (matures 2017)	498,510
6.375% Bond (matures 2016)	748,486
4.000% Bond (matures 2022)	741,318
3.500% Bond (matures 2023)	297,775
3.125% Bond (matures 2021)	742,525
Bank Debt	**791,457**
Fixed 4.88% loan (2013-2019)	26,632
Fixed 4.32% loan (2014-2019)	126,000
Variable loan (matures 2014)	75,000
Fixed 3.51% loan (matures 2015)	200,000
Fixed 5.41% loan (matures 2016)	50,000
Fixed 3.82% loan (matures 2014)	13,825
Fixed 3.44% loan (matures 2018)	200,000
Variable loan (matures 2014)	100,000

in TEUR	As of September 30, 2014 (unaudited)
Current Portion of Long-Term Debt	**-194,151**
Total Long-Term Debt	**3,625,919**

Source: Company information.

Bonds

In 2003, Telekom Austria Group initiated a Euro medium term note program. The Eurobond amounting to EUR 750 million which was issued in July 2003 under such Euro medium term note program was redeemed in 2013. In January 2005, a further Eurobond with a face value of EUR 500 million, a maturity of twelve years and a coupon of 4.25% was issued. The discount of EUR 7.7 million is amortized over the related term. The Euro medium term note program initiated in 2003 ended on December 31, 2008 and was not extended.

On January 2009, Telekom Austria Group issued a Eurobond with a face value of EUR 750 million, a maturity of seven years and a coupon of 6.375%. The discount and the issue costs of EUR 8 million are amortized over the related term.

In March 2012, Telekom Austria Group initiated a Euro medium term note program with a maximum volume of EUR 2.5 billion. On April 2, 2012, Telekom Austria Group issued a bond under such Euro medium term note program with a face value of EUR 750 million, a maturity of ten years and a coupon of 4.0%. The discount and the issue costs of EUR 11.6 million are amortized over the related term.

On July 4, 2013, Telekom Austria Group issued a bond under the Euro medium term note program initiated in 2012 with a face value of EUR 300 million, a maturity of ten years and a coupon of 3.5%. Discount and issue costs of EUR 2.6 million are amortized over the related term.

On December 3, 2013, Telekom Austria Group issued a bond under the Euro medium term note program initiated in 2012 with a face value of EUR 750 million, a maturity of eight years and a coupon of 3.13%. Discount and issue costs of EUR 8.3 million are amortized over the related term.

Bank debt

The debt financing of Telekom Austria Group is based on a well-diversified and long-term portfolio. As of September 30, 2014, 79% of this portfolio was made up of bonds with a total volume of EUR 3.05 billion, which are due for repayment in 2023 at the latest. The remaining 21% of the portfolio is made up of loans from national and international banks with a total volume of EUR 800 million. Loan agreements of Telekom Austria Group do not contain financial covenants, except for two loan agreements with the European Investment Bank in total of EUR 175 million.

Hybrid Bond

On January 24, 2013, Telekom Austria Group issued the Hybrid Bond with a volume of EUR 600 million. The Hybrid Bond is a subordinated bond with indefinite maturity and is, based on its conditions, classified as stockholders' equity according to IFRS. Accordingly, related discount and issue costs in the amount of EUR 11.8 million were recorded net of a tax benefit of EUR 2.9 million in stockholders' equity. Therefore stockholders' equity was increased by EUR 591.2 million. The bond can be redeemed at the earliest after a period of five years. Additionally, Telekom Austria has an early termination 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. Coupon payments will be recognized as dividend payments in stockholders' equity.

Lease payments

Telekom Austria Group leases equipment used in its operations. Currently, the Group only has operating leases in place which will expire on various dates through 2015 and mainly comprise leases of property and vehicles. The minimum lease payments for non-cancellable operating leases were EUR 144.7 million as of December 31, 2013. For more information see note 26 to the Consolidated Financial Statements for the financial year ended December 31, 2013.

Employee benefit obligations

Telekom Austria Group is liable for long-term employee benefit obligations comprising service awards, severance payments, pensions and other benefits, which amounted to EUR 164.3 million as of December 31, 2013. For more information see note 27 to the Consolidated Financial Statements for the financial year ended December 31, 2013.

CONTRACTUAL OBLIGATIONS

The following table sets forth the Group's significant contractual obligations and commitments by year as of September 30, 2014.

	Obligations as of September 30, 2014 due by period					
in TEUR	< 1 Year	2-3 Years	3-5 Years	> 5 Years	> 1 year	**Total**
Long-term debt obligations[1]	280,806	1,591,648	252,653	1,781,644		**3,906,751**
Capital lease obligations						
Accounts payable – trade	451,449					**451,449**
Employees[2]	70,591	n.a.	n.a.	n.a.	170.987	**241,579**
Provision for restructuring	101,551	200,000	230,000	218,233		**749,784**
Current and non-current provisions[3]	97,122	n.a.	n.a.	n.a.	185.343	**282,465**
Other short and long-term liabilities reflected on the Group's balance sheet under IFRS	197,729	3,826				**201,555**
Operating lease obligations	45,782	44,537	17,096	15,286	n.a.	**122,700**
Purchase commitments tangible assest	n.a.	n.a.	n.a.	n.a.	n.a.	**85,151**
Purchase commitments intangible assest	n.a.	n.a.	n.a.	n.a.	n.a.	**24,319**

[1] This position includes current portion and accrued interest.
[2] As of December 31, 2013 average duration of severence was 16.3 and of service awards was 7.1 years.
[3] Non-current relates to asset retirement obligation.

Source: Company information.

NON-RECOGNIZED CONTINGENT LIABILITIES

As of September 30, 2014, the Group had the following non-recognized contingent liabilities: A tax-audit performed in Austria resulted in a potential additional payment of EUR 17 million for prior periods. Based on the circumstances and the rules to be applied, Telekom Austria Group estimates an actual payment to be improbable.

OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this Prospectus, the Group does not have any off-balance sheet arrangements.

QUALITATIVE DISCLOSURE ON MARKET RISK

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. Potential risks relating to interest rate and foreign exchange rate fluctuations can be limited by entering into derivative financial instruments. Telekom Austria Group neither holds nor issues derivative financial instruments for trading or speculative purposes. 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 strengthen its disciplined and constructive control environment in which all employees understand their roles and obligations.

Liquidity risk

Liquidity risk is the risk that Telekom Austria Group will not be able to meet its financial obligations as they fall due. Telekom Austria Group's approach to managing liquidity is to ensure that Telekom Austria

Group will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. Furthermore, all measures required to assure sufficient liquidity for the needs according to the liquidity plan shall be taken. The liquidity risk expresses itself in the monthly and yearly cumulated difference between incoming and outgoing payments (dynamic liquidity risk) as well as in the structure of the statements of financial position (structural liquidity risk). The analysis of the dynamic liquidity risk is conducted by means of liquidity planning. The given monthly liquidity requirement based on the forecasted liquidity planning is compared 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.

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. 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.

Market risk

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 Group's 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 remained unchanged to prior years.

Interest rate risk

Telekom Austria Group considers changing interest rates as its major market risk exposure. Telekom Austria Group's risk management strategy strives to balance the related exposure to fair value and cash flow risks. Since the majority of Telekom Austria Group's long-term debt has fixed interest rates, the cash flow exposure due to fluctuating interest rates is limited. However, the fair value of fixed rate debt increases when market rates are below the rates fixed on these loans. In line with its risk policy, Telekom Austria Group may enter 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.

Exchange rate risk

Telekom Austria Group is exposed to the fluctuation of foreign currencies used in some of the markets in which it is active. The Bulgarian Lev is pegged to the Euro (replacement of the Bulgarian Lev by the Euro is planned, but may be delayed due to inflation problems), as (de facto) is the Macedonian Denar. Croatia has, already in the 1990s, implemented a tightly managed float (with the Euro as reference) for the Croatian Kuna. Accordingly, the volatility of the Croatian Kuna against the Euro has been relatively low in the last years. An ongoing depreciation of Croatian Kuna against the Euro is however expected on the back of an increasing trade deficit and the still prevailing risk aversions towards frontier market assets. Given the high degree of external obligations of both, public and private Croatian debtors in Croatia, the stability of the Croatian Kuna, particularly against the Euro, will remain very important for Croatia. With effect from January 2, 2009, Belarus pegged the Belarusian Ruble to a basket of currencies made up of United States Dollar, Euro and Russian Ruble in equal proportion. In May 2011, the Belarusian government devalued the nation's currency by approximately 53%. The introduction of a floating exchange rate in September 2011 was followed by a further devaluation of approximately 40%. Furthermore, in December 2011, Belarus was classified as a hyperinflationary economy according to IAS 29 due to its inflation rate in excess of 100% and other facts. Since 2012, the Belarusian Ruble experienced no politically induced devaluation but depreciated continuously against the Euro. Since 2001, the Serbian Dinar has (more and more loosely) been allowed to float against the Euro, with occasional interventions by the National Bank of the Republic of Serbia.

The pegging of currencies means that those currencies are susceptible to changes to the currency to which they are pegged. In addition, should the relevant authorities choose to remove completely or change the level of the pegging of their country's currency, as it was the case with the business year in 2011, greater volatility in that currency's exchange rates with other currencies would arise, which in turn may have a negative impact on Telekom Austria Group's results of operations and financial conditions. Furthermore, as Telekom Austria Group is preparing its consolidated financial statements in Euro, Telekom Austria Group is exposed to currency translation risks, meaning the risk deriving from the effects which currency rate changes between the relevant cut-off dates for the financial statements may have on the valuation of certain assets of Telekom Austria Group denominated in other currencies than Euro when translated into Euro for Telekom Austria Group's consolidated financial statements.

Financial risk

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. Telekom Austria Group's financing company Telekom Finanzmanagement GmbH ("**TFG**") may employ financial instruments to manage sustained fluctuations in interest rates and minimize 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.

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 financial instruments. Telekom Austria Group does not have significant exposure to any individual customer or counterparty. Due to internal guidelines and the setting of counterparty limits, Telekom Austria Group also does not have significant exposure to credit risk in respect of financial instruments. The Group, however, does business in the CESEE region, which has experienced a macroeconomic downturn, and is therefore exposed to credit risk in as far as any counterparties have been affected by this downturn.

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".

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 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 and qualitative parameters. As Telekom Austria Group's investments are generally of a short-term nature, it does not expect any counterparties to fail to meet their obligations. Therefore, the exposure to any significant credit risk is low.

RECENT DEVELOPMENTS AND OUTLOOK

- The Croatian government has again introduced new financial burdens on the mobile industry by three times higher annual spectrum usage fees. The bylaw introducing these fees was published by the Croatian Ministry of Maritime affairs, Transport and Infrastructure on May 23, 2014. Management expects these fees to have an impact on the EBITDA of the local operator and the Group in the amount of EUR 5.7 million for the financial year 2014 and EUR 16.1 million for the financial year 2015.
- Following a recent impairment indicator check performed in Croatia, a risk of a significant decline in equity value of the Group's local subsidiary became apparent, caused mainly due to declining revenues. While as of September 30, 2014, the Group does not expect that this decline in equity will lead to any impairment according to IFRS, an impairment of Telekom Austria's shareholding in VIPnet according to the Austrian generally accepted accounting principles may occur by the end of 2014. Such impairment will reverse the value accretion that occurred in the course of the Group's restructuring in 2010.
- National regulatory authorities in some CESEE countries have recently announced plans to pursue the establishment of a Balkan roaming zone with significantly reduced prices for roaming: On September 29, 2014, the Ministers of Telecommunications of the Republic of Serbia, the Republic of Macedonia, Bosnia and Herzegovina and Montenegro signed a treaty on the reduction of roaming charges in public mobile networks. The treaty, which is open for other countries, envisages a gradual reduction in roaming fees in the respective countries with a view to adjust to EU standards within the next three years. In addition, the contracting countries agreed to launch an initiative towards the EU that the EU directive on roaming charges also applies to citizens of the Republic of Serbia. Kosovo, Albania and Turkey are expected to join this roaming zone. If such measures are implemented, this would cause a decline in the Group's revenues and profitability.
- On October 22, 2014, the Group announced its agreement with Telekom Slovenije, d.d. to merge their subsidiaries Vip Operator and ONE - Telecommunications Services DOOEL Skopje, both operating in the Republic of Macedonia. The Group will hold 55% and have sole control over the newly created entity, whereas Telekom Slovenije, d.d. will hold 45%. Furthermore, the agreement also includes call and put options for the exit of Telekom Slovenije, d.d. from the joint venture within three years of the closing of the merger. The closing of the transaction is, among other things, subject to confirmatory due diligence of ONE - Telecommunications Services DOOEL Skopje by Telekom Austria Group and merger control clearance in the Republic of Macedonia, and is expected for the first quarter of 2015.

BUSINESS

OVERVIEW

Telekom Austria Group is Austria's largest telecommunications provider by market share in terms of customers, serving approximately 23 million customers in seven countries across the CESEE region as of September 30, 2014. In the last fifteen years, Telekom Austria Group has transformed itself from a state-owned telecommunications company into a leading international telecommunications group with subsidiaries in seven European countries. According to the Group's own research, the Group is, based on market share, the number one mobile operator in Austria and Bulgaria, and the number two operator in all its other markets except in the Republic of Serbia where it is the number three operator but where revenue accretion rates are high. Austria is the Group's convergent home market, contributing 61.0% to total Group revenues and 58.2% to Group EBITDA comparable in the nine months ended September 30, 2014. The Group's other large markets include Bulgaria (9.3% of revenues in the nine months ended September 30, 2014), Croatia (9.4% of revenues) and Belarus (9.2% of revenues), with the remaining markets comprising the Group's Additional Markets segment (comprising Slovenia, the Republic of Serbia, the Republic of Macedonia, and, until the merger of the Group's former subsidiary mobilkom liechtenstein with Telecom Liechtenstein AG, which became effective on August 27, 2014, also Liechtenstein) (12.2% of revenues).

The Group's portfolio of fixed and mobile telecommunication products and services covers many aspects of modern information and communication technologies, such as fixed and mobile voice telephony, fixed-line and mobile broadband internet, multimedia services, IPTV, cable TV and SAT TV, data and IT applications, wholesale, and payment services. Telekom Austria Group seeks to combine these services and provide customers with convergent product offers, which allow customers to bundle services, such as mobile communications, broadband internet access, and, in some markets, television services. The Group provides these services to its customers via local brand, local sales, and local service organizations in the respective markets. The business in each market is operated locally, with central coordination and guidance from the Group's headquarters in Vienna.

The Group's Austrian subsidiary, A1, is a fully integrated fixed and mobile operator offering consumers and business customers bundled product packages for fixed-line, mobile communication, internet, and TV. The Group's Bulgarian subsidiary, Mobiltel, a leading local communication provider, also follows the Group's convergence strategy by establishing a basis for the expansion of its services portfolio with convergent products. The Croatian subsidiary VIPnet also offers convergent bundle products, thereby utilizing all its market capabilities. In Belarus, velcom offers mobile voice and data communication and value-added services to the Group's local customers.

Through its Additional Markets segment, Telekom Austria Group primarily offers mobile voice and data communication services to customers in Slovenia, the Republic of Serbia and the Republic of Macedonia. With the acquisition of blizoo Macedonia, the Group additionally offers fixed-line services in the Republic of Macedonia.

STRENGTHS

Leading market shares and capabilities in its largest markets. The Group is the market leader in mobile communications in Austria and Bulgaria and holds the second largest market share in the mobile communication market in Croatia and Belarus. As of September 30, 2014, the Group had, according to its own research, market shares of over 35% in each of these markets, with market shares in both Austria and Belarus exceeding 40%. In its "Additional Markets" segment, as of September 30, 2014, the Group had market shares for its mobile communications operations ranging from 22% to 30% making the Group the second largest provider of mobile communications based on market share in all countries comprising the "Additional Market" segment, except for the Republic of Serbia. In addition to these market shares, the Group has most recently also invested heavily in expanding its technical capabilities by purchasing 50% of the auction spectrum in Austria's 2013 spectrum auction and also secured additional spectrum licenses in Croatia and Slovenia as well as prolonged its 900-MHz and 1800-MHz spectrum licenses in Bulgaria. These investments have expanded the Group's technical capabilities substantially, especially in the Group's home market of Austria, where these additional capabilities provide Telekom Austria Group with the basis to implement future developments and increase data volumes for several years to come.

Telekom Austria Group's business is particularly dependent on general economic conditions in Austria as well as in the other markets in CESEE in which the Group has operations. During the period of 2014-2016, the Group expects a moderate real GDP growth in Bulgaria, Croatia, Belarus, Slovenia, Serbia and Macedonia. As a result, the Group believes that it could benefit from such a positive macro-economic development in form of an increased customer demand for Telekom Austria Group's products and services in these countries.

Multiple product offerings and brands to address customers' needs. As a leading provider of fixed and mobile telecommunication services in the CESEE region, Telekom Austria Group offers approximately23 million customers in seven countries products and services ranging from voice and data to IPTV and multimedia solutions. High-speed options also cater especially to growing data demands. The Group also focuses on bundling these services so customers can benefit from tailored solutions, including the combination of fixed and mobile services in Austria, Bulgaria, Croatia and the Republic of Macedonia. This approach helped the Group's Austrian subsidiary, A1, to achieve an approximately 40% lower churn level of customers with combined fixed-line and mobile services versus single play customers. As such, convergence helps to reduce A1 subscriber retention and acquisition costs and supports A1's revenues by providing more services. Moreover, in Austria, this approach helped to stabilize the Austrian fixed-line business. Product convergence results in additional advantages: rather than requiring a specific device for a specific service, customers increasingly desire access to services and content across multiple devices, which is facilitated by obtaining all services from the same provider. At the same time, owning both mobile and fixed-line networks allows the Group to utilize fixed-line broadband networks to meet the extraordinary demand for mobile data traffic, which is a competitive advantage over mobile network providers that cannot reroute data traffic over their own fixed-lines.

The Group also has a multi-brand portfolio, which includes 'no-frills' products for price-sensitive customers as well as premium offers, depending on the positioning and the maturity level of its markets. In addition, the Group also provides a wide range of companies with IT solutions, including connectivity and network and IT outsourcing.

High quality network and reputation. Telekom Austria Group is known for its quality services, in particular in its home market of Austria. In 2013, the Group's mobile communications network in Austria won the "connect" network test, honoring the best network in the country. To maintain its level of quality and reliability, the Group invested over EUR 1 billion in the Austrian mobile spectrums, which will allow the Group to further expand and improve the quality of its network in its home market and most important segment by revenue. In addition to Austria, the Group is also investing in other markets to improve the quality of its network and further its reputation for reliability and quality. For example, in 2012 and 2013, the Group invested in additional spectrums in Croatia and, in 2013, bought 800-MHz and 1,800-MHz spectrums in the Republic of Macedonia, with the hope of offering LTE/4G services there. In addition, in the first half of 2014, the Group also acquired nearly 50% of the spectrums auctioned in Slovenia and prolonged its 900-MHz and 1800-MHz spectrum licenses in Bulgaria.

Strong management teams and global telecommunications know-how. The members of the Group's senior management teams are well experienced in the telecommunications industry. Due to mandatory biennial increases in employee costs of civil servants (*Beamte*) in Austria, the Group's management is also knowledgeable in cost reduction and streamlining measures. Since 2009, management has implemented five consecutive efficiency programs resulting in more than EUR 500 million in savings. In 2014, another program targeting EUR 100 million of gross operational expenditure ("**OPEX**") and capital expenditure CAPEX savings is under way. In addition, the Group has strong local management teams in its segments to help implement its strategy across all markets in which the Group's companies are active. These local management teams play an important role, as the Group is building on their knowledge and expertise to address local customer needs with localized products and brands. Management believes that the collective industry knowledge and leadership of its management teams and the ability to transfer knowledge from one local management team to another will enable the Group to develop its business and execute its strategies.

The expertise of the Group's majority shareholder, América Móvil, further complements the management's experience. América Móvil offers telecommunications services throughout Latin America, is a leading mobile communications operator and, in addition to mobile communications and landline services, also offers broadband internet as well as cable and satellite television. As América Móvil is actively engaged in providing services and products similar to those of Telekom Austria Group, management believes that its majority shareholder's experience and operations will further strengthen the Group's operations.

STRATEGIES

The Group's strategic priority is to return to growth, both at the revenue and EBITDA levels. To achieve this, the Group is actively pursuing the following strategies:

Optimize the Group's core business. The Group is focusing on optimizing its core business by improving profitability, halting price erosion in its mature mobile markets and achieving growth in its mobile-only markets. However, due to strong macroeconomic and regulatory headwinds in the CESEE region, the Group's international operations are geared towards mid-term recovery. To improve its profitability, the Group leverages synergies where they exist, and simultaneously tailors its approach to the maturity and customer preferences of each individual market. In the mature markets of Austria, Bulgaria, and Croatia, the Group is focused on maintaining and increasing its share of the high-value customer segment, which generates the largest share of the Group's EBITDA margin. In Austria, the Group has leveraged its high quality network by tailoring its premium offering to customers looking for sophisticated, integrated communications solutions and the ability to send and receive large data volumes. Similarly, in Bulgaria and Croatia, the Group's strategy is to create value through innovative and convergent products, and to differentiate its services. By providing more services and premium offerings to the Group's existing customers and by attracting new high-value customers through its innovative and convergent products, the Group plans to improve its profitability.

A key aspect of increasing profitability, however, is preventing any further price erosions in the Group's mature markets. To achieve this, the Group is focusing on protecting its high-value customer base while simultaneously optimizing the low-end segment. The Group is therefore refining its tariff structures so that they both appeal to customers and enable Telekom Austria Group to generate a return on its investments in network infrastructure. Additionally, the Group is moving from a focus on customer numbers to revenue market shares and profitability. In this context, a continuous review of its subsidy policies for handsets is a central aspect of the Group's ambition to increase profitability.

In its mobile-only markets, the Group will continue to focus on growth opportunities. In Belarus, for example, the Group plans to increase revenues from data services as the Group rolls out attractive products and services, leveraging demand for smartphones and data. In Slovenia, the Group continues to improve its share of contract customers and to strengthen its position in the small and medium size business segment, while upgrading network capacity to meet growing demand for mobile broadband and smartphones. In the Republic of Serbia and in the Republic of Macedonia, where the Group has been operating for over six years, the Group continues to target contract customers to develop a robust base for high-value products and increased sales in the future.

Focus on convergence. The Group also focuses on combining its capabilities in the mobile and fixed-line markets to reduce customer churn and to achieve customer growth rates in its convergent markets. The ability to offer customers bundles of mobile and fixed-line services is a competitive differentiator that has appeal to both retail and business customers. In this regard the Group has considerable scope to cross-sell and up-sell its innovative services. The improved user experience offered by such bundles has also reduced the level of churn compared to churn levels for mobile- or fixed-only customers; for example, from January 2014 until June 2014, churn among A1 customers with a mobile and fixed bundle was up to approximately 40% lower (0.8%) than among customers who only subscribed to one service. Similarly, in Croatia this churn rate is approximately 25% lower. In some convergent markets, such as Bulgaria and Croatia, the number of fixed-line customers is also growing after stagnation or decreases in the past. The Group's bundled services have also helped to return to access-line growth in Austria. Given the positive effects of convergence, the Group therefore seeks to expand its convergent capabilities, such as in the Republic of Macedonia, where the Group has purchased a fixed-line operator in July 2014, which complements the Group's already existing mobile telecommunications operations.

Achieve operational excellence. In addition to investing in new network infrastructure, the Group continues to pursue operational excellence by optimizing the efficiency of its existing operations. By harnessing its collective expertise and buying power, the Group has made major progress in reducing both procurement costs and improving day-to-day efficiency. For example, in 2013, the Group's cost-cutting programs partly offset the impact of regulation and competitive headwinds on revenue. The Group met and exceeded its initial cost reduction target of approximately EUR 100 million, saving almost EUR 120 million in 2013, and has reinvested those savings back into strengthening its position in the high-value segment, particularly in the Austrian market. The Group believes that it is likely to reap major financial benefits from this strategy in the years to come. By centralizing procurement, the Group has also negotiated lower prices for the individual operators within the Group across a wide range of sectors, including devices and network equipment. By continuing to improve demand specifications, management expects to generate further savings in the future and targets another EUR 100 million gross CAPEX and OPEX savings in 2014.

Pursue strategic opportunities. The Group plans to continue to pursue opportunities in the markets in which it operates to achieve growth through consolidating the market or increase product convergence. In addition, the Group may also pursue opportunities to grow in its target regions. The Group's investment decisions depend on a variety of factors, such as maintaining the Group's credit rating of BBB with stable outlook by Standard & Poor's, the likelihood of synergies with existing operations, and full operational control by the Group. For example, in January 2013, Telekom Austria Group expanded its operations in Austria through the acquisition of YESSS!, an Austrian discount mobile operator, which further increased the Group's market share. In the fall of the same year, Telekom Austria Group also participated in Austria's pivotal spectrum auction of both new and existing frequencies and secured 50% of the auctioned spectrums, including two-thirds of the available strategically important spectrums in the 800 MHz band. These additional spectrums will provide the technical capabilities for additional services in the future, such as the cost-effective deployment of high performance LTE networks across Austria. The Group believes that this will allow it to make compelling offers to its customers, particularly in the high-value segment, in a market that generates over 60% of Group revenues. The Group also pursues this strategy in its other markets, such as Croatia, where it acquired additional 800 MHz spectrums and four regional fixed-line operators as well as one satellite TV provider, supplementing its existing convergent offering in that market. Management will continue to pursue strategically important acquisitions and expansions when confronted with opportunities that fit the Group's strategy.

Maintain financial flexibility through a robust and conservative financial position. Telekom Austria Group considers its conservative financial profile and finance strategy to be essential. By maintaining a conservative financial profile with a solid investment grade rating, the Group secures access to the capital markets, which grants the Group the necessary financial flexibility to deal with operational uncertainty, such as macroeconomic uncertainties and foreign exchange rates. In addition, the financial position also allows access to funding for strategic investment opportunities when necessary. Management's medium-term target is to rebuild the desired financial buffer and maintaining the Group's Standard & Poor's rating of BBB with stable outlook and Moody's Baa2 rating with stable outlook to further enhance the Group's financial flexibility and permit funding of additional strategic acquisitions.

HISTORY AND DEVELOPMENT OF THE COMPANY'S BUSINESS

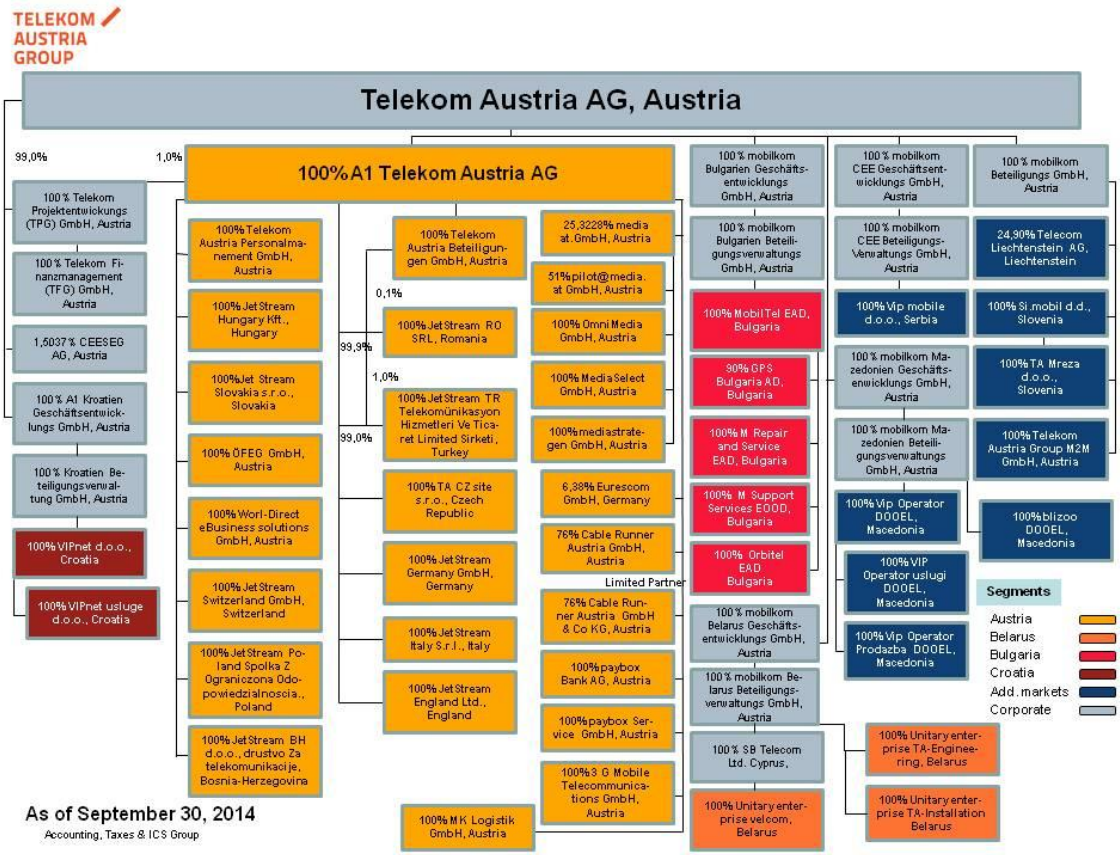
Before the liberalization of the Austrian telecommunications market in 1998, the Post and Telegraphenverwaltung ("**PTV**") and its successor, Post and Telekom Austria AG ("**PTA**"), had the exclusive right to provide telecommunications services in Austria. PTV was an integrated part of the federal property administration of the Republic of Austria and a department of the Federal Ministry of Science and Transportation. In order to better prepare for and comply with, the requirements of the liberalization of the telecommunications sector, PTV was transformed into a stock corporation. The Austrian Post Restructuring Act of 1996 created PTA as the universal legal successor to PTV in order to continue PTV's activities in telecommunications, postal services and public transportation.

In October 1996, PTA transferred its mobile communication business to a wholly owned subsidiary, mobilkom austria AG ("**Mobilkom**"). In July 1998, PTA's remaining fixed-line telecommunications business was separated from its postal services and concentrated in the Issuer, owned by PTA. In May 2000, the Austrian parliament passed the ÖIAG Act 2000, as a result of which ÖIAG, the holding and privatization agency of the Republic of Austria, directly held 75%, minus one share, in the Issuer. ÖIAG's share in the Issuer decreased over time, resulting in a current shareholding of 28.42% as of the date of this Prospectus. In 2007, the Issuer was reorganized as a holding company, holding 100% of the existing mobile communications company, Mobilkom, and the newly-established fixed-line company Telekom

Austria TA Aktiengesellschaft ("**TATA**"). Telekom Austria was restructured on July 8, 2010 by merging Mobilkom into TATA, thereafter renamed A1 Telekom Austria AG. As a result, the Issuer is the holding company of A1, which operates the fixed-line and mobile communications business in Austria.

Overview of Telekom Austria Group's organizational structure

The chart below shows the current corporate structure of Telekom Austria Group as of September 30, 2014.



Source: Company information.

The corporate structure of Telekom Austria Group has not changed since September 30, 2014 until the date of this Prospectus.

PRODUCTS AND SERVICES

The Group offers a wide variety of mobile, fixed and related services to consumer and business customers. Although the services and products vary from market to market, the following are the principal services and products offered by the Group:

Mobile services

The Group's principal services in all its operating segments are mobile voice services based on GSM, the general packet radio service, the universal mobile telecommunications system ("**UMTS**"), Enhanced Data Rates For GSM Evolution and High Speed Download Packet Access plus. Furthermore, Telekom Austria Group offers value-added services, mobile data and internet services including short message service ("**SMS**"), multimedia messaging services ("**MMS**"), mobile broadband and internet access. For the future, the Group anticipates technology drivers in the mobile telecommunications area such as long term evolution ("**LTE**") and application developments to boost usage and growth of telecommunication services.

Fixed-line voice services

Fixed-line services include fixed-line voice services based on public switched telephone network and integrated services digital network, public telephone services, corporate communication services, and value-added services such as telephony information services. The Group provides international fixed-line voice services to destinations worldwide. It also offers a range of call management services comprising digital voicemail, call waiting, call forwarding, three-way conference calls and caller identification.

Fixed data services

Some of the Group's companies offer a full range of internet and broadband services based on digital subscriber line ("**DSL**"), fiber and cable, value-added services, and television services including IPTV and cable TV with advanced services such as high definition television channels, video-on-demand ("**VoD**") services, and Electronic Program Guide. Moreover, the Group offers customers integrated services that bundle data, internet, and IT-services into customized solutions and a wide range of national and international data communications and IT-solutions, including: leased lines and related services; business data services; corporate network services; electronic payment solutions; IT-solution services; and business applications.

Wholesale

The Group's wholesale unit offers communication products and services in the areas of voice solutions, mobile solutions, data and IP services, and satellite solutions designed for wholesale customers.

Machine-to-machine communication ("M2M")

In M2M, the Group offers products and services for the communication of individuals and machines as well as the communication between machines. M2M is designed to allow smart devices to directly exchange data with each other without human interaction. This interaction provides opportunities for transparency, security, optimization of processes and costs, and new business models. The uses of M2M connectivity are diverse. In certain industries wireless connectivity may enrich products and services and enable more efficient processes. The M2M business is performed by Telekom Austria Group M2M GmbH, a subsidiary of Telekom Austria Group.

New products and services

Telekom Austria Group is using and developing new technologies constantly throughout the various fields of business where it operates. As described above, M2M constitutes one of the Group's significant new products. In August 2013, the Group, together with the Dutch carrier KPN International, also initiated a wholesale strategy, targeting a strategic positioning as a full-service provider offering voice, mobile, data, satellite, and roaming to customers. Using advanced technology, the Group is able to offer its customers "direct2home", a new satellite TV solution. The Group has formed one of the largest fiber backbones across Europe, covering 35 countries and offering a large variety of backbone-based services for international wholesale carriers and business customers.

OPERATING SEGMENTS AND PRINCIPAL MARKETS

The Group's operating and reporting segments are divided according to geographic region and consist of Austria, Bulgaria, Croatia, Belarus and Additional Markets (now comprising Slovenia, the Republic of Serbia and the Republic of Macedonia).

Austria segment

The Austria segment comprises convergent products (fixed and mobile) for voice telephony, internet access, data and IT solutions, value-added services, wholesale services, IPTV (broadcasting and VoD), sale of end-user terminal equipment, mobile business solutions and mobile payment solutions in Austria. Austria is a highly developed information and communication technology ("**ICT**") market characterized by intense competition. With a mobile market share of 41.0% as of September 30, 2014, A1 is the market leader in Austria, according to the Group's own research. As the only integrated provider, A1 benefits from the success of its product packages, consisting of fixed-line and mobile communication, with the number of packages increasing to more than 1 million as of September 30, 2014. In the Austrian fixed-line market fixed-to-mobile substitution continued in the financial year ended December 31, 2013. While 15.1% of all voice minutes were on fixed-lines in the second quarter of 2012, this figure was only 13.8% in the same period of 2013. The strong demand for broadband solutions continued in 2013 and resulted in an overall rise of 17% to almost 7.5 million broadband connections. Fixed-line broadband grew by 5.1% and mobile broadband (data tariffs and prepaid cards) by 14.4%. Nevertheless, due to innovative product packages and A1 TV, the number of fixed access lines has stabilized in the past few years. The Group believes that

Austria is a difficult market for mobile communications providers due to intense price competition in the past few years.

A1 managed to successfully implement its convergence strategy allowing A1 to benefit from lower churn rates of convergent customers as follows: In the Austrian residential market, the average monthly churn rate among customers who accepted A1's offer for multiple fixed-line or mobile services and convergent services was 1.1% and 0.8%, respectively, compared to the average monthly churn level of 1.4% among customers who contracted only mobile voice services during the first half of 2014. In Austria, this approach has also helped to support the ambition of the Group's management to stabilize the fixed-line business.

A1 is also investing in the expansion of its high bandwidth fixed broadband network. The Group estimates average bandwidth demand for downloads to increase from approximately 10 Mbit/s per fixed network household in 2010 to more than 80 Mbit/s by 2035. The Group likewise estimates the corresponding bandwidth demand range for 75% of all households in Austria to increase from a maximum of 20 Mbit/s per fixed network household in 2010 to more than 180 Mbit/s in 2035. This strong data demand corresponds to the strong demand for fiber access from 2010 to 2014 and is highly correlated with the demand for DSL in its introductory period from 2000 to 2004. To keep up with this growing demand, A1 plans to establish 30 Mbit/s as its standard bandwidth offer by 2018, which requires increasing bandwidth access at data rates of at least 30 Mbit/s by more than 230%, from currently approximately 30% of all households and business to at least 70% of all households within four years. To achieve this target, A1 intends to bring fiber closer to its customers and efficiently deploy available technology in an accelerated rollout scheduled for 2015 until 2018. No adverse market developments, continued increase in demand, availability of all necessary building and planning permits, and the government implementing its announced broadband subsidy program of EUR 300 million in 2016 are preconditions for these ambitious plans. In dense-urban and urban areas, where A1 currently serves 17% and 20% of households and businesses, respectively, A1 intends to opportunistically roll-out fiber to the home ("**FTTH**") or at least to the building ("**FTTB**") and otherwise intends to concentrate on rolling out fiber to the curb ("**FTTC**") to households and businesses in urban areas. In suburban and peripheral areas, where A1 serves 30% of households and businesses, A1 will push the rollout of FTTC. In rural areas, where A1 serves 42% of households and businesses, A1 will only roll out FTTC with the help of subsidies due to the sparse population density. In highly remote areas, however, where A1 serves 43% of households, the sparse population density makes a fiber rollout uneconomical and therefore A1 will focus on providing LTE and SAT access in these areas. This accelerated fiber-rollout plan is currently estimated with CAPEX of approximately EUR 400 million from 2015 to 2018. This amount remains subject to annual budget approval processes.

The table below shows certain performance indicators for the Austria segment.

	As of, and for the nine months ended, September 30,		**As of, and for the financial year ended, December 31,**		
	2014	**2013**	**2013**	**2012**	**2011**
in EUR million (unless indicated otherwise)					
Revenues	**1,821.8**	**1,992.3**	**2,658.6**	**2,787.1**	**2,942.1**
of which Monthly Fee and Traffic	1,321.6	1,386.9	1,843.3	1,915.7	2,027.4
of which Data and ICT Solutions	156.2	160.7	224.7	214.8	202.3
of which Wholesale (incl. Roaming)	119.2	106.9	140.9	164.5	203.6
of which Interconnection	141.6	204.7	260.5	327.1	341.7
of which Equipment	67.3	119.5	170.0	148.7	126.1
of which Other	15.9	13.6	19.2	16.3	41.0
Fixed-line					
Average revenue per line ("**ARPL**") (in EUR)	30.4	31.3	31.3	32.1	32.2
Total access lines (in thousand at period end)	2,275.5	2,273.6	2,283.9	2,282.3	2,336.2
Unbundled lines (in thousand at period end)	242.0	253.5	250.0	267.6	271.5
Fixed-line voice market share (at period end)	60.8%	61.0%	60.7%	60.8%	60.8%
Fixed-line broadband market share (at period end)	58.7%	58.2%	58.3%	57.7%	58.4%
Fixed-line voice traffic (in million minutes)	1,374.4	1,571.8	2,090.1	2,335.9	2,612.2
Broadband penetration in Austria (in % of households at period end)	122.3%	119.8%	121.2%	118.5%	111.7%

in EUR million (unless indicated otherwise)	**As of, and for the nine months ended, September 30,**		**As of, and for the financial year ended, December 31,**		
	2014	**2013**	**2013**	**2012**	**2011**
Mobile Communication					
ARPU (in EUR)[1]	16.1	16.2	16.1	18.8	20.0
Mobile Communication subscribers (in thousand at period end)[1]	5,447.9	5,739.4	5,714.5	5,179.2	5,271.2
Share of contract customers[1] (at period end)	70.0%	69.3%	69.4%	76.6%	77.6%
Market share[1] (at period end)	41.0%	42.7%	42.6%	37.9%	40.0%
Penetration[1] (at period end)	156.2%	158.4%	158.1%	161.8%	156.6%
Mobile broadband subscribers (in thousand at period end)[1]	722.9	831.0	816.4	743.5	744.9

[1] As of the second quarter 2013 the methodology for counting mobile subscribers was changed. Previous quarters of 2013 and 2012 were adjusted retrospectively.

Source: Consolidated Financial Statements and Company information.

Bulgaria segment

The Bulgaria segment comprises convergent products (fixed and mobile) for voice telephony, internet access, value-added services, wholesale services, IPTV (broadcasting and VoD), sale of end-user terminal equipment, mobile business solutions and mobile payment solutions in Bulgaria. In addition, it is planned to offer SAT TV starting in the forth quarter of the financial year ending December 31, 2014. In July 2005, Telekom Austria Group acquired 100% of the shares in Mobiltel, Bulgaria's leading mobile communication provider as of September 30, 2014 with a 37.8% market share. Two fixed-line operators were acquired in 2011, thereby forming the basis for the expansion of the portfolio of convergent products. As of September 30, 2014, the company had more than 4.1 million mobile customers and approximately 151,300 fixed-lines. The Group therefore intends to leverage its strong mobile position to sharpen brand perception and strengthen its fixed line business in Bulgaria.

In the financial year ended December 31, 2013, the high competitive intensity in Bulgaria continued to have a massive influence both on pricing for mobile communications services as well as on convergent product packages. The internet penetration rate of all households climbed from 50.9% in the previous year to 53.7% in 2013. In the first nine months of 2014, Bulgaria continued to face a difficult macroeconomic environment, such as a continually dropping population rate, high unemployment rates, and lower consumer spending, which all affect the telecommunications sector. With growing demand for data, supported by Mobiltel's mobile broadband subscriber growth of 30.8% year-on-year, and a relatively low average revenue per mobile subscriber and per fixed-line, the Group believes there is medium-term growth potential in Bulgaria. However, the market entry of a fourth mobile services provider in addition to Globul and Vivacom in Bulgaria is expected and will further increase competitive pressure in the market.

The table below shows certain performance indicators for the Bulgaria segment.

in EUR million (unless indicated otherwise)	**As of, and for the nine months ended, September 30,**		**As of, and for the financial year ended, December 31,**		
	2014	**2013**	**2013**	**2012**	**2011**
Revenues	**276.4**	**300.0**	**399.4**	**469.1**	**527.7**
Fixed-line					
ARPL (in EUR)[1]	14.4	13.3	13.5	14.0	15.4
Total access lines (in thousand at period end)[1]	151.3	160.4	159.9	157.6	128.8
Fixed-line broadband market share (at period end)	10.8%	11.7%	11.6%	11.6%	-
Mobile Communication					
ARPU (in EUR)[1]	6.1	6.3	6.3	7.1	7.2
Mobile Communication subscribers (in thousand at period end)[1]	4,137.2	4,221.4	4,181.5	4,515.6	5,501.4
Share of contract customers[1] (at period end)	79.1%	78.0%	78.7%	74.4%	67.4%
Market share[1] (at period end)	37.8%	39.5%	39.0%	42.1%	48.6%
Penetration[1] (at period end)	148.6%	144.2%	144.8%	144.2%	151.4%
Mobile broadband subscribers (in thousand at	227.8	174.1	192.9	147.9	122.6

	As of, and for the nine months ended, September 30,		As of, and for the financial year ended, December 31,		
	2014	2013	2013	2012	2011
period end)[2]..					

[1] In the fourth quarter 2013 the methodology for counting mobile and fixed-line subscribers was changed. Previous quarters of 2013 and 2012 were adjusted retrospectively.
[2] In the first quarter 2013 the methodology for counting mobile broadband subscribers was changed to exclusively include data-only tariffs. The previous quarters of 2012 and 2011 were adjusted retrospectively.

Source: Consolidated Financial Statements and Company information.

Croatia segment

The Croatia segment provides convergent products (fixed and mobile) for voice telephony, internet access, data and IT solutions, value-added services, wholesale services, IPTV (broadcasting and VoD), sale of end-user terminal equipment, mobile business solutions and mobile payment solutions in Austria. The Croatian subsidiary of Telekom Austria Group, VIPnet, started operations in 1999 and had 1.8 million mobile customers as of September 30, 2014. According to the Group's own research, VIPnet is the second largest mobile operator in Croatia with a market share of 36.1%. Following the acquisition of B.net Hrvatska d.o.o. ("**B.net**"), the country's largest cable operator in 2011, the conditions for convergent product packages based on the model of A1 in Austria were also established in this market. In addition, this acquisition allows VIPnet to capitalize on cross- and up-selling opportunities and at the same time growing fixed line revenues reduce pressure on mobile operations resulting from decreasing ARPU and subscriber numbers. In 2013, B.net was merged with VIPnet. In the twelve months ended September 30, 2014, VIPnet increased the number of its fixed-lines by 12.5% to approximately 212,300. In addition to voice telephony, the company's fixed-line product range also includes pay TV and internet services. The Croatian ICT market is characterized by intense competition and a challenging macroeconomic situation, which has caused tariffs to decrease substantially. In addition to lower roaming tariffs due to Croatia's accession to the EU, a substantial increase of frequency fees has added another financial burden on the mobile communication industry. To counter these developments, the Group intends to simplify its product portfolio and thereby reduce costs.

Similarly to the Austria segment, VIPnet benefits form the successful implemention of its convergence strategy: During the first half of 2014, the average monthly churn of residential customers who accepted VIPnet's offer for multiple fixed-line or mobile services and convergent services was 1.0% and 0.9%, respectively, compared to the average monthly churn level of 1.3% among customers who contracted only mobile voice services during the first half of 2014.

The table below shows certain performance indicators for the Croatia segment.

	As of, and for the nine months ended, September 30,		As of, and for the financial year ended, December 31,		
	2014	2013	2013	2012	2011
in EUR million (unless indicated otherwise)					
Revenues	**282.3**	**293.7**	**389.2**	**420.4**	**420.7**
Fixed-line					
ARPL (in EUR)..	21.4	22.9	22.7	23.9	22.2
Total access lines (in thousand at period end)...	212.3	188.8	193.1	163.0	143.7
Fixed-line broadband market share (at period end)	14.0%	11.7%	12.2%	10.0%	8.2%
Mobile Communication					
ARPU (in EUR)	11.0	11.7	11.6	12.3	12.9
Mobile Communication subscribers (in thousand at period end)...............................	1,823.4	1,950.0	1,843.8	1,921.0	2,018.0
Share of contract customers (at period end)......	44.0%	42.5%	45.1%	42.2%	37.8%
Market share (at period end)	36.1%	37.5%	37.3%	38.3%	39.2%
Penetration (at period end)...............................	117.6%	121.0%	115.1%	116.8%	119.9%
Mobile broadband subscribers (in thousand at period end)[1]	178.4	199.8	168.8	162.2	156.7

[1] In the first quarter 2013 the methodology for counting mobile broadband subscribers was changed to exclusively include data-only tariffs. The previous quarters of 2012 and 2011 were adjusted retrospectively.

Source: Consolidated Financial Statements and Company information.

Belarus segment

The Belarus segment comprises mobile products for voice telephony, internet access, value-added services, wholesale services, sale of end-user terminal equipment, fixed-line services for selected business customers in Belarus.

Telekom Austria Group acquired velcom in November 2007, which marked its entry into the market in Belarus. With a market share of 42.5% based on the Group's own research, velcom is the second largest telecommunications business in Belarus. The Belarus segment has been confronted with a variety of macroeconomic problems in recent years, such as hyperinflation and highly volatile exchange rates. The development of the Group's Belarusian market may also be hindered by the current competitive situation. For example, Belarusian Cloud Technologies (beCloud) holds a monopoly on LTE in all frequency ranges and also shares control with Beltelekom for international gateway services, which in the view of the Group has led to unreasonable prices for international gateway services. Nonetheless, the segment has proven to be dynamic and has developed into one of the strongest performing segments within the Group. For example, a significant rise in internet penetration occurred in 2012, driven in particular by a surge in smartphone ownership. The Group intends to leverage this trend and focus its efforts on data growth, while maintaining high OPEX and CAPEX efficiency.

As of September 30, 2014, velcom had 4.9 million mobile customers, 1% more than twelve months earlier. The proportion of contract customers slightly increased to 80.6% as of September 30, 2014 compared to 80.4% as of September 30, 2013 and the number of mobile broadband customers rose to approximately 272,400. In addition to implementing price increases to offset negative inflationary and exchange rate effects, the Group believes velcom has successfully positioned itself to attract high-value customers.

The table below shows certain performance indicators for the Belarus segment.

	As of, and for the nine months ended, September 30,		As of, and for the financial year ended, December 31,		
	2014	2013	2013	2012	2011
in EUR million (unless indicated otherwise)					
Revenues	**275.3**	**244.0**	**331.7**	**301.2**	**260.9**
Mobile Communication					
ARPU (in EUR)	5.3	4.8	4.8	4.6	4.2
Mobile Communication subscribers (in thousand at period end)	4,948.8	4,898.2	4,947.4	4,800.4	4,620.4
Share of contract customers (at period end)	80.6%	80.4%	80.6%	80.3%	79.7%
Market share (at period end)	42.5%	42.9%	42.5%	43.5%	41.1%
Penetration (at period end)	123.1%	120.7%	123.0%	116.6%	118.8%
Mobile broadband subscribers (in thousand at period end)[1]	272.4	235.4	246.5	227.5	205.4

[1] In the first quarter 2013 the methodology for counting mobile broadband subscribers was changed to exclusively include data-only tariffs. The previous quarters of 2012 and 2011 were adjusted retrospectively.

Source: Consolidated Financial Statements and Company information.

Additional Markets segment

The Additional Markets segment comprises mobile products for voice telephony, internet access, value-added services and wholesale services in Slovenia, the Republic of Serbia and the Republic of Macedonia. In addition, fixed-line services have been offered in the Republic of Macedonia since the acquisition of blizoo Macedonia. Until the merger of the Group's former subsidiary mobilkom liechtenstein with Telecom Liechtenstein AG, which became effective on August 27, 2014, the Additional Markets segment also comprised mobile products for voice telephony, internet access, value-added services and wholesale services in Liechtenstein. In the Additional Markets segment, Slovenia has the most developed ICT market.

Slovenia

Telekom Austria Group has been active in Slovenia since it acquired Si.mobil d.d. ("**Si.mobil**") in 2001. According to the Group's own research, Si.mobil had a market share of 29.6% as of September 30, 2014, and was the second-largest mobile telephony provider in the country. It has positioned itself successfully in recent years with a convincing product range and pricing policy as well as a positive customer experience and a strong brand perception, factors the company intends to further leverage going forward. In the twelve months ended September 30, 2014, Si.mobil increased its customer base by 1.6% to approximately 683,200 customers. This entailed significant growth in contract customers and the number of customers using mobile broadband. Similar to its plans in other countries, the Group therefore intends to focus on data growth in Slovenia. Nevertheless, competitive intensity is increasing in Slovenia with currently four network operators and three MVNOs. Additionally, Telekom Austria Group has to ensure an LTE population coverage of 95% and cover white spots in 225 out of 300 selected rural settlementswith currently no or poor fixed broadband network coverage within the next three years.

The table below shows certain performance indicators for Si.mobil.

	As of, and for the nine months ended, September 30,		**As of, and for the financial year ended, December 31,**		
	2014	**2013**	**2013**	**2012**	**2011**
in EUR million (unless indicated otherwise)					
Revenues	**152.8**	**147.6**	**198.9**	**199.6**	**192.7**
Mobile Communication					
ARPU (in EUR)	19.7	20.8	19.9	21.8	20.9
Mobile Communication subscribers (in thousand at period end)	683.2	672.7	679.2	662.6	639.7
Share of contract customers (at period end)......	79.1%	77.4%	78.0%	76.4%	74.5%
Market share (at period end)	29.6	29.9	30.0%	30.3%	29.7%
Penetration (at period end)...............................	110.8%	107.9%	108.5%	107.1%	105.6%
Mobile broadband subscribers (in thousand at period end)	23.4	19.9	20.8	18.2	15.9

Source: Consolidated Financial Statements and Company information.

The Republic of Serbia

Seven months after Telekom Austria Group acquired a mobile license (covering both GSM and UMTS) in the Republic of Serbia in November 2006, Vip mobile d.o.o. ("**Vip mobile**") became the country's third mobile operator. Since then it has gained approximately two million mobile customers, recording a revenue growth rate of 18.5% in the twelve months ended September 30, 2014. As of September 30, 2014, Vip mobile had a market share of 21.9% according to the Group's own research. The Serbian ICT market offers significant growth potential in terms of user behavior and average revenue. The challenge is to further develop the share of smartphone customers, to grow the mobile broadband segment and to secure solid returns on the prepaid segment. Having fewer transmission sites and base stations than its two main competitors, Vip mobile faces the challenge of providing a comparable network experience outside urban areas and has therefore concluded a national roaming agreement. By the end of 2015, Vip mobile intends to implement a dedicated network extension program with a view to ensure product and price differentiation and intends to leverage its position as established operator focusing on device and smartphone leadership.

The table below shows certain performance indicators for Vip mobile.

	As of, and for the nine months ended, September 30,		**As of, and for the financial year ended, December 31,**		
	2014	**2013**	**2013**	**2012**	**2011**
in EUR million (unless indicated otherwise)					
Revenues	**160.3**	**135.3**	**182.6**	**160.4**	**143.1**

	As of, and for the nine months ended, September 30,		As of, and for the financial year ended, December 31,		
	2014	2013	2013	2012	2011
in EUR million (unless indicated otherwise)					
Mobile Communication					
ARPU (in EUR)	7.0	7.4	7.4	7.1	7.2
Mobile Communication subscribers (in thousand at period end)	2,063.9	1,974.7	2,017.7	1,859.9	1,642.7
Share of contract customers (at period end)	51.6%	49.5%	50.8%	47.2%	42.1%
Market share[1] (at period end)	21.9%	20.9%	21.1%	17.6%	15.7%
Penetration (at period end)	131.0%	131.5%	133.1%	147.2%	141.3%

[1] Change largely due to competitor restatement of subscriber numbers.

Source: Consolidated Financial Statements and Company information.

The Republic of Macedonia

Telekom Austria Group acquired a GSM license in the Republic of Macedonia in February 2007. Its subsidiary Vip Operator DOOEL Skopje ("**Vip Operator**") started operations in September 2007. The Republic of Macedonia has a population of 2.1 million, almost one-third of which are Vip Operator customers. With a market share of 27.6% as of September 30, 2014, Vip Operator is the second largest mobile operator in the country, according to the Group's own research. Vip Operator offers a 3G network and acquired a 4G LTE license to provide high speed data traffic in July 2013. Commercial LTE Services were launched in July 2014. In the twelve months ended September 30, 2014, the number of mobile customers decreased slightly by 2.2% to approximately 631,000. The share of contract customers increased to 49.8% of all customers as of September 30, 2014.

The Macedonian market is characterized by intense competition and a challenging macroeconomic situation (see "Risk Factors—Country risks affecting Telekom Austria Group's operations"). In addition, Vip Operator is confronted with regulatory induced interconnection cuts. Nevertheless, the Group believes that there is medium-term growth potential in the Republic of Macedonia due to the growing importance of modern communication applications.

In July 2014, Telekom Austria Group completed the acquisition of 100% of blizoo Macedonia, a fixed net provider. As a result of the acquisition, the Republic of Macedonia has become the fourth market in Telekom Austria Group's footprint with both a mobile communication and a fixed net business. Vip Operator will therefore focus on integrating blizoo Macedonia and using its converged product portfolio to cross-sell and up-sell products.

On October 22, 2014, the Group announced its agreement with Telekom Slovenije, d.d. to merge their subsidiaries Vip Operator and ONE - Telecommunications Services DOOEL Skopje, both operating in the Republic of Macedonia. The Group will hold 55% and have sole control over the newly created entity, whereas Telekom Slovenije, d.d. will hold 45%. Furthermore, the agreement also includes call and put options for the exit of Telekom Slovenije, d.d. from the joint venture within three years of the closing of the merger. The closing of the transaction is, among other things, subject to confirmatory due diligence of ONE - Telecommunications Services DOOEL Skopje by Telekom Austria Group and merger control clearance in the Republic of Macedonia, and is expected for the first quarter of 2015.The table below shows certain performance indicators for Vip Operator.

	As of, and for the nine months ended, September 30,		As of, and for the financial year ended, December 31,		
	2014	2013	2013	2012	2011
in EUR million (unless indicated otherwise)					
Revenues	**44.8**	**49.4**	**64.9**	**60.3**	**53.4**
Fixed-line					
Total access lines (in thousand at period end)	62.0	-	-	-	-
Mobile Communication					
ARPU (in EUR)	6.9	8.1	7.9	7.5	7.5

in EUR million (unless indicated otherwise)	As of, and for the nine months ended, September 30, 2014	2013	As of, and for the financial year ended, December 31, 2013	2012	2011
Mobile Communication subscribers (in thousand at period end)	630.9	645.4	629.7	632.0	566.6
Share of contract customers (at period end)	49.8%	44.9%	47.5%	41.8%	38.4%
Market share (at period end)	27.6%	28.2%	28.0%	27.3%	24.9%
Penetration (at period end)	111.4%	110.9%	109.2%	113.1%	111.0%

Source: Consolidated Financial Statements and Company information.

Liechtenstein

mobilkom liechtenstein had 6,500 customers as of June 30, 2014, corresponding to a market share of 16.2% according to the Group's own research. On June 27, 2014, the Group's subsidiary Mobilkom Beteiligungsgesellschaft mbH signed an agreement for the merger of its then 100% subsidiary mobilkom liechtenstein into the telecommunications operator Telecom Liechtenstein AG. As an incumbent operator, Telecom Liechtenstein AG provides telecommunications services in various telecommunication sectors, including fixed and mobile telephony and internet services. Following the implementation of the merger, which became effective as of August 27, 2014, the Principality of Liechtenstein holds 75.1% of the shares in Telecom Liechtenstein AG, and the Group holds the remaining 24.9%. Telecom Liechtenstein AG is therefore included in the Group's consolidated financial statements using the equity method beginning in the third quarter of 2014.

The table below shows certain performance indicators for mobilkom liechtenstein.

in EUR million (unless indicated otherwise)	As of, and for the fiscal year ended, December 31, 2013	2012	2011
Revenues	**6.5**	**6.8**	**7.6**
Mobile Communication			
ARPU (in EUR)	40.7	50.9	54.9
Mobile Communication subscribers (in thousand at period end)	6.4	6.2	6.2
Market share (at period end)	16.1%	15.9%	16.5%
Penetration (at period end)	108.1%	106.4%	102.8%

Source: Consolidated Financial Statements and Company information.

CUSTOMERS

Telekom Austria Group provides its telecommunications services to businesses as well as consumers in the markets in which it is active. As of September 30, 2014, the Group provides a portfolio of fixed-line and mobile communication products to approximately 23 million customers.

Mobile communication customers

Most of the Group's approximately 20 million mobile communication market customers are located in Austria, Belarus and Bulgaria (5.4 million, 4.9 million and 4.1 million customers, respectively as of September 30, 2014). While a majority of the customers in these markets already have post-paid contracts, the Group is seeking to expand its share of such contracts, as they stabilize monthly revenue stream as opposed to pre-paid products, where customer spending may vary dramatically from month to month.

The following table sets forth the total number of mobile customers of the Group (excluding M2M) as of September 30, 2014 and the change relative to September 30, 2013.

	As of September 30, 2014	As of September 30, 2013	Change
	(in thousands)	(in thousands)	(in %)
Total mobile users	19,735.30	20,108.20	-1.9%
Thereof in Austria	5,447.9	5,739.4	-5.1%
Thereof in Bulgaria	4,137.2	4,221.4	-2.0%
Thereof in Croatia	1,823.4	1,950.0	-6.5%
Thereof in Belarus	4,948.8	4,898.2	1.0%
Thereof in Slovenia	683.2	672.7	1.6%
Thereof in the Republic of Serbia	2,063.9	1,974.7	4.5%
Thereof in the Republic of Macedonia	630.9	645.4	-2.2%
Thereof in Liechtenstein	-	6.4	-

Source: Company information.

Fixed access lines

In addition to mobile communication customers, the Group also serves customers with fixed access lines, through which the Group provides a variety of services, such as broadband internet and fixed-line telephony. The Group operates fixed-line services in four countries: Austria, Bulgaria, Croatia and the Republic of Macedonia. As of September 30, 2014, the Group operated approximately 2.3 million fixed access lines in Austria, approximately 151,000 in Bulgaria, approximately 212,000 in Croatia and approximately 62,000 in the Republic of Macedonia. Fixed access line customers continue to contribute a significant source of revenue, amounting to 23.0% of the Group's revenue as of September 30, 2014.

The following table sets forth the number of fixed access lines as of September 30, 2014 and the change relative to September 30, 2013.

	As of September 30, 2014	As of September 30, 2013	Change
	(in thousands)	(in thousands)	(in %)
Total fixed access lines	**2,701.1**	**2,622.8**	**0.6%**
Thereof in Austria	2,275.5	2,273.6	0.1%
Thereof in Bulgaria	151.3	160.4	-5.7%
Thereof in Croatia	212.3	188.8	12.5%
Thereof in the Republic of Macedonia	62.0	-	-

Source: Company information.

SUPPLIERS

Telekom Austria Group has a non-exclusive procurement agreement with Vodafone, which allows the Group to purchase from suppliers at the conditions agreed between the suppliers and Vodafone. In addition, the Group agrees on prices with numerous suppliers directly or purchases supplies, such as handsets or set-top boxes, on the free market.

The Group is not dependent on any suppliers and has no material agreements requiring it to purchase any number of products from a particular supplier. To avoid reliance on any single supplier, the Group generally contracts with multiple suppliers for all of its requirements.

DISTRIBUTION NETWORK

In each country of operations, Telekom Austria Group employs a wide array of distribution channels for residential customers, including branded direct sales, indirect sales partnerships, franchise (in Austria only), telesales, as well as an increasing focus on online sales. The Group maintains a direct key account sales force for corporate accounts and a sales structure for small and medium sized enterprises in each country. On an international level, Telekom Austria Group's headquarter operates a cross-country sales network to handle international and global accounts.

COMPETITORS

In each country of operations, the competitive environment for mobile services typically comprises three network operators as well as a number of MVNOs. Calculated by market share, Telekom Austria Group is the number one or number two operator in each market, except for the Republic of Serbia, where it is number three based on Telekom Austria Group internal data. All markets exhibit a high level of competition, which typically is spurred by operators with low market share as well MVNOs. In addition, most countries exhibit a number of fixed-line operators offering services via their own infrastructure as well as via unbundling. Telekom Austria Group offers fixed-line services via its own infrastructure in Austria (market leader), Bulgaria, Croatia and the Republic of Macedonia. According to Telekom Austria's quarterly "Competitor Report", the Group's main competitors based on total revenue are (not necessarily in the order given) in Austria: T-Mobile, Hutchison, UPC, and Tele2; Bulgaria: Globul, Vivacom, Bulsatcom, and blizoo Bulgaria; Croatia: T-Hrvatski Telekom, Tele2 and Optima; Belarus: MTS, and Life; Slovenia: Telekom Slovenije, d.d., Debitel, Izi Mobil, Tušmobil, T2 and Telemach; Republic of Serbia: MTS and Telenor; Republic of Macedonia: T-Mobile and One.

EMPLOYEES

As of September 30, 2014, the Group employed 16,350 full-time equivalents ("FTE"), 0.7% more than on the same day of the previous year. The headcount in the Austria segment was reduced by 3.6% to 8,806 FTE as part of the on-going restructuring measures. Approximately 51% of these employees have civil servant status. As of September 30, 2014, the number of employees in segments outside of Austria increased by 6.1% to 7,371 employees compared to September 30, 2013.

The following table provides a breakdown of the Group's FTE by segment, as of September 30, 2013 and 2014, and as of December 31, 2011, 2012 and 2013.

	As of September 30,		As of December 31,		
	2014	**2013**	**2013**	**2012**	**2011**
Total FTE	**16,350[1]**	**16,243**	**16,045[1]**	**16,446**	**17,217**
Thereof in:					
Austria	8,806	9,136	8,804	9,077	9,292
Bulgaria	2,499	2,587	2,647	2,937	3,380
Croatia	1,149	1,143	1,138	1,104	1,144
Belarus	1,872	1,722	1,749	1,680	1,784
Additional Markets	1,852	1,497	1,543	1,484	1,453
Corporate	173	158	165	164	164

[1] The figure does not correspond to the sum of the numbers in the column due to rounding adjustments.

Source: Consolidated Financial Statements and Company information.

Austrian particularities

Due to its history as a former division of the government, many employees of Telekom Austria are still considered to be civil servants (*aktive Beamte* according to section 17 PTSG) and as such enjoy special legal protection under applicable laws in Austria. Formally such employees are still employed with the federal administration of the Republic of Austria and (permanently) allocated to Telekom Austria Group. As a consequence, Telekom Austria Group must reimburse all labor law related expenses regarding these civil servants to the federal administration (*Aufwand für die Dienstbezüge* according to section 17 paragraph 6 PTSG). In addition, 18% of the active Group employees in Austria are former contract agents (*Vertragsbedienstete* according to section 18 PTSG) of the federal administration and benefit from special contractual provisions in their collective bargaining agreements, which convey almost the same rights to these employees as to civil servants. This also applies to a certain extent to regular employees who joined Telekom Austria Group prior to December 31, 2000 (*neu eingetretene Bedienstete* according to section 19 PTSG or transferred employees (*übergeleitete Angestellte*) according to the relevant collective bargaining agreement).

In addition to the total FTE in the amount of 16,350, the Group also had 359 passive employees FTE as of September 30, 2014, defined as employees who no longer perform work at Telekom Austria Group but are still on Telekom Austria Group's payroll.

Special benefits of civil servants and other groups of protected employees

The status as a civil servant (*aktiver Beamter*), contract agent (*Vertragsbediensteter*), or transferred employee (*übergeleiteter Angestellter*) is in particular accompanied by:

- strong protection against any ordinary termination of the employment relationship by Telekom Austria Group (ordinary termination without good cause is not allowed at all or at least restricted to specific reasons);

- limited possibilities of Telekom Austria Group to relocate or transfer these employees to another job or to amend the obligations or the scope of activity of these employees;
- the obligation of Telekom Austria Group to pay the employment related expenses of these employees to the federal administration of the Republic of Austria; and
- benefits regarding the continuation of payments in cases of illness or invalidity (*Entgeltfortzahlung im Krankheitsfall*; for civil servants sick leave payment is indefinite) or in case of mandatory vacation (*Urlaub*), which significantly exceed standard labor law provisions.

Furthermore, civil servants (*Beamte*) are, in addition to entitlements under collective agreements, entitled to a 5% pay rise every two years.

According to the PTSG, the Company is obliged to reimburse all employment related expenses (*Aufwand für die Dienstbezüge*) of civil servants employed with Telekom Austria Group to the federal administration of the Republic of Austria. These reimbursements also include the contribution to the federal pension system for civil servants working for the Group for the future pension entitlements of these civil servants. During the second half of 2012 and the first half of 2013, the Austrian Court of Audit (*Rechnungshof*) carried out an investigation of (among others) the mandatory pension contributions paid by Telekom Austria Group to the federal administration of the Republic of Austria. In its report of May 2014 the Austrian Court of Audit (*Rechnungshof*) stated that the Group has not correctly implemented the last legislative amendment of the statutory remuneration scheme for civil servants and, as a consequence, that its mandatory pension contributions to the federal administration have been insufficient since 2005. According to the Austrian Court of Audit (*Rechnungshof*) the shortfall amounted to EUR 3,030,000 for the year 2005 and EUR 3,580,000 for the year 2011; the Austrian Court of Audit (*Rechnungshof*) did not provide detailed figures for the other years. The matter is still in discussion and pending. However, depending on which legal steps and/or legislative measures might be taken in this regard, there is a risk that the Group will be obliged to make additional payments for the years 2005 to 2014 and to bear higher coverage payments for its civil servants in the future.

Passive employees

Due to the limited possibility of the Group to terminate the employment of civil servants (*aktive Beamte*), (former) contract agents (*Vertragsbedienstete*), and transferred employees (*übergeleitete Angestellte*) as well as the limited rights of the employer to amend or change the scope of the protected employees' activity, a large number of these employees are on "absence leave" (*Dienstfreistellung* or *Ruhestandsversetzung*), while preserving all remuneration rights (section 17, 17a and 18 PTSG in connection with the regulations of the Austrian Civil Servant Act (*Beamtendienstrechtsgesetz*)). Moreover, the Group must reimburse the remuneration costs to the federal government in certain cases.

Measures taken to address Austrian particularities

Telekom Austria Group has started several initiatives to reduce its high proportion of civil service employees. In addition to social plans, which allow civil servants to stop working before retirement while receiving a salary until they reach the standard retirement age, the Group is also offering a program that places civil servants in federal government positions. This program, however, requires that civil servants voluntarily leave the Group and any loss in salary needs to be compensated by Telekom Austria until the affected civil servant retires. Until September 30, 2014, 361 civil servants have made use of this program. Due to the size of the different employee groups and in particular the number of civil servants employed by the Group in Austria, Telekom Austria believes that these particularities and resulting expenses will continue to negatively impact the Group's business for the foreseeable future.

Relationship with unions and works councils

Telekom Austria Group believes that its relations with its employees and labor unions are good. The Group faces only a moderate risk of strike, considering the large number of employed civil servants. All employees in Austria are qualified to mandatory minimum entitlements such as those regulated in, among others, the Austrian General Civil Code (*Allgemeines Bürgerliches Gesetzbuch*), the Austrian Employee Act (*Angestelltengesetz*), the Austrian Trade Act (*Gewerbeordnung*), the Austrian Holiday Act (*Urlaubsgesetz*), and the Austrian Severance Pay Act (*Betriebliches Mitarbeitervorsorgesetz*). The Group is subject to comprehensive regulation under Austrian and EU law, in addition to regulation in any local jurisdiction where it is active, regarding, among others, health and safety as well as mandatory employment terms. In addition, the employees in Austria, Bulgaria and Croatia are represented by works councils. The Group believes that it is, as of the date of this Prospectus, in compliance with substantially all applicable laws and regulations related to health and safety and employment. To the best of its knowledge, the Group believes that there are no current or potential material claims against the Group related to health and safety and employment laws or regulations.

Miscellaneous considerations in the Group's segments

In Austria there is a statutory obligation to make lump-sum severance payments to employees (except civil servants (*Beamte*)) in case of termination or retirement to anyone who joined the Group prior to January 1, 2003. The amount of severance pay depends on the amount of pay at the time of termination and the length of employment with the Group. This statutory obligation together with service awards and pensions 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 assessment of the discount rate, rate of compensation increase, rate of employee turnover and rate of increase in pensions. In case of employees having joined the Group from January 1, 2003 onwards there are defined contribution plans, for which 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 are recognized under employee expenses in the year in which they are due. For severance and pensions, Telekom Austria Group recognizes actuarial gains and losses under other comprehensive income, whereas actuarial gains and losses for service awards are immediately recognized as profit or loss. The re-measurement of defined benefit plans relates to actuarial gains and losses only as Telekom Austria Group holds no plan assets. Interest expense related to employee benefit obligations is reported in the financial result, while service cost is reported in employee expenses. Unused vacation days and bonuses are provided for by Telekom Austria and presented under provision for employees.

In Belarus, the local Group Company has encountered issues with specialist employees leaving the country to emigrate to Russia, as salaries and working conditions are generally better there. In addition, the government of Belarus dictates salary increases, which has impacted the ability of the local Group company to plan and change employee-related costs.

Involvement of employees in the Company's capital

Members of the Management Board, executives and selected employees (in total around 130 persons) participate in the share-based long-term incentive program ("**LTI**") introduced in 2010. Details of the LTI are set out under "Corporate bodies, management and corporate governance overview—Management Board—Management Board compensation".

As of December 31, 2013, the total personal investment of all participants in the LTI for the LTI tranche launched in the year 2013 amounted to 333,203 Shares and for the LTI tranche launched in 2012 amounted to 460,400 Shares. Any payments for the tranches issued so far have been made in cash.

PROPERTY, PLANT AND EQUIPMENT

The Group's headquarters, which it leases, are situated in Vienna, Austria. In addition, the Group owns and leases property in different cities and countries. The following table provides an overview of the Group's material rented/leased and owned property (expiring lease contracts are expected to be renewed in time) as of September 30, 2014.

Location	Size of property in thousand square meters	Owned, rented or leased/expiry date for rent or lease
Vienna, Austria	**266.38**	
Arsenal	96.06	Owned
Lassallestraße	72.27	Rented/indefinitely
Obere Donaustraße	40.50	Rented/December 2016
Antonigasse	21.93	Owned

Hebragasse, Zimmermanngasse	9.67	Owned
Obere Donaustraße	5.99	Rented/indefinitely
Schillerplatz	5.66	Owned
Treustraße	3.90	Owned
Dückegasse, Donaufelderhof	2.55	Rented/indefinitely
Weintraubengasse	2.02	Rented/indefinitely
Löschenkohlgasse	1.96	Rented/indefinitely
Modecenterstraße	1.95	Rented/August 2016
Neutorgasse	1.92	Rented/indefinitely
Graz, Austria	50.48	
Exerzierplatzstraße	22.10	Owned
Ägydigasse	15.21	Owned
Andreas Hofer Platz Marburgerkai	7.31	Owned
Martinhofstraße	5.86	Owned
Linz, Austria	**22.28**	
Fadingerstraße	22.28	Owned
Salzburg, Austria	**18.09**	
Alpenstraße	13.71	Owned
Mittelstraße	4.38	Owned
Innsbruck, Austria	**28.31**	
Trientlgasse, Valiergasse	19.47	Owned
Andreas-Hofer-Straße	5.36	Owned
Fürstenweg	3.48	Owned
Klagenfurt, Austria	**30.44**	
Josef-Mickl-Gasse	14.23	Owned
Maximilianstraße	14.95	Owned
Sonnengasse	1.26	Owned
Other Locations in Austria	**121.55**	
Wiener Neustadt	12.19	Owned
Leonding	8.74	Owned
Baden bei Wien	6.51	Owned
Ried im Innkreis	6.47	Owned
Au bei Aflenz	6.43	Owned
Bregenz	6.29	Owned
Lienz, Osttirol	5.85	Owned
Vöcklabruck	5.17	Owned
Wörgl	5.14	Owned
Dornbirn	4.97	Owned
Sankt Pölten	4.87	Owned
Feldkirch	4.81	Rented/indefinitely
Leoben	4.47	Owned
Steyr	4.43	Owned
Bruck an der Mur	4.39	Owned
Villach	3.92	Owned
Reutte	3.74	Owned
Hollabrunn	3.69	Owned
Braunau am Inn	3.57	Owned
Kirchdorf an der Krems	3.21	Owned
Schwaz	3.19	Owned
Amstetten,	2.70	Rented/indefinitely
Krems an der Donau	2.43	Rented/indefinitely
Zell am See	2.34	Rented/indefinitely
Wels	2.03	Rented/indefinitely
Belarus	**19.04**	
Headquarters Building, Minsk	13.6	Owned

Office, Minsk	2.68	Rented/December 2018
Technical center, Minsk	1.14	Rented/April 2019
Archive, Minsk	0.86	Rented/indefinitely
Store/Office, Minsk	0.76	Rented/indefinitely
Bulgaria	**67.0**	
Headquarters Building, Sofia	24.0	Owned
Headquarters Land, Sofia	20.0	Owned
Technical center – Lift Building, Sofia	6.0	Owned
Headquarters, Sofia	5.0	Rented/January 2016
Technical center – Lift Land, Sofia	5.0	Owned
Technical center Building, Varna	4.0	Owned
Technical center Land, Varna	3.0	Owned
Croatia	**33.47**	
Žitnjak, Zagreb (with garage & other facilities)	29.50	Owned
Split (with garage)	1.48	Owned
Rijeka	1.00	Rented/indefinitely
Osijek	0.92	Owned
Hondlova, Zagreb	0.57	Rented/April 2015
Serbia	**8.32**	
Headquarters, Belgrade	7.00	Rented/December 2015
Data center, Kragujevac	1.32	Owned
Slovenia	**6.17**	
Headquarters, Ljubljana	5.08	Rented/November 2018
Call center, Ljubljana	0.89	Rented/indefinitely
Data center, Ljubljana	0.20	Rented/December 2024

Source: Company information.

There are no major encumbrances on any material tangible fixed assets of the Company. However, some of the buildings Telekom Austria Group owns are historic buildings protected under national landmark laws. Owners of such buildings are generally restricted by many regulations for the protection of national landmarks and such buildings may generally not be altered in any material manner. As owner of such protected buildings, Telekom Austria Group must comply with various upkeep and protection requirements. In addition, due to the materials commonly used during the time of construction of some of the Group's buildings, some of which today may be considered hazardous, and due to the fact that some of the buildings may be located on sites which may be contaminated or may contain hazardous objects or materials, the Group may face environmental liability or clean-up costs. The Group has made a lump sum provision for risks in connection with construction materials in the amount of EUR 13.7 million as of September 30, 2014.

RESEARCH AND DEVELOPMENT

Telekom Austria Group concentrates its research and development activities on the development of market-oriented products and services in addition to the on-going technological development of its network infrastructure. In order to ensure synergies and cost benefits, these activities are subject to Group-wide coordination and knowledge sharing. The Group does not, however, maintain a Research and Development department.

In addition to innovative applications in the M2M business, such as providing smart metering solutions that transmit meter data via mobile data networks to the respective companies, the Group focused on the development of a uniform strategy for all cloud computing activities, which reliably provide customers with IT infrastructures such as computing capacity, data storage, or software via a network.

Furthermore, the company is actively engaged in vectoring and co-operates with Bell Labs in the implementation and development of the advanced technology G.Fast. This technology aims at further increasing bandwidth of existing copper lines, which reduces the immediate need to implement glass fiber networks inside homes.

Through the cooperation with national and international institutions and application-based research co-operations with partners in the scientific and industrial communities, the Group is pursuing different approaches for the integration of future information and communications technologies in order to be able to offer market and customer-oriented communications solutions. Telekom Austria Group currently has research partnerships with the Research Centre for Telecommunications in Vienna, the Vienna University of Technology, the Christian Doppler Laboratory for Sustainable Mobility, the Josef-Ressel Center for User-friendly Secure Mobile Environments, and the Technical University of Sofia. Beyond its own sphere of action, A1 also promotes innovation by new companies with a start-up initiative that provides expertise and infrastructure to help make innovations a reality.

In the financial year 2013, the Group had the following research targets and policies: leveraging capabilities and resources to develop new business fields; establishing and expanding partnerships to significantly increase the value for the customer; promotion of climate-friendly products and solutions; development of innovative solutions with added value for society (health, education, etc.); ensuring Group-wide mobile network coverage of at least 99% with 2G and at least 90% with 3G (except for the Republic of Serbia); 4G/LTE coverage of 50% in Austria by year-end 2014; extending 4G/LTE services in international subsidiaries: for example, the Group acquired 2 x 10 MHz of 800-MHz spectrum in the Republic of Macedonia, with the intention of offering 4G services starting in 2014; and increasing next generation network population coverage in Austria to 62% by the end of 2014. The Group spent EUR 18.3 million on research and development activities in 2013.

In the financial year 2012, the research activities of Telekom Austria Group focused on the market-oriented development of products and services and further technological improvements to its network infrastructure. The Group spent EUR 18.0 million on research and development activities in 2012.

In the financial year 2011, the research targets and policies of Telekom Austria Group included work on the expansion of the network infrastructure, the development of the M2M product and a Group-wide cloud strategy. The Group spent EUR 36.8 million on research and development activities in 2011.

INTELLECTUAL PROPERTY

As of September 30, 2014, the Group had 42 patents and no patent applications. Aside from the 446 registered brands that the Group owned as of September 30, 2014, the Group does not consider intellectual property to be a material aspect of its business.

INSURANCE

The Group maintains insurance in such amounts, coverage, and deductibles as management believes is reasonable and prudent. The Group is insured against claims resulting from general liability and includes all risk policies, property damage policies, and other liability policies. The Group also maintains directors and officers ("**D&O**") insurance, which the Group believes to be adequate.

MATERIAL CONTRACTS

In the ordinary course of their respective business, the subsidiaries of Telekom Austria Group enter into numerous contracts with various entities. Besides the partnership agreement with Vodafone and the finance agreements described below, members of Telekom Austria Group have not entered into contracts outside the ordinary course of their respective businesses that could result in any entity of the Group becoming subject to an obligation or entitlement that is material to the Group's business and results or that the Group believes that could not be substituted in the ordinary course of business.

Partnership agreement with Vodafone

Telekom Austria Group has a cooperation agreement with Vodafone concluded on January 1, 2013, for a three-year period, under which Vodafone provides products and services, such as wholesale roaming services, participation in the Vodafone purchasing organization and cooperation regarding international business customers, to Telekom Austria Group. In turn, Telekom Austria Group may not cooperate with a third party in the areas covered by Vodafone's products and services portfolio and in the international sales business. Generally, the agreement may only be terminated prior to the expiration of the three year term upon a change of control. When América Móvil launched a takeover offer on June 30, 2014, the change of control termination right was triggered. The termination can be executed by each party with immediate effect during a 30 days period starting October 31, 2014. The contract renegotiations between Telekom Austria Group and Vodafone are ongoing.

Interconnection agreements

Telekom Austria Group has interconnection agreements with services providers all over the world. Interconnection agreements connect the Group's networks with networks of other providers. These agreements allow the Group's operating subsidiaries to provide and receive connecting transit and termination services. They are generally concluded for an indefinite period of time. Interconnection agreements regarding voice services tend to have no minimum monthly fees and therefore no minimum term is agreed. Other interconnection agreements are generally entered into for a minimum period of 12 months.

Roaming Agreements

Telekom Austria Group has entered into roaming agreements with telecommunication providers around the world. Roaming agreements permit the Group's customers to use their mobile devices on partners' mobile networks and regulate the conditions and technical aspects under which the Group can offer its customers access to such partner networks. Roaming agreements generally continue indefinitely until one party provides notice of termination.

Distribution agreements

Telekom Austria Group companies offer their products and services not only through direct sales channels, such as A1 stores and company owned online-stores, but the Group companies have also entered into distribution agreements with various partners, such as electronics stores and online dealers. Most of these agreements contain the Group's standard terms and conditions for the respective markets but may vary depending on the distribution partner. Distribution agreements are generally concluded for an indefinite period of time.

Finance agreements

To finance its acquisitions and other corporate matters, Telekom Austria Group has engaged in the following finance agreements:

- In January 2005, under a Euro medium term note program, the underlying documentation of which was signed on June 30, 2003, TFG issued EUR 500 million 4.25% bonds due January 27, 2017.
- In September 2007, TFG entered into a EUR 300 million multi-currency short term treasury notes program that has not been drawn as of the date of the Prospectus.
- In January 2009, TFG issued EUR 750 million 6.375% bonds due 2016.
- In January 2011, TFG entered into a syndicated loan facility in the total amount of EUR 445 million, of which EUR 89 million was repaid in June 2012, EUR 178 million is due in December 2015 and EUR 178 million is due in November 2018.
- Under a Euro medium term note program, the underlying documentation of which was signed on March 23, 2012, in April 2012 TFG issued EUR 750 million 4% bonds due April 4, 2022.
- On July 27, 2012, TFG had entered into a EUR 735 million syndicated Revolving Facility Agreement, which has not been drawn since then. TFG replaced the EUR 735 million syndicated Revolving Facility Agreement with a new EUR 1,000 million syndicated Revolving Facility Agreement with a term of up to 5 years on November 4, 2014.
- On December 10, 2012, TFG entered into a finance agreement with European Investment Bank concerning a loan in the amount of EUR 100 million, which was guaranteed by Telekom Austria in a separate guarantee agreement. The loan was granted for a project to upgrade the capacity and geographical extension of A1's 3G/UMTS mobile broadband telecommunication network as well as the roll-out of an LTE-based network in Austria and was to be repaid in semi-annual installments between December 17, 2014 and December 17, 2020. On September 25, 2014, TFG sent a prepayment

notice to European Investment Bank, exercising its option to prepay the whole of the outstanding amount plus accrued interest on December 17, 2014.

- In January 2013, Telekom Austria issued EUR 600 million 5.625% subordinated fixed rate bonds with indefinite term and subject to interest rate reset. It can be redeemed at the earliest after a period of five years.
- Under a Euro medium term note program, the underlying documentation of which was signed on April 9, 2013, in July 2013 TFG issued EUR 300 million 3.5% bonds due July 4, 2023.
- Under a Euro Medium Term Note Program, the underlying documentation of which was signed on April 9, 2013 and supplemented on November 22, 2013, in December 2013 TFG issued EUR 750 million 3.125% bonds due December 3, 2021.

PRINCIPAL INVESTMENTS

The Group's principal material investments relate to (a) mergers and acquisition of companies which complement the Group's business and enable the Group to become convergent in the various markets in which it operates, and (b) other investments, such as frequency spectrum licenses permitting the operation of mobile communication services in the Group's markets. Telekom Austria Group financed or intends to finance the mentioned investments via free cash flows, third party financing, and any other possible financing measures depending on market and other conditions. Other than as described below, no material investments (in addition to regular CAPEX) have been made since December 31, 2010 and no principal future investments of the Group, on which the management has already made firm commitments, have been authorized as of the date of this Prospectus.

- In January 2011, Telekom Austria Group purchased 100% of the shares of the Bulgarian fixed-line provider Spectrum Net AD and its 100% subsidiary Orbitel EAD through the Group's Bulgarian subsidiary Mobiltel at an enterprise value of EUR 38 million. In February 2011, Telekom Austria Group purchased 80%, and in March 2012, the remaining 20%, of another Bulgarian fixed-line operator, Megalan Network AD, at an enterprise value of EUR 44.9 million.
- In August 2011, Telekom Austria Group purchased 100% of the shares of B.net, the largest cable operator in Croatia, through the Group's Croatian subsidiary VIPnet at an enterprise value of EUR 93 million.
- In August 2012, the Macedonian subsidiary Vip Operator won a tender for an 1800-MHz frequency band for a price of EUR 5.1 million in the Republic of Macedonia.
- In October 2012, VIPnet obtained a 10-MHz paired frequency block (in total 20-MHz) of the 800-MHz frequency spectrum for a total purchase price of HRK 150 million (approximately EUR 20 million).
- In 2012, moreover, Telekom Austria Group acquired 2,100 MHz frequencies in Belarus for a price of EUR 9.5 million and the Group extended its 900 and acquired 1800-MHz frequencies for a total of EUR 4.4 million in Slovenia.
- In January 2013, Telekom Austria Group acquired frequencies, base stations, the mobile operator YESSS!, and certain intellectual property rights from Orange Austria for a price of approximately EUR 403.6 million (after purchase price adjustments).
- In September/October 2013, Telekom Austria Group participated in the Austrian multiband auction and acquired 140-MHz (2 x 70 MHz uplink and downlink) of spectrum in the new 800-MHz frequency band and the re-auctioned 900-MHz and 1,800-MHz frequency bands, at a price of EUR 1.03 billion.
- In 2013, the Group also bought 800-MHz and 1,800-MHz frequency spectrum for a total amount of EUR 10.3 million in the Republic of Macedonia, with a view towards offering LTE/4G services there. In 2013 the Group bought another 2 x 5 MHz in the 800-MHz band for a total amount of EUR 23.1 million in Croatia.
- On April 15, 2014, a Group's Bulgarian subsidiary prolonged its existing 2 x 11.2 MHz in the 900-MHz spectrum band and 2 x 10 MHz in the 1800-MHz spectrum band for a total amount of EUR 30.6

million. The allocated spectrum remains the same. In addition to the one-off prolongation cost, the Bulgarian subsidiary must pay an annual spectrum fee of EUR 2.2 million, which remains unchanged.

- In April 2014, Si.mobil, the Group's Slovenian subsidiary, acquired 2 x 90 MHz of FDD spectrum and 1 x 45 MHz of TDD spectrum, equivalent to approximately 48% of the total auctioned spectrum, for a total cost of EUR 63.9 million.
- In June 2014, Telekom Austria Group signed an agreement to purchase 100% of blizoo Macedonia, a fixed net service provider. The transaction was completed on July 30, 2014. The Republic of Macedonia is now the fourth market in Telekom Austria Group's footprint with both a mobile communication and a fixed net business.
- Also in June 2014, the Group's subsidiary Mobilkom Beteiligungsgesellschaft mbH signed an agreement to merge its Liechtenstein 100%-subsidiary mobilkom liechtenstein into the telecommunications operator Telecom Liechtenstein AG. Following the implementation of the merger, the Principality of Liechtenstein holds 75.1% of the shares in Telecom Liechtenstein AG, and the Group holds the remaining 24.9%. Telecom Liechtenstein AG is therefore included in the Group's consolidated financial statements using the equity method beginning in the third quarter of 2014.

CAPITAL EXPENDITURES

Capital expenditures do not include additions for asset retirement obligations and capital expenditure is defined as additions to property, plant and equipment and intangible assets as reported in the cash flow statement under cash flow from investing activities. The following table provides an overview of Telekom Austria Group's capital expenditures for the nine months ended September 30, 2014 and 2013 and the financial years ended December 31, 2013, 2012 and 2011.

	Nine months ended September 30,		**Financial year ended December 31,**		
	2014	**2013**	**2013**	**2012**	**2011**
in million EUR	(unaudited)			(audited)	
Total capital expenditures	-472.5	-493.0	-1,779.1	-728.2	-739.0
Austria	-232.4	-331.9	-1,509.8	-448.2	-485.1
Bulgaria	-59.3	-34.2	-60.2	-68.8	-70.5
Croatia	-44.2	-41.0	-82.4	-78.8	-50.5
Belarus	-26.7	-17.6	-34.0	-43.7	-44.9
Additional markets	-109.9	-68.3	-92.8	-88.8	-87.9
Corporate & other and eliminations	-0.1	0.0	0.0	0.2	0.0

Source: Consolidated Financial Statements.

LITIGATION AND ARBITRATION

Telekom Austria Group and its subsidiaries are parties to certain lawsuits and administrative proceedings before various courts and governmental agencies arising from the ordinary course of business involving various contractual, labor, antitrust, tax, and other matters as well as proceedings under laws and regulations. Such matters are subject to many uncertainties, and the outcomes are not predictable.

Except as described below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuers are aware) during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of Telekom Austria or Telekom Austria Group (see also "Risk Factors—Regulatory, legal and compliance risks—Telekom Austria Group is continuously involved in disputes and litigation with regulators, competition authorities, tax authorities, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on Telekom Austria Group's results of operations and financial condition.").

Tax proceedings

A tax audit performed in Austria with respect to 3 G Mobile Telecommunications GmbH, a company previously acquired by the Group, resulted in a potential additional payment of EUR 17 million for prior periods. This potential payment relates to the amortization of license fees for the years 2003-2009. 3 G Mobile Telecommunications GmbH has appealed this decision with the *Bundesfinanzgericht*, the intermediate federal appellate court for tax matters; the appeal is still pending. A further tax audit is currently in progress in Austria in connection with the alleged unlawful behavior of former directors and former employees. Respective provisions have been made. In addition, tax audits (covering income tax and social security contributions) in Austria with respect to Telekom Austria and A1 for the financial years 2003 to 2010 are ongoing. Furthermore, a tax audit with respect to A1 as legal successor of YESSS! for the financial years 2011 and 2012 has been announced to be started in November 2014.

A tax audit has been undertaken by the Bulgarian tax authorities with respect to Telekom Austria Group's subsidiaries in Bulgaria since mid-2012 for the financial years 2006 and 2007 (covering corporate income tax); from 2006 to 2011 (covering withholding tax) and 2007 and 2008 (covering value-added tax ("**VAT**")). On June 12, 2014, Mobiltel received the tax assessment. The additional tax liability imposed by the tax authorities amounts to EUR 22.8 million, including interest. The material findings of the tax authorities relate to the accounting treatment of brand name and customer bases for which the tax authorities did not recognize tax depreciations. In compliance with Bulgarian administrative the procedures, on June 24, 2014, Mobiltel filed an appeal against the tax audit findings. Mobiltel management believes the approach followed by the company is fully compliant with IFRS and the then applicable Bulgarian tax legislation. The decision on appeal is expected no later than December 1, 2014. Should Mobiltel lose on the administrative appeal, the company will initiate court proceedings against the tax authorities. To secure such potential tax liability, the Group was required to provide a guarantee in the amount of EUR 22.8 million, which was provided by Mobiltel. A subsequent tax inspection covering the years until 2013 started in February 2014 without any communicated findings thus far.

In addition, a tax inspection is ongoing in the Republic of Serbia covering the years up to 2012. No official findings have been released thus far.

Monopoly proceedings

In 2011, Si.mobil filed a lawsuit against Telekom Slovenije, d.d. for the abuse of its monopoly position. Internationally recognized experts in the field of competition regulation estimated that the damages in the case amount to approximately EUR 286 million. The proceeding is ongoing.

Litigation proceedings regarding former employees and directors

Authorities including the Vienna prosecution office have been investigating Telekom Austria and some of its subsidiaries with respect to alleged unlawful behavior of former directors and employees in the past.

In a first trial held in February 2013, three of the four accused former members of the management were sentenced to imprisonment for embezzlement (*Untreue*) to the disadvantage of Telekom Austria by manipulating the Share price in 2004, which triggered bonus payments payable to around one hundred executive employees. Telekom Austria was awarded damages in an amount of EUR 9.9 million (which may, however, not be recoverable). The sentences are subject to appeal.

The Vienna prosecution office brought charges against a former member of the management of Telekom Austria, a former advertising agency manager and other individuals in January 2013. The accused were convicted of perjury (*falsche Beweisaussage*) and embezzlement (*Untreue*) to the disadvantage of Telekom Austria by arranging for an unapproved payment by Telekom Austria to the advertising agency. Telekom Austria was awarded damages in the amount of EUR 600,000. The convictions are subject to appeal.

In addition, in December 2011, the Vienna prosecution office brought charges against a former employee and three persons of another advertising agency for alleged embezzlement (*Untreue*) by paying to the former employee a severance payment of around EUR 586,000 to which he was not entitled. Proceedings are still pending.

Moreover, the Vienna prosecution office brought charges against a former member of the management of Telekom Austria, certain politicians and a lobbyist. In October 2013, they were convicted of embezzlement (*Untreue*) to the disadvantage of Telekom Austria by arranging for an unapproved payment by Telekom Austria. The damage suffered by Telekom Austria is estimated to amount to EUR 960,000. Telekom Austria was eventually awarded EUR 340,000 in the course of the criminal proceedings; Telekom Austria has been referred by the criminal court to pursue its other open claims in civil proceedings. Telekom Austria has appealed against this referral.

In July 2013 the Vienna prosecution office brought charges against two former members of management for committing embezzlement (*Untreue*) to the disadvantage of Telekom Austria in connection with the sale of property. The damage suffered by Telekom Austria is estimated to amount to EUR 4.4 million. Both former members of the management were acquitted on April 11, 2014; however, the prosecutor appealed against the acquittal.

On the occasion of the extraordinary Shareholders' Meeting held on August 14, 2014, the Shareholders' Meeting approved two settlements between Telekom Austria Group on the one hand and two former members of the Management Board on the other hand in connection with their wrongdoings in the past, providing for a settlement of all known claims of Telekom Austria Group against such former members of the Management Board in consideration for settlement payments by those former members of the Management Board in the amount of EUR 2 million (in addition to EUR 500,000 already paid) and EUR 3.13 million (in addition to EUR 196,000 already paid), respectively.

There has been continuous and extensive reporting in the media with respect to the above matters. Telekom Austria fully supports and cooperates with the public prosecutor in this regard. The findings of extensive internal investigations (also supported by BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg) were also shared with the public prosecutor. It is likely that further charges will be brought against former members of the Group's management, contract partners or employees and other parties.

Ruling of the Austrian Supreme Court (*Oberster Gerichtshof*) declaring a service charge by A1 inadmissible

Since 2007 A1 has advertized a combined rate for internet, mobile and fixed-line services for the duration of the contract or on a life-long basis. Since 2011 A1 has offered an annual service charge, the so-called *Internetservicepauschale*, in the amount of EUR 15 based on an amendment to its general terms and conditions. On January 20, 2014, the Austrian Supreme Court (*Oberster Gerichtshof*) ruled that the annual service charge introduced by A1 in 2011 was improper for those customers who had chosen such combined rates. As a consequence of the ruling, A1 will no longer charge the affected customers with the service charge meaning that A1 expects to lose revenues from such customers based on the annual service charge. A1 does not expect substantial further customer claims for the repayment of the service charge.

Litigation in Croatia

A business partner of VIPnet initiated ad hoc arbitral proceedings in Zagreb claiming damages of approximately EUR 7.4 million based on certain framework agreements with VIPnet regarding the acquisition, planning and building of base stations. VIPnet management believes that it has strong arguments to win the case. However, there remains the risk that said amount must be paid to the plaintiff.

A former legal adviser of VIPnet has initiated court proceedings against VIPnet claiming approximately EUR 5.4 million for rendered legal services. No decision of the court of first instance has been rendered yet and no procedural steps have occurred in the proceedings since September 2012.

VIPnet may be liable for infringing competition law by certain clauses in its dealer agreements. Proceedings are expected by the Group, but have not started yet. Related fines could theoretically amount to up to 10% of VIPnet's annual revenues in the last audited financial year before the date when fines are imposed.

A competitor of VIPnet initiated court proceedings against VIPnet for free use of ducts and pipes. The proceedings are still pending. VIPnet estimates that the financial risk in connection with the proceedings amounts to EUR 6.5 million.

Frequency auction proceedings

On October 21, 2013 the TKK concluded an auction for frequency spectrums necessary for the existing mobile voice business (GSM) and roll-out of the LTE mobile telephony generation of a total of twenty-eight blocks of 2 x 5 MHz each, divided into six blocks of the new 800 MHz band, seven blocks in the 900 MHz band and fifteen blocks in the 1800 MHz band. Telekom Austria Group acquired in total 2 x 70 MHz from the available 2 x 140 MHz spectrum for a total of EUR 1.03 billion. T-Mobile and Hutchison Drei

Austria have appealed against this decision before the Austrian Constitutional Court (*Verfassungsgerichtshof*) and the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*). While the Austrian Constitutional Court (*Verfassungsgerichtshof*) has already dismissed the appeal, the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*) has not yet issued a decision. Hutchison Drei Austria has meanwhile withdrawn its appeal. The respective appeal of T-Mobile at the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*) is still pending. If T-Mobile's appeal succeeds, there is a risk that the frequencies acquisitions by T-Mobile, Hutchison Drei Austria and A1 are void and that the frequency auction must be repeated. If the frequency auction is repeated and there is no guarantee that A1 will be able to secure the same frequency spectrum at the same prices. In addition, if the frequency auction is repeated and the new licenses cannot be used by the end of 2015, the Group may face legal uncertainty regarding its operations, as a majority of 900 MHz band and all 1800 MHz band frequency spectrum licenses of A1 are expiring at the end of 2015. If the new licenses are not available for use by the time the old licenses expire, the Group's operations in Austria may be negatively affected. The Group's management expects a judgment in the course of 2014.

Proceedings in connection with the acquisition of YESSS!

On February 2, 2012, Telekom Austria Group reached an agreement to acquire assets owned by Orange Austria comprising base stations, frequencies, the mobile operator YESSS! and certain intellectual property rights for a total amount of approximately EUR 403.6 million (after purchase price adjustments). After the approvals of the Austrian Cartel Court (*Kartellgericht*) and the TKK (in relation to the acquisition of frequencies) were granted in November and December 2012, respectively, and Hutchison 3G Austria Holding completed its indirect acquisition of Orange Austria, the Group completed its acquisition of YESSS! and certain intellectual property rights from Orange Austria on January 3, 2013. Telekom Austria Group completed the acquisition of the base stations and frequencies from Orange Austria in the period until June 2014. In connection with the transaction, T-Mobile, which was not admitted as party in the approval procedure by the TKK, appealed the decisions of the TKK to the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*), which referred the case in one of the appeals to the European Court of Justice for a preliminary ruling. The respective proceedings are currently pending. If T-Mobile's appeal succeeds, the approval procedure before the TKK would need to be renewed. If in the renewed proceedings TKK decided not to permit the acquisition of frequencies, there is a risk of reversal of Telekom Austria Group's frequency transaction. Separately, Telekom Austria has filed a law suit against Hutchison Drei Austria (as legal successor of Orange Austria) with the ICC (International Chamber of Commerce International Court for Arbitration) claiming damages of EUR 3.4 million for deficient base stations in connection with the acquisition of such base stations.

Contestation of resolutions passed by the Shareholders' Meeting held on August 14, 2014

An Existing Shareholder has filed an action against the Company with the commercial court (*Handelsgericht*) of Vienna. Such action requests that the resolutions of the extraordinary Shareholders' Meeting held on August 14, 2014 are declared void and rescinded with respect to the election of Rudolf Kemler, Ronny Pecik, Elisabetta Castiglioni and Oscar von Hauske Solís as members of the Supervisory Board as well as with respect to the changes of the Articles of Association in sections 5, 8, 9, 11, 12, 17 and 18. The provisions regarding the authorized capital (*genehmigtes Kapital*) pursuant to section 4 paragraph 4 of the Articles of Association are not affected by the action. It cannot be entirely excluded that the judge having authority over the registration of the capital increase in relation to the New Shares will refuse to register the capital increase into the Companies Register while such action is pending. Once the capital increase in relation to the New Shares is registered in the Companies Register, the capital increase will be effective irrespective of the ruling of the Austrian courts on such action. In addition, should the contestation be successful in court, some or all of the corporate resolutions taken by the Company which would have required the presence or consent of some or all of the contested Supervisory Board members may become ineffective with retroactive effect and the Company may be required to repeat some or all of the relevant past corporate resolutions to the extent possible.

Other proceedings

Out of a random sample, the newly established Austrian Enforcement Entity (*Österreichische Prüfstelle für Rechnungslegung*) chose Telekom Austria's Financial Statements 2013 for an audit concerning compliance with accounting standards.

As the European legal framework, and in particular Austrian copyright law, is unclear with respect to whether copyright fees are due for mobile handsets and hard disk storage space in computers (payable to copyright collectives), various proceedings have been initiated in Austria and on a European level by different stake holders in order to clarify this legal subject. One of the Austrian copyright collectives has brought claims against A1 for the payment of such copyright fees; however, the proceedings were paused until the underlying legal question is decided by the Austrian Supreme Court (*Oberster Gerichtshof*). The Group cannot predict how the legal question in dispute will be resolved. However, if the courts resolve that a copyright fee is payable for mobile handsets and hard disk storage space, this could result in substantial payments for A1. A1 has made respective provisions for the years 2008 until the date of this Prospectus.

RECENT EVENTS

As a result of the Shareholders' Agreement, Carso Telecom launched a voluntary public takeover offer pursuant to the Austrian Takeover Act (*Übernahmegesetz*) ("**Takeover Act**") aimed to acquire control with an option to convert into a mandatory offer for all outstanding Telekom Austria shares not held by the América Móvil group, ÖIAG or Telekom Austria (the "**Public Takeover Offer**"). By June 27, 2014 the Shareholders' Agreement became effective whereby the Public Takeover Offer was converted into a mandatory offer by June 30, 2014. The offer price of the Public Takeover Offer was set at EUR 7.15 per Existing Share. On July 14, 2014, América Móvil announced that Carso Telecom acquired 103,978,115 Shares, so that América Móvil group held 50.8% of Telekom Austria's share capital. Holders of Existing Shares were permitted to sell their Existing Shares during the sell-out period until October 16, 2014 at the offer price of EUR 7.15 per Share to Carso Telecom. During the sell-out period 38,436,668 further Existing Shares were tendered to Carso Telecom so that América Móvil group currently holds 59.70% of Telekom Austria's share capital.

On June 23, 2014, Telekom Austria Group signed an agreement to purchase 100% of blizoo Macedonia, a fixed net provider. The transaction was completed on July 30, 2014. The Republic of Macedonia has become the fourth market in Telekom Austria Group's footprint with both a mobile communication and a fixed net business.

On June 27, 2014, the Group's subsidiary Mobilkom Beteiligungsgesellschaft mbH signed an agreement for the merger of its then 100% subsidiary mobilkom liechtenstein into the telecommunications operator Telecom Liechtenstein AG, a then 100% subsidiary of the Principality of Liechtenstein. As an incumbent operator, Telecom Liechtenstein AG provides telecommunications services in various telecommunication sectors, including fixed and mobile telephony and internet services. With the effectiveness of the merger as of August 27, 2014, the Principality of Liechtenstein holds 75.1% of the shares in Telecom Liechtenstein AG, and the Group holds the remaining 24.9%. Telecom Liechtenstein AG is therefore included in the Group's consolidated financial statements using the equity method beginning in the third quarter of 2014.

On October 22, 2014, the Group announced its agreement with Telekom Slovenije, d.d. to merge their subsidiaries Vip Operator and ONE - Telecommunications Services DOOEL Skopje, both operating in the Republic of Macedonia. The Group will hold 55% and have sole control over the newly created entity, whereas Telekom Slovenije, d.d. will hold 45%. Furthermore, the agreement also includes call and put options for the exit of Telekom Slovenije, d.d. from the joint venture within three years of the closing of the merger. The closing of the transaction is, among other things, subject to confirmatory due diligence of ONE - Telecommunications Services DOOEL Skopje by Telekom Austria Group and merger control clearance in the Republic of Macedonia, and is expected for the first quarter of 2015.

REGULATORY ENVIRONMENT

This chapter contains a brief summary of the regulatory environment for telecommunications operators in the countries in which Telekom Austria Group operates. This summary neither purports to cover all relevant issues in this respect nor to be a comprehensive description of all topics discussed below.

AUSTRIA

General information

The Telecommunications Act of 2003 (*Telekommunikationsgesetz 2003*) ("**TKG 2003**"), as amended most recently in June 2013, is the main regulatory framework for electronic communications networks and services in Austria. On its basis, a number of administrative ordinances have been adopted. The main goals of the TKG 2003 and the respective ordinances are (i) the creation of a modern communications infrastructure, (ii) the promotion of fair and effective competition, at both service and infrastructure levels, (iii) the protection of customers against abuse of dominant market positions and (iv) assuring the efficient use of radio spectrum.

With this Act, regulation has developed from sector-specific regulation towards general competition law. In the TKG 2003, the regulatory authorities have been assigned new tasks, such as, for example, a number of authorizations to issue ordinances.

The **TKG 2003** transposed into Austrian law, among other things, the European Union Telecommunications Directive 2009/140/EC on a common regulatory framework for electronic communications networks and services and European Union Telecommunications Directive 2009/136/EC on universal service and users' rights and on issues relating to the processing of personal data and the protection of privacy.

Regulatory authorities

In Austria, there are separate regulatory bodies for communications, broadcasting and antitrust matters. Regulatory powers with regard to communications are split between several authorities.

The TKG 2003 and the Austrian Communications Authority Act (*Bundesgesetz über die Einrichtung einer Kommunikationsbehörde Austria und eines Bundeskommunikationssenates*, BGBl I 32/2001, *KommAustria-Gesetz*) establish the legal basis for the existing regulatory bodies in the telecommunications sector (the Telekom-Control Commission, the "**TKK**") and the broadcasting media sector (the *Kommunikationsbehörde Austria*, the "**Communications Authority**"). The Austrian Regulatory Authority for Broadcasting and Telecommunications (*Rundfunk und Telekom Regulierungs GmbH*, "**RTR**") provides operational support for these authorities and deals with day-to-day regulatory issues.

TKK

The TKK was established as an independent panel authority with the powers of a court pursuant to section 116 TKG 2003. The TKK is composed of three main members and three alternate members, each of whom are appointed by the Austrian federal government for a term of five years. The tasks and responsibilities of this regulatory authority are specified in the TKG 2003. Since January 2014 decisions of the TKK can be amended or overturned by appeal to the Austrian Federal Administrative Court (*Bundesverwaltungsgericht*). Appeals against Austrian Federal Administrative Court decisions may be submitted to the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*) and the Austrian Constitutional Court (*Verfassungsgerichtshof*).

The TKK is, among others, responsible for the sector-specific supervision of competition, frequency assignment procedures, the approval of general terms and conditions of business, as well as monitoring the fees charged by telecommunications companies. Within its field of responsibility, the TKK has far-reaching competencies, including: ordering the joint use of telecommunications infrastructure; issuing decisions in proceedings concerning data of subscriber directories; determining whether one or more undertakings in a respective relevant market have significant market power or whether effective competition prevails on those markets, and whether specific obligations are to be withdrawn, maintained, amended or imposed; issuing decisions in proceedings concerning specific obligations (for example, non-discrimination obligations, access to network equipment and network features, interconnection, number portability and carrier selection); approving conditions of business and fees and exercising the right to object; issuing decisions on the licensing and allocation of frequencies as well as the change and revocation of frequency allocations; issuing decisions on the right to provide communications networks or services, including the right to revoke these rights; issuing decisions on preliminary injunctions; and identifying and filing applications concerning unjust enrichment by providers through excessive pricing and filing applications with the Austrian Cartel Court (*Kartellgericht*).

Communications Authority

The Communications Authority is the regulatory authority for electronic audio media and electronic audiovisual media in Austria. Since 2010, the Communications Authority is an independent panel authority which is not subject to instructions from any other authority. The Communications Authority is responsible for issuing licenses to private television and radio stations, managing broadcasting frequencies, handling the legal supervision of private broadcasters, as well as preparing and launching digital broadcasting in Austria. Since 2004, the Communications Authority has also been in charge of administering the Austrian federal government's press and journalism subsidies. In the same year, it also assumed responsibility for monitoring broadcasts of ORF, the Austrian Broadcasting Corporation (*Österreichischer Rundfunk*) ("**ORF**") and private broadcasters to ensure compliance with Austrian advertising regulations.

The Communications Authority is also responsible for the legal supervision of ORF and its subsidiaries, for the legal supervision of private providers of audiovisual media services on the internet, and for certain tasks under the Austrian Act on Exclusive Television Rights (*Fernseh-Exklusivrechtegesetz*). The Austrian Federal Minister of Transport, Innovation and Technology (*Bundesminister für Verkehr, Innovation und Technologie*, the "**Federal Minister**") does not have the power to issue instructions to the Communications Authority. However, the Federal Minister is authorized to gather and request relevant information on all matters handled by the Communications Authority. Appeals against Communications Authority decisions can be submitted to the Austrian Federal Administrative Court (*Bundesverwaltungsgericht*). Further appeals against Austrian Federal Administrative Court decisions may be submitted to the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*) and the Austrian Constitutional Court (*Verfassungsgerichtshof*).

Regulatory Authority for Broadcasting and Telecommunications

RTR provides operational support to the Communications Authority and the TKK. RTR is organized as a limited liability company (*Gesellschaft mit beschränkter Haftung*) led by two managing directors. For the Communications Authority, RTR manages working groups, performs tasks in the fields of broadcasting frequency management, legal supervision and advertising monitoring, and supports the authority in procedures carried out under broadcasting law. In providing operational support for the TKK, RTR's activities are related to approvals of general terms and conditions of business, electronic signatures, frequency allocation procedures and competition regulation.

RTR also provides operational support for the Postal Service Regulation Commission (*Post-Control-Kommission*), specifically in the field of post office regulation, general terms and conditions of business, competition regulation and supervisory measures.

RTR's objectives and duties are defined in section 115 TKG 2003, which stipulates that RTR must perform all duties conferred upon the regulatory authority by the TKG 2003 and by any ordinances issued under that Act, unless TKK is responsible for such duties pursuant to section 117. Moreover, RTR was also granted the power to issue various types of ordinances in the TKG 2003.

Additional activities at RTR include alternative dispute resolution between end-users and operators and dispute resolution among operators, the administration of the Austrian Digitization Fund (*Digitalisierungsfonds*), Television Fund (*Fernsehfonds Austria*), Private Broadcasting Fund (*Privatrundfunkfonds*) and Non-Commercial Fund (*Nichtkommerzieller Rundfunkfonds*), the administration of communications parameters (for example numbering) and the definition of relevant markets. The activities of RTR are supervised by the Federal Minister. RTR together with the TKK and the Communications Authority is required to publish a common annual report about their activities in the Communications Report (*Kommunikationsbericht*), which is required to be forwarded to the Federal Chancellor and the competent federal minister as well as to the Parliament.

Other regulatory bodies

Federal Minister

The Federal Minister is the highest telecommunications authority. In this respect, the Federal Minister assumes the following functions: (i) to lay down fundamental guidelines for the activities of the regulatory authority; (ii) to enact and administer regulations required for the implementation of international agreements, in particular on the usage of the frequency spectrum; and (iii) to decide on appeals against notices by the Telecommunications Offices (*Fernmeldebüros*) and the Office for Radio Systems and Telecommunications Terminal Equipment (*Büro für Funkanlagen und Telekommunikationsendeinrichtungen*), unless an independent administrative tribunal has jurisdiction.

The Federal Minister, the Telecommunications Offices and the Office for Radio Systems and Telecommunications Terminal Equipment are administrative authorities that are empowered to take all measures requiring the exercise of administrative power in the area of telecommunications with regard to Austrian telecommunications law.

BEREC

The Body of European Regulators for Electronic Communications ("**BEREC**") was established by Regulation (EC) No. 1211/2009 of the European Parliament and of the Council of November 25, 2009, as part of the 2009 Telecom Reform package. It replaced the European Regulators Group for Electronic Communications Networks and Services which was established as an advisory group to the Commission in 2002. BEREC assists the European Commission as well as national regulatory authorities in implementing the EU regulatory framework for electronic communications and gives advice on request and on its own initiative to European institutions. BEREC furthermore complements at European level the regulatory tasks performed at national level by the regulatory authorities.

Telecoms regulation

Telecoms regulation in Austria covers fixed, mobile, satellite and leased line services. Notification and licensing requirements distinguish between providing services, operating communications networks and the usage of radio spectrum.

Provision of communication services and operation of network; general authorization

Section 15 TKG 2003 stipulates that an operator must notify the TKK regarding the operation/provision of public communications networks and services. An operator will be considered to have obtained authorization upon the provision of notice, unless the TKK objects to such notice.

A1 has, as of the date of this Prospectus, provided notice regarding the following services:

- public internet communications services;
- public communications networks;
- public leased line services; and
- fixed and mobile public voice telephony services.

Frequency allocation and licensing

The provision of mobile telecom services to the public via a self-operated network requires a license for the use of the respective radio frequencies. In the event that frequencies are a scarce resource, spectrum is to be auctioned by TKK. The operation of a mobile network or the provision of mobile resale services does not require a further license.

The TKK's allocation procedures are governed by section 55 TKG 2003. The TKK is to allocate the frequencies, for which it is responsible, to applicants that fulfill the prerequisites of the TKG 2003 and that ensure the most efficient use of the allocated frequencies. This is to be determined by the amount of the offered frequency license fee.

Frequency licensing shall be carried out in compliance with the frequency usage plan and the frequency allocation plan on the basis of objective, transparent, non-discriminatory and reasonable criteria and in a technology-neutral and service-neutral manner. The TKK must put the intended allocation of frequencies out to public tender if the demand for such an allocation is identified at the governmental level or if an application is received and the regulatory authority concludes that the applicant is in a position to comply with the incidental provisions associated with the right to use the frequencies.

Once the terms and conditions of the invitation to tender have been approved by the Federal Minister, the invitation to tender is to be published with a tender submission period of at least two months.

Spectrum licenses impose a number of technical specifications and restrictions for the use of the frequencies. The regulatory authority is entitled to modify the specifications and scope of a spectrum allocation if this enables a more efficient use of the spectrum as a result of technical development or if so required due to changes in the international legal environment. A spectrum allocation can be withdrawn by the regulator if the license requirements are violated by the licensee.

The current licenses for the use of spectrum for providing mobile communications services have a limited term (for instance, spectrum licenses in the 3G area have a term of 20 years until December 30, 2020). The licenses in the 4G area (in the 800 MHz, 900 MHz and 1,800 MHz bands) where allocated by TKK in an auction of November 2013 and the respective licenses have a duration until December 31, 2029 (800 MHz) and December 31, 2034 (900 MHz and 1,800 MHz), respectively.

Spectrum allocated

A1 currently holds the following frequencies:

- 800 MHz band: 2 x 20 MHz;
- 900 MHz band: 2 x 20.2 MHz (currently), 2 x 15 MHz (beginning January 1, 2018);
- 1800 MHz band: 2 x 15 MHz (currently), 2 x 35 MHz (beginning January 1, 2020);
- 2100 MHz band: 2 x 19.6 MHz (FDD), 10 MHz (TDD); and
- 2600 MHz band: 2 x 25 MHz (FDD), 25 MHz (TDD).

The frequency award procedure for the 800, 900 and 1800 MHz frequency bands took place in Q4/2013 as a combinatorial clock auction. A1 participated in this auction of both new and existing frequencies. This does not affect the remaining license duration in the 900/1800 MHz ranges (2015-2017). See however "Risk Factors—Regulatory, legal and compliance risks—Telekom Austria Group is continuously involved in disputes and litigation with regulators, competition authorities, tax authorities, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on Telekom Austria Group's results of operations and financial condition." In addition, the Group expects a public tender of 2100 MHz frequencies in Austria in 2019.

Frequency trading

Under certain circumstances, the TKG 2003 allows companies that hold frequency usage rights to transfer such rights to other operators. However, such transfers require prior approval by the TKK. The TKK shall consent to spectrum trading, unless the trading has detrimental effects on the technical conditions for the spectrum use or on the efficiency of competition in the market. Approval decisions by the TKK can provide for certain conditions for the spectrum trading. The TKK is required to publish the application and its decision to approve or reject the transfer of frequency usage rights. Furthermore, TKK approval is required not only for the transfer of frequency usage rights to another entity, but also for a substantial change in the ownership structure of a frequency usage rights holder.

Consequently, the TKK has approved with decision F 5/14-11 the indirect change of the ownership structure of A1 following the conclusion of the Shareholders' Agreement between América Móvil, Carso Telecom and ÖIAG. If required as a result of the issuance of the New Shares including the acquisition of New Shares by the Core Shareholders A1 will apply for an approval of the indirect change in the ownership structure of A1.

Market consolidation

The acquisition of Orange Austria by Hutchison 3G Austria Holding was approved by the European Commission and the TKK in December 2012. In connection with this transaction, Telekom Austria Group acquired YESSS! from Orange Austria.

Ex-ante regulation: Market analysis

The TKK has the duty to carry out market analyses pursuant to sections 36 et seq. TKG 2003 at regular intervals. The purpose of the market analysis procedure is to determine whether there is a relevant market that is subject to sector-specific regulation (market definition). The next step involves analyzing whether one or more of the companies have significant power over this market, what challenges there are to competition in this market, and whether there is effective competition (market analysis). If there is no effective competition predominant within the market in question, suitable measures are required to effectively eliminate the identified competition challenges.

In contrast to general competition law, sector-specific ex ante regulatory instruments can be imposed without any previous abuse of market power.

Remedies are instruments of the regulation of operators with significant market power and are imposed in the course of market analysis proceedings. These proceedings are conducted on a regular basis as part of the EU regulatory framework in order to assess competition and market development in the sector. Austria is among those countries most advanced with its market analysis. As of the date of this Prospectus, already the fourth round of market analysis has been finalized by the TKK.

A1 has been found to be holding a dominant market position subject to sector-specific regulation in the following markets:

- retail market for access to the public telephone network at a fixed location for residential customers;
- retail market for access to the public telephone network at a fixed location for business customers;
- wholesale market for physical network infrastructure access at a fixed location;
- wholesale broadband access market with regard to business customer products;
- wholesale markets for call termination on individual public telephone networks provided at a fixed location;
- wholesale markets for voice call termination on individual mobile networks;
- wholesale market for terminating segments of leased lines and of Ethernet services with guaranteed bandwidth up to 2,5 Gbit/s (including terminating segments of dark fiber).

Under section 38 TKG 2003, the TKK may require companies with significant market power to publish reference offers. In the reference offer, the company is required to indicate sufficiently detailed subservices, break down the relevant services offered into components according to market needs and state the associated terms and conditions, including prices.

The following market analysis decisions currently impose on A1 obligations to publish such reference offers:

- wholesale market for call origination on the public telephone network at a fixed location: M 1.9/12-81 of September 30, 2013;
- wholesale market for call termination on individual telephone networks provided at a fixed location (A1): M 1.8/12-148 of September 30, 2013;
- wholesale market for physical network infrastructure access at a fixed location: M 1.1/12-106 of December 16, 2013;
- wholesale broadband access market with regard to products for business subscribers: M 1.2/12-94 of December 16, 2013;
- market for terminating segments of leased lines up to and including 2,048 Mbit/s: M 7/09-111 of May 17, 2010;
- wholesale market for terminating segments of leased lines and of Ethernet services with guaranteed bandwidth up to 2,5 Gbit/s (including terminating segments of dark fiber): M 1.5/12-135 of July 27th , 2014

Unbundling

The TKK has identified A1 as a company with significant market power on the wholesale market for unbundled access and, at the same time, imposed specific obligations.

In order to remedy the identified competition problems, the TKK ordered A1 to grant access (including shared use) to unbundled loops and sub-loops as well as ancillary services (for example collocation). A1 is also subject to obligations not to discriminate, to base its charges on "retail minus" (with a ceiling amounting to the cost of efficient service provision according to "FL-RAIC"), to use separated accounts and to publish a reference offer. As a consequence of the changes in the competition landscape by the incumbent's next generation access rollout, the TKK's order additionally contains further provisions regarding the use of the transmission system VDSL-2 (including the "vectoring" system extension), the publication of reference offers on access to ducts and dark fiber, new services in the context of "virtual unbundling" and additional transparency by indicating concrete access network specifics on access seeker's request against cost-reimbursement.

A1 published virtual unbundling local access ("**VULA**") for the first time in late 2011 and amended it in 2014. The VULA-offer does not involve direct sharing of physical infrastructure, but needs to be as similar as possible to physical unbundling, especially with regard to the product design and pricing possibilities on the part of the wholesale customers.

Broadband

Access to A1's broadband bitstream enables internet service providers to offer their customers broadband internet services. Together with unbundling, this form of access is the most significant obligation; it enables alternative internet service providers to offer broadband internet access to their own retail customers.

The existing market definition of the wholesale broadband access market has been modified due to the increasing substitution of fixed-network broadband subscriptions by mobile broadband subscriptions supported by demand-side studies. The market currently comprises the provision of bi-directional broadband access to non-residential subscribers at the wholesale level exclusively by means of DSL services based on copper-wire pairs regardless of whether fiber is used to connect the subscriber at a given concentration point.

In the latest market analysis decision on this market, TKK imposed, among other things, a non-discrimination obligation, the obligation to grant access to the broadband bitstream and a price regulation based on a "retail minus" calculation avoiding a margin squeeze on alternative network operators.

Another area of regulatory activity is interconnection. Pursuant to section 48 TKG 2003, every operator of a public communications network is obliged to make an offer for interconnection to other operators of such networks on request. If no interconnection agreement is reached between the operators, each of the parties has the option of appealing to the TKK.

In the context of interconnection, A1 is subject to regulation concerning origination and termination services (both at the local level), where the main obligations are strict cost orientation of interconnection fees, non-discrimination and the publication of an actual reference interconnection offer. Origination and termination fees are in general applied symmetrically.

Concerning interconnection fees, national regulatory authorities must follow the EC recommendation on termination rates when setting new levels for MTRs or FTRs in Europe. The TKK has already applied the new cost model by calculating FTRs and MTRs in the current fourth round of market analysis proceedings followed by a final decision on new FTR and MTR rates that have been valid since November 1, 2013. The symmetrical MTR level has decreased from initially EUR 0.0201 to EUR 0.008049 per minute and FTRs have decreased from formerly the highest level in Europe EUR 0.007 to EUR 0.00122 on average per minute.

Universal services

Section 26 TKG 2003 defines universal service as the minimum set of public services to which all end users must have access at an affordable price, regardless of their place of residence or work. Universal service must be available nationwide and at a specified quality level (section 27 TKG 2003).

The TKG 2003 and respective administrative ordinances define rules for the provision of universal services which cover access to public voice call services, directory services, public payphone services and the provision of a public telephone directory. The provision of universal services must be tendered by the TKK and is to be assigned to an appropriate operator in the bidding process.

Under section 31 TKG 2003, the provider of universal service is to be compensated for the verifiable costs incurred in the provision of universal service which cannot be recovered despite efficient management where those costs constitute an unreasonable burden. A1 as universal service provider has in the past reached private agreements with each of the alternative telecommunication operators regarding the amount of compensation. Therefore, it was not necessary to establish a universal service fund to cover the costs.

The quality criteria for universal service are defined in a so-called universal service ordinance. These include target values for the time limit for providing a connection, outage frequency, billing accuracy and voice transmission quality. Under section 27 TKG 2003, A1 is required to provide RTR with an annual report on the extent to which it has fulfilled these criteria. The TKK's review of the 2012 report did not give rise to any objections to key parameters.

Consumer rights

Each operator must notify general terms and conditions for its service provision to the regulatory authority prior to the launch of the service. The regulator may refuse approval of the terms and conditions in case they violate the TKG 2003 or consumer protection law requirements. Furthermore, any amendments to general terms and conditions that are not entirely favorable to the consumers must be notified at least two months prior to their implementation. Such changes must also be notified to the customers one month prior to the implementation and the customers must be granted a right to immediate termination of their contracts free of charge.

Data protection and interception

The TKG 2003 includes a number of data protection rules specific to the telecoms sector.

In particular, personal customer data, traffic data, location data and content data may only be collected and processed for specifically listed purposes in the context of the provision of communications services.

The TKG 2003 also imposes a general obligation on telecommunications operators to enable the interception and surveillance of traffic, if so ordered by a competent authority under the Austrian Criminal Procedure Act.

International roaming

With respect to the wholesale international roaming market, on June 30, 2007, EC Regulation No. 717/2007 of the European Parliament and of the Council on roaming on public mobile telephone networks within the Community and amending Directive 2002/21/EC (the "**EU Roaming Regulation**") came into effect. The EU Roaming Regulation provides a steady reduction in retail and wholesale roaming charges for calls made/received from destinations within the EU and the EEA. On July 1, 2009, EC Regulation No. 544/2009 of June 18, 2009 (the "**EU Roaming II Regulation**") came into effect and amended the EU Roaming Regulation. The EU Roaming II Regulation reduced the caps applicable to roaming voice charges, while extending the glide path for roaming voice charges until June 30, 2012 and introduced a cap on the roaming charges that operators can charge for SMSs and mobile data services.

In 2011, the European Union decided to introduce additional comprehensive regulatory measures for intra-communal roaming tariffs under EU Regulation No. 531/2012 of the European Parliament and of the Council of June 13, 2012 on roaming on public mobile communications networks within the Union (the "**EU Roaming III Regulation**"), which came into effect on July 1, 2012. The EU Roaming III Regulation introduces, among others, a glide path reduction in wholesale and retail voice services, SMS, data cap mechanisms, and an obligation to publish a wholesale reference offer to provide wholesale roaming services on a predefined basis. The EU Roaming III Regulation also introduces, starting from 2014, an obligation for domestic mobile network operators to implement specific mechanisms for the separate sale of regulated retail roaming services in order to enable their customers to access regulated voice, SMS and data roaming services, provided as a bundle by any alternative roaming provider.

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 starting in 2014. Price regulation continues also for voice, messaging and data services. These regulations affect Telekom Austria Group's mobile communication companies in the EU member states of Austria, Bulgaria, Croatia and Slovenia.

In March 2013, the BEREC published its guidelines on the EU Roaming III Regulation (excluding articles 3, 4 and 5 on wholesale access and separate sale of services).

REGULATION IN OTHER MARKETS

The Group's subsidiaries outside of Austria are subject to far reaching regulatory provisions in their respective national markets. However, decisions on regulation are not just made at national level. They are also increasingly made at the EU level, such as for example the roaming regulations, which apply equally to all EU member states. In most countries, the Group's management also expects termination rates to remain constant over the next twelve months, except in Bulgaria, Croatia and the Republic of Serbia, where lower termination rates will be implemented by January 2015, as described below.

Bulgaria

Bulgaria became a EU member state on January 1, 2007 and was required to adapt its regulatory framework to EU standards. The mobile termination rates were lowered as a consequence of the accession of Bulgaria to the EU and will be lowered again to 0.97 Eurocent by January 2015. The currently applicable cost calculation model is based on the European Commission recommendation.

Strict consumer protection rules are one of the prevailing issues for network operators in Bulgaria. The Bulgarian Consumer Protection Commission is frequently proposing new measures. Amendments to the Bulgarian Consumer Protection Act relating to changes regarding general terms and conditions have been adopted recently.

On April 15, 2014, Telekom Austria Group's Bulgarian subsidiary Mobiltel prolonged its existing 2 x 11.2 MHz in the 900-MHz spectrum band and 2 x 10 MHz in the 1800-MHz spectrum band for a total amount of EUR 30.6 million. The allocated spectrum remains the same. In addition to the one-off prolongation cost, Mobiltel must pay an annual spectrum fee of EUR 2.2 million, which remains unchanged. The spectrum has a maturity of ten years and expires on June 8, 2024. The terms of the Bulgarian prolongation were set by the Communications Regulation Commission. In addition, the Group expects an allocation of 1,800 MHz frequencies in 2015.

Croatia

Croatia became a member state of the EU on July 1, 2013 and was required to adapt its regulatory framework to EU standards. International termination rates in Croatia were rapidly reduced as a consequence of Croatia's accession to the EU and will be reduced further 0.83 Eurocent by January 2015.

One of the current national regulatory challenges for network operators in Croatia are the spectrum usage fees recently increased in Croatia. Investigations are ongoing whether these spectrum usage fee increases comply with European law. In addition, the Croatian National Regulatory Authority is closely monitoring the recent price increases undertaken by all three mobile operators in Croatia potentially with a view to challenge such increases.

In Croatia, the Group expects tenders for frequencies in the 1,800 MHz, 2,100 MHz and 2,600 MHz bands in the upcoming years.

Belarus

The regulatory framework in Belarus used to be characterized by a monopoly situation and strong influence by the state authorities. However, more recently a presidential decree terminated the monopoly of the national incumbent provider regarding international interconnection and granted to the President the right to define a list of international providers. The President was entrusted to create a telecom provider under Presidential administration supervision; the entity so created, the National Center for Traffic Exchange ("**NCTE**") was endowed with a right of international interconnection. On February 12, 2014, NCTE started operation and velcom is the first operator to use the alternative provider for national and international traffic. In Belarus, no official information is available on future frequency tenders or auctions and 900 MHz and 1,800 MHz frequencies are currently automatically prolonged without additional costs, a situation which could change in the future.

Slovenia

Slovenia became a member state of the EU on May 1, 2004 and was required to adapt its regulatory framework to EU standards including the reduction of termination rates. In September 2014, the termination rates were scheduled to be lowered again to 1.14 Eurocent but the final decision is still pending.

In April 2014, an auction was held for the assignment of radio frequencies for the provision of public communication services in Slovenia. Si.mobil acquired 48 % of the spectrum offered during such auction for a consideration of EUR 63.9 million. The acquired spectrum consists of 800 MHz FDD (2 x 10 MHz), 900 MHz FDD (2 x 15 MHz), 1,800 MHz FDD (2 x 30 MHz), 2,600 MHz FDD (2 x 35 MHz), 2,100 MHz TDD (1 x 20 MHz) and 2,600 MHz TDD (1 x 25 MHz). The newly acquired spectrum will be available for a period of 15 years. In addition to these auctions, there is no official information on future frequency auctions or tenders, but the Group believes it is possible that spectrum that was not acquired during previous auctions may be sold via a tender in the future.

The Republic of Serbia

Telekom Austria Group believes that the regulatory framework in the Republic of Serbia will be gradually harmonized with EU regulations as a result of the Republic of Serbia's EU association talks and termination rates will be reduced to 3.01 Eurocent by January 2015.

One of the regulatory challenges the Group's Serbian subsidiary Vip mobile is currently facing is that large parts of the mobile spectrum are not available to Vip mobile, although the spectrum was designated for the purpose of electronic communications services in 2012. Without a redistribution of spectrum there is no level playing field regarding frequency use in Serbia, since Vip mobile has been assigned less spectrum in the range of 900 MHz than its two main competitors.

In the Republic of Serbia, the Group expects the regulator to allocate 1,800 MHz frequencies in the first quarter of 2015, possibly via competitive tenders.

The Republic of Macedonia

Telekom Austria Group believes that the regulatory framework in the Republic of Macedonia will be gradually harmonized with EU regulations as a result of the Republic of Macedonia's EU association talks.

A new Electronic Communications Law, prepared under the EC Regulatory Framework 2009, entered into force on March 4, 2014. The relevant bylaws are to be enacted by the end of 2014.

The asymmetrical national MTR regime in the Republic of Macedonia has come to an end. As of November 1, 2013 a new symmetrical MTR regime entered into force based on the pure long run incremental cost level of 1.95 Eurocents per minute.

Based on the predefined glide-path, the national MTRs will further drop to 1.46 Eurocents per minute beginning September 1, 2014. New market analysis of the wholesale market for termination of voice traffic in mobile networks is expected to be released by the end of 2014. Furthermore, the national SMS termination rate has decreased from 3.25 Eurocents to a symmetrical level of 0.81 Eurocents as of January 1, 2014.

In the Republic of Macedonia, the Group expects that frequency licenses for 900 MHz and 1,800 MHz frequencies will be prolongated via tenders in the upcoming years.

CONNECTED CONTINENT – EU REGULATION PROPOSAL

The European Commission proposed a new regulation in order to create a European telecommunications single market in September 2013. The content of the package focuses on ways to abolish premium charges for roaming and international phone calls within Europe, on the legal protection of an open internet (net neutrality), on new and harmonized consumer rights as well as on harmonized spectrum assignments.

The legislative proposal needs to be negotiated with the European Parliament and the Council of the EU as co-legislators in order to become adopted. The European Parliament is quite sceptical about the legislative proposal and significantly cut down the original scope of the proposal during the first reading in April 2014. Most of what remains intact are balanced proposals, including the harmonization of spectrum auctions and license conditions. The European Parliament, however, proposed to completely abolish active retail roaming charges in the EU by December 15, 2015, but in addition, it proposed not to abolish surcharges for international calls. The definitions of the net neutrality provisions are still a highly controversial issue. Currently, negotiations at EU member states level are ongoing.

ROAMING IN THE BALKANS

National regulatory authorities in some CESEE countries have recently announced plans to pursue the establishment of a Balkan roaming zone with significantly reduced prices for roaming: On September 29, 2014, the Ministers of Telecommunications of the Republic of Serbia, the Republic of Macedonia, Bosnia and Herzegovina and Montenegro signed a treaty on the reduction of roaming charges in public mobile networks. The treaty, which is open for other countries, envisages a gradual reduction in roaming fees in the respective countries with a view to adjust to EU standards within the next three years. In addition, the contracting countries agreed to launch an initiative towards the EU that the EU directive on roaming charges also applies to citizens of the Republic of Serbia. Kosovo, Albania and Turkey are expected to join this roaming zone. If such measures are implemented, this would cause a decline in the Group's revenues and profitability.

SHAREHOLDER STRUCTURE

OVERVIEW

As of the date of this Prospectus and prior to the Offering, the shareholder structure of persons who have, directly or indirectly, a notifiable interest in the Company's capital according to disclosures made under section 92a paragraph 1 Stock Exchange Act is as follows (rounded percentage figures):

Shareholder	Number of Existing Shares	%
América Móvil[1]	264,470,131	59.70%
ÖIAG	125,917,735	28.42%

[1] América Móvil holds 7,935,700 of the shares of Telekom Austria (1.79%) directly and 256,534,431 shares of Telekom Austria (57.91%) via its wholly owned subsidiary Carso Telecom.

Source: Company information.

The remaining Shares are held in free float (including employee stocks and treasury shares). Except as set forth above, to the Company's knowledge, no other shareholder directly or indirectly owns more than 4% of the Existing Shares as of the date of this Prospectus.

Each Share in the Company carries one vote at the Shareholders' Meeting.

The following table shows the shareholder structure of persons who will have, directly or indirectly, a notifiable interest in the Company's capital (requiring a disclosure under section 92a paragraph 1 Stock Exchange Act) (rounded percentage figures) upon completion of the Offering, assuming the issuance and sale of all 221,500,000 New Shares, the subscription of (i) 132,235,065 New Shares (59.70%) by América Móvil group and (ii) 62,958,867 New Shares (28.42%) by ÖIAG and provided that no other person exceeds the thresholds pursuant to sections 91 and following Stock Exchange Act.

Shareholder	Number of Shares	%
América Móvil[1]	396,705,196	59.70%
ÖIAG	188,876,602	28.42%

[1] Under the assumptions set out above, América Móvil will hold 11,903,550 of the shares of Telekom Austria (1.79%) directly and 384,801,646 shares of Telekom Austria (57.91%) via its wholly owned subsidiary Carso Telecom.

Source: Company information.

TREASURY SHARES

At the ordinary Shareholders' Meeting held on May 29, 2013, the previous authorization for share buyback from 2012 was revoked and a new authorization was enacted, under which the Management Board was authorized to acquire treasury shares for a period of 18 months until November 2014 up to the maximum of 5% of the share capital at a minimum price of EUR 5 and at a maximum price of EUR 15 per share. Additionally, the Management Board was empowered to:

(a) use these treasury shares to settle obligations under the share-based compensation plans described below and/or to transfer them with or without consideration to employees, managers and members of the Management Board/management of Telekom Austria and of its affiliated companies;

(b) use them as consideration for acquisitions; or

(c) sell treasury shares at any time via the stock exchange or by public offer for a period of five years from the day of the resolution in any manner permitted by law, also other than via the stock exchange, whereby the Management Board is entitled to exclude the general purchase opportunity.

As of September 30, 2014, the Company held 415,159 treasury shares (representing approximately 0.09% of the total shares in the Company).

THE SHAREHOLDERS' AGREEMENT BETWEEN AMÉRICA MÓVIL AND ÖIAG

Information concerning the Shareholders' Agreement reflected in this section and this Prospectus is based solely on publicly available information. The Company is not a party to, and has no additional knowledge of the contents of the Shareholders' Agreement.

América Móvil through its wholly owned subsidiary Carso Telecom and ÖIAG entered into the Shareholders' Agreement dated April 23, 2014 for a 10 year term, which became effective on June 27, 2014.

The Shareholders' Agreement, among others, provides Carso Telecom and therefore ultimately América Móvil, with the industrial leadership and sole control of Telecom Austria, and ÖIAG with certain veto rights defining its role as a Core Shareholder in Telekom Austria. Moreover, the Shareholders' Agreement contains rules on the uniform exercise of voting rights in the corporate bodies of Telekom Austria, nomination rights for members of the Supervisory Board and Management Board and share transfer restrictions. As of the effectiveness of the Shareholders' Agreement, Carso Telecom obtained a controlling interest in Telekom Austria.

The following key undertakings, among others, ("Austrian Package") have been agreed upon between Carso Telecom and ÖIAG:

- Telekom Austria's headquarters, main corporate and business functions, including research and development, shall remain in Vienna, Austria.
- Telekom Austria Group shall retain technological leadership in the Austrian telecommunication market and comply with technology standards of the European Union.
- Carso Telecom and ÖIAG acknowledge that Telekom Austria Group's employees, in particular its civil servants, are subject to specific legal provisions under Austrian employment and constitutional laws and will ensure that Telekom Austria Group shall at all times comply with such provisions.
- ÖIAG and Carso Telecom acknowledge that Telekom Austria Group is subject to certain specific legislation such as the TKG 2003 and contractual agreements with the Republic of Austria safeguarding public interests (provision of telecommunication services, information rights of public entities and communication infrastructure in crises). ÖIAG and Carso Telecom shall ensure, to the extent legally possible, that Telekom Austria Group complies at all times during the term of such legislation or agreements with such provisions.
- ÖIAG and Carso Telecom undertake that Telekom Austria Group while improving its overall performance will take into consideration the interests of the various stakeholders including the interests of the Austrian workforce.
- ÖIAG and Carso Telecom agreed that, unless ÖIAG exercises a veto in connection with capital increases, telecommunications operations in Austria, in countries where Telekom Austria is active already and in defined central and eastern European countries, including Poland, Czech Republic, Hungary, Slovakia, Romania, Albania and Ukraine, shall exclusively be conducted through Telekom Austria Group which shall have strategic and management responsibility of such operations.
- Listing of Telekom Austria on the Vienna Stock Exchange, in the Official Market, segment prime market shall be retained.
- ÖIAG and Carso Telecom agreed that during the term of the Shareholders' Agreement the free float shall represent at least 24% of the outstanding shares of Telekom Austria. This minimum freefloat threshold is based on ÖIAG having a maximum shareholding in Telekom Austria of 25% plus one share. As long as ÖIAG holds more than 25% plus one share, the minimum freefloat threshold is lowered accordingly to allow América Móvil group to reach a shareholding of 51% in Telekom Austria. If during the term of the Shareholders' Agreement the free float falls below the minimum freefloat threshold, (i) Carso Telecom has committed to sell Shares to the market within the consecutive twenty-four months and (ii) América Móvil has undertaken that it and its subsidiaries will not acquire Shares until such minimum freefloat threshold is reached again.

  ÖIAG and Carso Telecom also agreed under the Shareholders' Agreement that Carso Telecom may participate in the Rights Offering pro rata to its current participation in the Company and that Carso Telecom may take up Shares for which Existing Shareholders have not exercised their Subscription Rights.

Consequently, ÖIAG and América Móvil have agreed that except for the transactions contemplated under this Prospectus and the Shareholders' Agreement, América Móvil and its subsidiaries shall not acquire Shares until the minimum freefloat threshold is reached again.

Supervisory Board

The Supervisory Board consists of 10 shareholder elected members, eight of which were nominated by Carso Telecom and two of which were nominated by ÖIAG. ÖIAG nominated the chairman of the Supervisory Board, who does not have a casting vote, while Carso Telecom nominated the deputy chairman. Via the majorities in the Supervisory Board and Supervisory Board committees Carso Telecom (and ultimately América Móvil) controls the Supervisory Board while ÖIAG has veto rights.

Management Board

The Management Board will consist of three members, two of which, namely the chief financial officer and the chief operations officer/chief technology officer will be nominated by Carso Telecom, while one management board member, namely the chief executive officer, will be nominated by ÖIAG. The chief executive officer will not have a casting vote. Via the majority in the Management Board, Carso Telecom will control the Management Board, while ÖIAG will have certain veto rights.

Standing Committee

Carso Telecom and ÖIAG formed a standing committee (*Syndikatsversammlung*, the "**Standing Committee**") which discusses and decides on all matters that are on the agenda of a Shareholders' Meeting or a Supervisory Board meeting. The Standing Committee consisting of four members (two nominated by Carso Telecom and two nominated by ÖIAG) is controlled by Carso Telecom via casting vote in all matters except where ÖIAG veto matters are concerned.

Veto rights of ÖIAG

As long as ÖIAG holds 25% plus one share or more of the registered share capital of Telekom Austria, ÖIAG has, in addition to the mandatory statutory minority blocking rights of a 25% plus one share-minority shareholder, in particular the following veto rights ("**Vetoes**"):

- veto on capital increases in the Group;
- appointment of the statutory auditors;
- related party transactions;
- relocation of the headquarter and major business functions including research and development;
- sale of core businesses; and
- amendment of the corporate name of Telekom Austria and of trademarks of Telekom Austria Group.

In the event ÖIAG's shareholding in Telekom Austria falls below 25% +1 share of the registered share capital of Telekom Austria for the first time, ÖIAG will, in the corridor between 25% and 15%, retain the Vetoes except for the veto on capital increases or other dilutive measures; moreover, ÖIAG will lose the mandatory statutory minority blocking rights of a 25% plus 1 share-minority shareholder. In the event ÖIAG's shareholding falls below 15% of the registered share capital of Telekom Austria for the first time, ÖIAG's Vetoes shall be further limited. The Shareholders' Agreement automatically terminates if a shareholder falls below 10%.

Certain veto rights of ÖIAG are also provided for in the Articles of Association (see "Information on the share capital of the Company, applicable regulations and description of the Articles of Association—Summary of the Articles of Association—Shareholders' rights—Voting rights and majority requirements").

The Company believes that Austrian law, including takeover rules and the principle of equal treatment of the shareholders, and the balance reached between Carso Telecom and ÖIAG under the Shareholders' Agreement provide sufficient measures to ensure that the control rights of controlling shareholders are not abused.

Capital increase

As part of the Shareholders' Agreement, Carso Telecom and ÖIAG have agreed, subject to the closing of the Public Takeover Offer and the approval by the Shareholders' Meeting, to vote in favor of and support a capital increase in Telekom Austria of EUR 1,000,000,000 (maximum). In this regard, the Shareholders' Meeting held on August 14, 2014 adopted an applicable authorized capital (see "Information on the share capital of the Company, applicable regulations and description of the Articles of Association—Share capital—Capital increase in connection with the Offering").

INDIRECT SHAREHOLDERS OF THE COMPANY'S MAIN SHAREHOLDERS

América Móvil

The following table sets forth América Móvil's capital structure as of September 30, 2014:

share class	shares (million)	% (capital)	% of A-shares and AA-shares (combined)[1]
L–shares	44,754	65%	---
AA-shares	23,384	34%	97.3%
A-shares	649	1%	2.7%
Sum	**68,787**	**100%**	**100%**

[1] The AA-shares and A-shares of América Móvil are entitled to elect together a majority of América Móvil's directors

Source: Company information.

Holders of series "AA" and series "A" shares have full voting rights. Holders of series "L" shares have limited voting rights and are entitled to elect two members of the board of directors of América Móvil.

According to reports of beneficial ownership of América Móvil's shares filed with the U.S. Securities and Exchange Commission, Mr Carlos Slim Helú, together with his sons and daughters, may be deemed to control América Móvil through their interests in a Mexican trust that holds AA Shares and L Shares for their benefit, their interest in Inmobiliaria Carso, S.A. de C.V. and their direct ownership of América Móvil's shares.

ÖIAG

ÖIAG is the participation and privatization agency of the Republic of Austria, which currently holds three major participations in (i) OMV AG, (ii) Österreichische Post AG and (iii) Telekom Austria. Participation and privatization management is the main task and duty of ÖIAG pursuant to the ÖIAG-Act. The Republic of Austria is the sole shareholder of ÖIAG.

TRANSACTIONS AND LEGAL RELATIONSHIPS WITH RELATED PARTIES

BUSINESS RELATIONSHIPS WITH RELATED PARTIES

The significant shareholders América Móvil group as well as ÖIAG are considered related parties due to their stake in the Company allowing them to exercise significant influence.

In May 2014, Telekom Austria Group signed a wholesale partnership agreement with América Móvil to create one of the world's largest fiber networks. The partnership encompasses the interconnection of the networks of Telekom Austria Group and América Móvil group offering voice, roaming, data and mobile solution services. The fiber network connection of the networks will be established between Miami and Vienna with a back-up between Dallas and Frankfurt.

Through ÖIAG, Telekom Austria Group is related to the Republic of Austria and its participations, which are mainly ÖBB group, ASFINAG group, Österreichische Post AG and its subsidiaries as well as RTR, all of which qualify as related parties. None of the individual transactions associated with government agencies or government-owned entities are considered significant to Telekom Austria Group except for the acquisition of licenses at the Austrian spectrum auction (see "Business—Principal investments"). In the financial years 2013, 2012 and 2011, services received from the related parties mentioned above mainly relate to postage fees, transportation, and commissions and fees to RTR and amount to less than 3.8%, 2.0% and 1.3%, respectively, of the material expenses and other operating expenses of the Group recognized in the Austria segment. In the financial years 2013, 2012 and 2011, revenues generated by transactions with these related parties were below 3.2%, 2.7% and 2.4%, respectively, of the total revenues in the Austria segment.

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 July 2011 government contract specifies the reimbursement for customers having a valid official notice issued before July 1, 2011 of EUR 13.81 per customer per month. The reimbursement for customers having a valid official notice issued after July 1, 2011 amounts to EUR 10.00 per customer per month. The total reimbursement recorded as revenue in the service period was EUR 12,523,000, EUR 20,382,000, EUR 24,834,000 and EUR 32,765,000 in the nine months ended September 30, 2014 and in the financial years 2013, 2012 and 2011, respectively.

Regarding the civil servants (*Beamte*) employed by the Group and/or transferred to the government and the related expenses, provisions and liabilities, see "Business—Employees".

The revenues from and expenses charged to associates are set forth in the following table:

in TEUR	**Nine months ended September 30**	**Financial year ended December 31**		
	2014	**2013**	**2012**	**2011**
Revenues	112	60	111	132
Other operating income	96	13	1	19
Expenses	15,534	28,436	24,337	40,145

Source: Consolidated Financial Statements and Company information.

In the nine months ended September 30, 2014 and in the financial years, 2013, 2012 and 2011, the expenses set out in the table above related primarily to advertising and marketing services provided by Telekom Austria's associate media.at GmbH.

As of September 30, 2014 and December 31, 2013, 2012 2011, the Group's accounts receivable from associated parties and accounts payable due to associated parties related primarily to media.at GmbH and were as follows:

in TEUR	**September 30, 2014**	**December 31, 2013**	**December 31, 2012**	**December 31, 2011**
Accounts receivable	778	58	7	85
Accounts payable	-4,273	-5,891	-7,775	-9,816

Source: Company information.

From June 28, 2001 to May 29, 2013, a partner of a law firm that provided legal services to Telekom Austria Group was a member of the Supervisory Board. Up to her resignation as Supervisory Board member in 2013 and in the full financial years 2012 and 2011, Telekom Austria Group was charged TEUR 159, TEUR 1,679 and TEUR 753 respectively, for legal services provided by this law firm.

The services rendered to and received from related parties are provided at standard market terms and conditions.

RELATIONSHIP WITH MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Regarding the relationships between the Company and members of the Management Board and the Supervisory Board as well as regarding their respective compensation, please see "Corporate bodies, management and corporate governance overview—Management Board—Management Board compensation" and "Corporate bodies, management and corporate governance overview—Supervisory Board—Supervisory Board compensation".

GENERAL INFORMATION ON THE COMPANY

LEGAL AND COMMERCIAL NAME, FINANCIAL YEAR, REGISTERED OFFICE

The Company is a stock corporation established under Austrian law for an indefinite period of time. The Company's legal name is "Telekom Austria Aktiengesellschaft". Its registered seat is Vienna, Austria, and its business address is Lassallestraße 9, A-1020 Vienna, Austria. The Company was incorporated in 1996. The Company may be reached at its business address as well as by phone (+43 50 664 47500) or by e-mail at investor.relations@telekomaustria.com. The Company is registered with the Companies Register of the commercial court (*Handelsgericht Wien*) of Vienna under registration number FN 144477 t. The Company's financial year commences on January 1 and ends on December 31. The Company's as well as the Group's commercial name is "Telekom Austria Group".

HISTORY OF THE GROUP

1887 – K.K Post- und Telegrafenverwaltung

In 1887, all responsibilities for the telephone sector were integrated in the K.K Post- und Telegrafenverwaltung. Thus, for over 100 years telecommunications had been administrated by the state.

1996 – Formation of Post- and Telekom Austria AG

In 1996, the Austrian Post Restructuring Act (*Poststrukturgesetz*) was passed. An independent company was created out of the Post- und Telegrafenverwaltung (PTV): Post- und Telekom Austria AG. The entire share capital was held by the Post und Telekommunikationsbeteiligungsverwaltungsgesellschaft ("**PTBG**"), a holding company wholly owned by the Republic of Austria. Post- und Telekom Austria AG held several telecommunications companies that operated independently.

1997 – Sale of Shares to Telecom Italia

As preparation for partial privatization, in April 1997 Post- und Telekom Austria AG sold 25.00007% of its share capital in Mobilkom to Telecom Italia.

1998 – Telekom Austria Aktiengesellschaft

In 1998, the Austrian telecom market was fully deregulated. Post- und Telekom Austria AG was split. The telecommunications segment was transformed into the independent Telekom Austria.

Some months later Telecom Italia acquired 25.00007% of Telekom Austria.

1998 Mobilkom founded the Croatian mobile communications subsidiary VIPnet.

2000 – Expansion of the international commitment

In July 2000, Telekom Austria Group took over the internet service provider Czech On Line a.s in the Czech Republic.

mobilkom liechtenstein, then a wholly owned subsidiary of Mobilkom, started operations in September 2000.

In October 2000, Mobilkom expanded its international business in Croatia and increased its stake in VIPnet to 61%.

Telekom Austria's initial public offering: In January 2000 PTBG merged with ÖIAG, an industrial holding wholly owned by the Republic of Austria. On November 21, 2000, Telekom Austria stocks were listed for the first time on the Vienna Stock Exchange and New York Stock Exchange (NYSE).

2001 – Entry into the Slovenian market

Mobilkom acquired a controlling stake in the Slovenian mobile communications provider Si.mobil.

2002 – Beginning of Telecom Italia's withdrawal

Telecom Italia sold a total of 75 million Telekom Austria shares in November 2002. Free float increased to 38%.

In June 2002, Telekom Austria Group acquired Telecom Italia's 25.001% stake in Mobilkom.

2004 – Sale of Telecom Italia's Shares

Telecom Italia sold 73.9 million shares of Telekom Austria. Following this transaction Telekom Austria's free float rose to 52.8%. ÖIAG held the remaining stake.

In December 2004, ÖIAG sold 85 million Telekom Austria shares to institutional investors. Free float rose to 69.8%.

Following several minor intermediate steps, Mobilkom acquired the remaining 1% in its Croatian subsidiary VIPnet, increasing its stake to 100%.

2005 – Acquisition of Mobiltel Bulgaria

In July 2005, Telekom Austria Group finalized the acquisition of the Bulgarian mobile communications provider Mobiltel. Mobiltel is the mobile market leader in Bulgaria (based on Telekom Austria Group's internal data).

2006 – Acquisitions in South-Eastern Europe

Si.mobil, the Slovenian mobile subsidiary of Telekom Austria Group, acquired nationwide UMTS frequencies for Slovenia in September 2006.

In November 2006, Mobilkom won the tender for the GSM 900/1800 and the UMTS license for the territory of the Republic of Serbia.

Telekom Austria Group acquired the operating subsidiaries of the integrated operator eTel in December 2006. eTel has operations in Central Eastern Europe.

2007 – Expansion in Eastern and South-Eastern Europe

At the end of March 2007, Telekom Austria Group acquired the third mobile license in the Republic of Macedonia. Only six months later, Vip Operator launched commercial operations in September 2007.

Delisting from the New York Stock Exchange: Effective May 17, 2007 Telekom Austria delisted on the New York Stock Exchange. Its American Depository Receipts (ADR) started to trade over-the-counter under a Level I ADR Program on May 17, 2007.

In July 2007, Vip mobile launched commercial operations only a few months after the acquisition of the license in the Republic of Serbia.

Telekom Austria Group expanded further with the acquisition of a 70%-stake in MDC (now velcom) in Belarus in November 2007 (the remaining 30% were acquired in October 2010).

2010 – A1

In Austria, the mobile communication (Mobilkom) and fixed net segments (Telekom Austria TA AG) were merged into A1 to respond to the global trend towards convergence of fixed net and mobile communication services.

2011 – Cable operator in Croatia

In June 2011, Telekom Austria Group acquired B.net, the largest cable operator in Croatia via its Croatian subsidiary VIPnet. Telekom Austria Group is therefore able to offer fixed voice, broadband, and TV services within Croatia.

2012 – América Móvil acquires 22.76% of Telekom Austria Group

As of June 15, 2012, Carso Telecom and América Móvil held 4.96% and 1.7914% of the Shares, respectively. On September 25, 2012 Carso Telecom acquired an additional 16.01% of the Shares.

2013 – Acquisition of YESSS! and frequencies

In January 2013, Telekom Austria Group acquired the mobile operator YESSS!, as well as frequencies, base station sites and certain intellectual property rights owned by Orange Austria. In October 2013, Telekom Austria Group also acquired an additional frequency spectrum for EUR 1.03 billion.

2014 –Shareholders' Agreement between América Móvil and ÖIAG and takeover by América Móvil

See "Business—Recent events" and "Shareholder structure—The Shareholders' Agreement between América Móvil and ÖIAG".

RELATIONSHIP BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF THE COMPANY

As an Austrian stock corporation, the Company has a two-tier corporate structure, consisting of the Management Board and the Supervisory Board. The Management Board is responsible for the daily management, while the Supervisory Board has a supervisory function without being involved in the daily management of the Company. For further information on the Management Board and Supervisory Board, see "Corporate bodies, management and corporate governance overview—Management Board" and "Corporate bodies, management and corporate governance overview—Supervisory Board".

CORPORATE STRUCTURE

The Company is the holding company of Telekom Austria Group. The table below shows the significant subsidiaries of Telekom Austria as of September 30, 2014, which have not changed since September 30, 2014 until the date of this Prospectus.

Name of company	Country of incorporation	Proportion of ownership interest	If different, proportion of voting power held
A1	Austria	100%	-
Mobiltel	Bulgaria	100%	-
VIPnet	Croatia	100%	-
velcom	Belarus	100%	-
Si.mobil	Slovenia	100%	-
Vip mobile	Republic of Serbia	100%	-
Vip Operator	Republic of Macedonia	100%	-

Source: Company information.

For further details regarding the Company's corporate structure, see "Business—History and development of the Company's business—Overview of Telekom Austria Group's organizational structure".

AUDITORS

Deloitte Audit Wirtschaftsprüfungs GmbH (FN 36059 d), Renngasse 1/Freyung, A-1013 Vienna, Austria, certified public auditors and members of the Austrian Chamber of Chartered Accountants (*Kammer der Wirtschaftstreuhänder*), audited the German language Consolidated Financial Statements of the Company which were prepared in accordance with IFRS, as adopted in the EU for the financial year ended December 31, 2013, and issued an unqualified auditor's report (*uneingeschränkter Bestätigungsvermerk*) dated February 13, 2014.

KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (FN 269873 y), (operating under the name "KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft" until April 4, 2012), Porzellangasse 51, A-1090 Vienna, Austria, certified public auditors and members of the Austrian Chamber of Chartered Accountants (*Kammer der Wirtschaftstreuhänder*), audited the German language Consolidated Financial Statements of the Company which were prepared in accordance with IFRS, as adopted in the EU for the financial years ended December 31, 2011 and December 31, 2012, and, in each case, issued an unqualified auditor's report (*uneingeschränkter Bestätigungsvermerk*) dated February 18, 2013, and February 13, 2012, respectively.

NOTICES, DEPOSITORY, PAYING AGENT

Pursuant to the Stock Corporation Act (*Aktiengesetz*), notices must be published in the Official Gazette. Oesterreichische Kontrollbank Aktiengesellschaft, Am Hof 4, A-1010 Vienna, Austria, is the depositary bank (*Verwahrstelle*). Unicredit Bank Austria AG is the paying agent (*Zahlstelle*) for the Shares. The depository (*Hinterlegungsstelle*) may be any credit institution that has its registered seat in a member state of the EEA or in a country that is a full member of the Organization for Economic Co-operation and Development (OECD).

SPECIALIST/MARKET MAKER

As of the date of this Prospectus, Raiffeisen Centrobank AG acts as specialist and several additional market makers trade the Shares in accordance with the rules of the Vienna Stock Exchange and the prime market segment.

INFORMATION ON THE SHARE CAPITAL OF THE COMPANY, APPLICABLE REGULATIONS AND DESCRIPTION OF THE ARTICLES OF ASSOCIATION

The following summary provides information on the material terms of the Company's share capital as set out in the current Articles of Association as well as certain relevant provisions of the Stock Corporation Act. This description is only a summary and does not include all information contained in the Articles of Association. The Company encourages a full review of the Articles of Association and further information, which is available on the Company's website (http://cdn1.telekomaustria.com/final/de/media/pdf/TAG_Satzung.pdf). Information displayed on the Company's website is not incorporated by reference into this Prospectus.

SHARE CAPITAL

Registered share capital

As of the date of this Prospectus and prior to the Offering, the issued and fully paid-in registered share capital of the Company amounts to EUR 966,183,000, divided into 443,000,000 ordinary no-par value bearer shares. The calculated notional value of each existing share amounts to EUR 2.181. Each existing share confers one vote at the Shareholders' Meeting. All Shares, including the New Shares, are issued under Austrian law.

Form and certification of the Shares

The form and contents of the share certificates are determined by the Management Board. The Articles of Association exclude the shareholders' right to request the issuance of individual share certificates. Shares are certificated in one or, if applicable, several global certificates and deposited with a central securities depository pursuant to section 1 paragraph 3 Austrian Securities Deposit Act (*Depotgesetz*) or a comparable foreign institution.

Changes in the share capital in the past three financial years

The last change in the Company's share capital, namely a capital reduction by withdrawal of shares, was registered with the Companies Register on September 18, 2009. Thus, there have been no changes in the share capital of the Company in the past three financial years.

Capital increase in connection with the Offering

By resolution of the Shareholders' Meeting dated August 14, 2014, the Management Board was authorized as follows: "Pursuant to section 169 Stock Corporation Act, the Management Board, within five years of registration of the relevant amendment to the Articles of Association in the Companies Register, with the consent by the Supervisory Board, is authorized to increase the Company's share capital by a nominal maximum amount of EUR 483,091,500 by issuing up to 221,500,000 bearer shares against cash contribution, also in several tranches, (also indirectly through a credit institution pursuant to section 153 paragraph 6 Stock Corporation Act), and to fix the issue price, any other terms of the issue and any further details, and the Management Board may in particular issue new shares carrying dividend rights from the beginning of the business year in which the implementation of the increase of the share capital is registered in the Companies Register, provided and on condition that the net issue proceeds for the Company do not exceed EUR 1,000,000,000. The net issue proceeds shall be the total proceeds from the issue less any external costs resulting from the issue which are to be borne by the Company. The Supervisory Board is authorized to adopt any amendments to the Articles of Association resulting from the issue of shares from the Authorized Capital 2014." The change in the Articles of Association became effective on September 30, 2014.

On November 7, 2014, the Management Board resolved to increase the Company's share capital by up to EUR 483,091,500 in one or more tranches by the issuance of up to 221,500,000 no-par value ordinary bearer shares in return for contributions in cash. On November 7, 2014, the Supervisory Board approved such resolution. The final number of the New Shares to be issued and the Rump Placement Offer Price are expected to be determined by the Management Board with the approval of the Supervisory Board on or about November 25, 2014. Each New Share carries full dividend rights from and including the financial year starting January 1, 2014. Following the registration of the issuance of the New Shares and assuming that all 221,500,000 New Shares will be issued, the Company's share capital will amount to 1,449,274,500 and will be divided into 664,500,000 Shares.

Conversion and option rights

As of the date of this Prospectus, there are no conversion or option rights in respect of the Company's shares.

Description of any restrictions of the free transferability of the Shares

There are no principal restrictions on the transferability of the Company's shares. Investors, in particular international investors, however, are requested to inform themselves of any potential regulatory restrictions in relation to the acquisition of shares in the Company, in particular under merger control laws, the Austrian Foreign Trade Act (*Außenwirtschaftsgesetz – AußWG 2011*), the Austrian Telecommunications Act (*Telekommunikationsgesetz – TKG 2003*) and the Austrian Banking Act (*Bankwesengesetz – BWG*).

APPLICABLE PROVISIONS UNDER AUSTRIAN LAW

The following summary provides information on certain relevant provisions of the Stock Corporation Act. The summary of relevant provisions under Austrian law set forth hereunder is for general information only. It does not purport to be a comprehensive and complete description of all the topics discussed below.

General regulations on earnings appropriation and dividend payments

During the first five months of each financial year, the Management Board must prepare annual financial statements for the previous financial year, including the notes thereto and the management report. After the financial statements have been audited, the Management Board must present them, along with a proposal for the distribution of any net profit, to the Supervisory Board. The Supervisory Board must provide the Management Board with a statement on the annual financial statements within two months of their presentation. The Supervisory Board must also file a report to the Shareholders' Meeting. Pursuant to the Commercial Code and the Stock Corporation Act, the Company may only pay dividends out of distributable profits. Distributable profits are based on net profits (*Bilanzgewinn*), as shown in the Company's unconsolidated financial statements in accordance with the Commercial Code, after allocations have been made to reserves, including retained earnings. Distributable profits can also be based on retained earnings from previous financial years. The Management Board decides on the allocation of reserves, in particular retained earnings. On the basis of the Management Board's proposal and the Supervisory Board's report, the Shareholders' Meeting resolves whether dividends will be paid for any financial year and the amount and timing of any such dividend payment. The Shareholders' Meeting, in its resolution, is bound to the annual financial statements as prepared by the Management Board and approved by the Supervisory Board. In case the Supervisory Board does not approve the annual financial statements as prepared by the Management Board or if the Management Board and the Supervisory Board so decide, the Shareholders' Meeting is competent for approving the annual financial statements. It is, however, not bound to the Management Board's proposal for the distribution of the net profit. Pursuant to the Articles of Association, the Shareholders' Meeting may also resolve not to distribute all or parts of the net profit among the shareholders.

Unless otherwise decided by the Shareholders' Meeting, dividends are due thirty days after the Shareholders' Meeting which resolved on the dividends. Dividends that have not been collected by the shareholder within three years after becoming due are deemed forfeited and accrue to the Company's free reserve.

Liquidation rights

In the event of the liquidation of the Company, any assets remaining after discharge of liabilities and repayment of supplementary capital will be distributed to the shareholders on a pro rata basis. Pursuant to statutory law, a majority of at least 75% of the share capital present or represented at the Shareholders' Meeting is required to pass a resolution regarding the liquidation of the Company.

General provisions concerning changes in share capital

Pursuant to the provisions of the Stock Corporation Act, an increase of the Company's share capital is permitted in particular by way of a resolution of the Shareholders' Meeting:

- to issue new shares against contributions in cash or in kind adopted by the Shareholders' Meeting (ordinary capital increase (*ordentliche Kapitalerhöhung*) pursuant to section 149 et seq. Stock Corporation Act);
- authorizing the Management Board, on the basis of the Articles of Association and subject to approval of the Supervisory Board, to issue new shares up to a specified amount not exceeding 50% of the issued share capital at the time of authorization within a specified period, which may not exceed five years (authorized capital (*genehmigtes Kapital*) pursuant to section 169 et seq. Stock Corporation Act);
- authorizing the issuance of new shares up to a specified amount for specific purposes, such as granting stock options to employees, executives and members of the Management Board and the Supervisory Board or of an affiliated company not exceeding 10% of the issued share capital at the time of authorization, to prepare a merger, or in order to grant conversion rights or subscription rights to holders of convertible bonds not exceeding 50% of the issued share capital at the time of authorization (conditional capital (*bedingtes Kapital*) pursuant to section 159 et seq. Stock Corporation Act);
- authorizing the Management Board, subject to the approval of the Supervisory Board, to effect a conditional capital increase in order to grant stock options to employees, executives and members of the Management Board up to a certain amount not exceeding 10% of the issued share capital at the time of authorization (authorized conditional capital (*genehmigtes bedingtes Kapital*) pursuant to section 159 paragraph 3 Stock Corporation Act); or
- authorizing the conversion of free reserves or profit carried forward into share capital (capital adjustment (*Kapitalberichtigung*) pursuant to the Austrian Capital Adjustment Act (*Kapitalberichtigungsgesetz*)).

Resolutions of the Shareholders' Meeting regarding an ordinary increase of the Company's share capital require a simple majority of the share capital represented in the respective Shareholders' Meeting, except when subscription rights of existing shareholders are excluded, in which case a majority of at least 75% of the share capital represented at the time of the resolution is required. Resolutions of the Shareholders' Meeting regarding authorized or conditional capital or authorized conditional capital require a majority of at least 75% of the share capital represented in the respective Shareholders' Meeting. Except in the case of certain capital reductions effected by repurchase of own shares by the Company, a resolution to decrease the share capital requires a majority of at least 75% of the share capital represented in the respective Shareholders' Meeting (section 175 paragraph 1 Stock Corporation Act).

General provisions concerning subscription rights

Pursuant to section 153 paragraph 1 Stock Corporation Act, existing shareholders of the Company are entitled to subscribe for and to be allocated such number of new shares to allow them to maintain their existing participation in the Company's share capital. The subscription rights (*Bezugsrechte*) of existing shareholders are therefore proportionate to the number of shares held by them prior to the offering of new shares. Similarly, section 174 paragraph 4 Stock Corporation Act provides for subscription rights of existing shareholders of the Company in relation to securities convertible into shares, securities with warrants to purchase shares, securities with profit participation or participation certificates to allow them to maintain their existing participation in the Company's share capital. Shareholders may waive or choose not to exercise their subscription rights. Furthermore, subscription rights may fully or partially be excluded by resolution of the Shareholders' Meeting (section 153 paragraph 3 Stock Corporation Act). If subscription rights are to be excluded, a majority of at least 75% of the share capital present or represented at the Shareholders' Meeting must approve the respective resolution. In addition, the proposal to exclude subscription rights must be announced prior to the respective Shareholders' Meeting. Furthermore, resolutions excluding subscription rights must be based on a written report by the Management Board justifying such exclusion. A shareholders' resolution in respect of authorized capital may either directly exclude subscription rights or authorize the Management Board to exclude subscription rights with a majority of 75% of the share capital present or represented at the respective Shareholders' Meeting. If the Management Board is authorized to exclude subscription rights, the Management Board's resolution to exclude subscription rights requires approval by the Supervisory Board, as well as an additional reasoned statement justifying the exclusion. If shares are issued out of conditional capital, existing shareholders are not entitled to subscription rights. Existing shareholders are entitled to exercise their rights within a specified subscription period (*Bezugsfrist*), which must last for at least two weeks. When issuing new shares, the Management Board must publish a notice in the Official Gazette specifying the beginning and the duration of the subscription period, as well as the subscription price. Shareholders may transfer their subscription rights during the subscription period. If subscription rights are not exercised during the subscription period, they will lapse and be deemed forfeited. Subscription rights are not considered excluded if new shares are initially subscribed for by a credit institution which undertakes to offer the new shares to existing shareholders in proportion to their subscription rights (indirect subscription right, *mittelbares Bezugsrecht*).

Authorization to purchase and sell treasury shares

Pursuant to the Stock Corporation Act, a stock corporation may acquire its shares in the following limited circumstances:

- upon prior authorization by a Shareholders' Meeting, for a period not exceeding 30 months and limited to a total of 10% of the overall share capital, if the shares are listed on a regulated market (such as the Official Market), or if the shares are intended to be offered to the company's employees, members of its Management Board or Supervisory Board or employees of certain affiliated companies; the resolution must determine a minimum and a maximum consideration, provided that the company keeps sufficient reserves;
- if the shares are acquired without payment of consideration or if the stock corporation is acting as agent on a commission basis;
- to prevent substantial, immediately threatening damage to the stock corporation (subject to the limitation of 10% of the overall share capital), provided the stock corporation keeps sufficient reserves;
- by way of a universal legal succession (for example, succession by merger);
- for the purpose of indemnifying minority shareholders, if required by law, provided that the stock corporation keeps sufficient reserves;
- as part of a redemption of shares in accordance with the rules for capital decreases approved by the Shareholders' Meeting; or
- if the stock corporation is a credit institution authorized by the Shareholders' Meeting to purchase treasury shares for the purpose of trading in securities.

SUMMARY OF THE ARTICLES OF ASSOCIATION

The summary of the Articles of Association set forth hereunder is for general information only. It does not purport to be a comprehensive and complete description of all items of the Articles of Association. The current version of the Articles of Association has been in effect since September 30, 2014, the date on which the resolutions of the Shareholders' Meeting of August 14, 2014 were registered with the Companies Register.

The current version of the Articles of Association is available on the Company's website in the official German version. Unless otherwise indicated, information displayed on the Company's website is not incorporated by reference in this Prospectus.

Corporate purpose

Pursuant to section 2 paragraph 1 of the Articles of Association, the Company's corporate purpose is:

- the investment in enterprises and corporations as well as the management and administration of such investments (holding company), including the acquisition and the disposal of investments in Austria and abroad;
- all activities in connection with the performance of services and the creation of the necessary requirements for the operation and provision of (tele-)communication networks and services (including, but not limited to, mobile communication and fixed-line) and associated services and infrastructure in Austria and abroad, including, but not limited to, the acquisition of necessary licenses

and the distribution of end devices; as well as any services economically connected with such activities; such activities may either be undertaken directly or through affiliated companies.

In addition, pursuant to section 2 paragraph 2 of the Articles of Association, the Company is authorized to engage in all transactions and take all measures which are necessary or useful in order to achieve the Company's object, in particular in all areas of business activities similar or related to the Company's corporate purpose. In addition, the Company may process personal data using automated systems.

Shareholders' Meeting

The Shareholders' Meeting shall take place at the Company's registered office or at the place of business of a branch of the Company in Austria or in the capital of an Austrian Federal District. The Shareholders' Meeting shall be convened by the Management Board or by the Supervisory Board according to legal provisions. This shall not affect the right conferred on other persons by law or the Articles of Association to convene a Shareholders' Meeting. In accordance with section 107 paragraph 1 Stock Corporation Act the Shareholders' Meeting shall be convened at least twenty-eight days beforehand. In case of an extraordinary Shareholders' Meeting the deadline for convening is twenty-one days. The notice of convocation needs to be published on Telekom Austria's website and in the Official Gazette.

With the consent of the Supervisory Board, the Management Board is authorized to provide in the notice of the Shareholders' Meeting that shareholders may participate in the Shareholders' Meeting via remote participation (section 102 paragraph 3 item 2 Stock Corporation Act) and/or via remote voting (section 102 paragraph 3 item 3 Stock Corporation Act) and may so exercise various or all rights. If the Management Board uses this authorization, the details shall be announced in the notice.

The right to participate in the Shareholders' Meeting and to exercise the shareholder rights to be asserted during the Shareholders' Meeting depends on the shareholding in case of bearer shares and on the registration in the share register in case of registered shares, in each case at the end of the tenth day before the day of the Shareholders' Meeting ("**Shareholders' Meeting Record Date**"). In case of deposited bearer shares, a deposit certificate according to section 10a of the Stock Corporation Act shall be deemed to constitute sufficient documentary evidence to prove a shareholding on the Shareholders' Meeting Record Date, such deposit certificate to be received by the Company at the address referred to in the notice not later than on the third business day prior to the Shareholders' Meeting, unless the notice specifies a later date.

If registered shares have been issued, the shareholders registered in the share register on the Shareholders' Meeting Record Date are entitled to participate in the Shareholders' Meeting, provided that they register at the address referred to in the notice not later than three business days prior to the Shareholders' Meeting, unless the notice specifies a later date.

Every shareholder may appoint an individual or a legal entity as representative to participate in the Shareholders' Meeting and to exercise the shareholder rights to be exercised during the Shareholders' Meeting. The proxy shall be issued in text form, submitted to the Company and either physically kept or verifiably recorded by the Company. The details for granting such proxies will be announced together with the notice of the Shareholders' Meeting.

The notice may request separate registration for remote participation and remote voting (section 15 paragraph 3 of the Articles of Association); an earlier date may be fixed concerning the end of the registration period. Members of the Management Board and the Supervisory Board may attend the Shareholders' Meeting by means of an optical and/or acoustical two-way connection.

Shareholders' rights

Voting rights and majority requirements

Each Share grants one vote. Unless mandatory law or the Articles of Association provide otherwise, the Shareholders' Meeting shall adopt its resolutions by a simple majority of the votes cast; in cases where a capital majority is required, it shall adopt its resolutions by a simple majority of the share capital represented upon the resolution.

As long as the Republic of Austria, directly or indirectly, holds at least 25% plus one share in the registered share capital of the Company, resolutions pursuant to section 149 Stock Corporation Act and section 174 Stock Corporation Act, where instruments including a conversion right or a conversion obligation into shares of the Company are concerned, as well as changes to the relevant provision of the Articles of Association (namely section 17 paragraph 3) shall require a majority of at least three quarters of the share capital represented upon the resolution. These majority requirements cease to exist without requiring a change of the Articles of Association once the shareholding of the Republic of Austria for the first time falls below 25% plus one share in the registered share capital. The effective date shall be the notification of the Company according to section 92 Stock Exchange Act or the provision replacing the same. Provided that the agenda of a Shareholders' Meeting includes issues referred to in the first sentence of this paragraph, the chairman, in the context of chairing the Shareholders' Meeting pursuant to section 116 paragraph 1 in connection with section 121 paragraph 1 Stock Corporation Act, shall determine at the beginning of the Shareholders' Meeting whether the majority requirements referred to in the first sentence of this paragraph are applicable.

If, in the case of elections, a simple majority is not achieved in the first ballot, a further ballot will take place between the two candidates who received the most votes. In case of a tie, a decision will be made by drawing lots. Every resolution of the Shareholders' Meeting shall be notarized by an Austrian notary public in a written record of the proceedings to be valid.

Under mandatory Austrian law, a majority of the votes as well as a majority of at least 75% of the share capital present or represented at a Shareholders' Meeting is required, among other things, for resolutions on:

- changing corporate purpose;
- increasing the share capital if subscription rights are to be excluded;
- creating authorized capital or conditional capital;
- decreasing share capital;
- excluding subscription rights of existing shareholders when issuing convertible bonds, profit participating bonds and participation rights;
- dissolving the Company or continuing the dissolved Company;
- converting the Company into a limited liability company (*Gesellschaft mit beschränkter Haftung*)*;*
- approving a merger or a spin-off;
- transferring all or a majority of the assets of the Company;
- approving profit pools or agreements on the operation of the business;
- effecting a post-formation acquisition (*Nachgründung*); and
- selling treasury shares other than by means of a stock exchange or a public offer.

A majority of 90% of the entire share capital is required for:

- a spin-off disproportionate to shareholdings pursuant to the Austrian Demerger Act (*Spaltungsgesetz*)*;* or
- a squeeze-out pursuant to the Austrian Act on the Squeeze-out of Minority Shareholders (*Gesellschafter-Ausschlussgesetz*).

A shareholder or a group of shareholders holding at least one third of the share capital present or represented at the Shareholders' Meeting can elect a person to the Supervisory Board provided that the same Shareholders' Meeting elects at least three members of the Supervisory Board.

A shareholder or a group of shareholders holding at least 10% of the share capital may, in particular:

- request special audits of activities with respect to the management of the Company, if these activities took place within the previous two years;
- veto the appointment of a special auditor and request a court to appoint another special auditor;
- request an adjournment of the Shareholders' Meeting if the shareholders requiring such adjournment have found the annual financial statements to be incorrect;

- request a court to recall a member of the Supervisory Board for cause; and
- request the assertion of damage claims by the Company against members of the Management Board or the Supervisory Board or certain other parties, if the claim is not obviously unfounded.

A shareholder or a group of shareholders holding at least 5% of the share capital may, in particular:

- request that a Shareholders' Meeting be convened or, if the Management Board and the Supervisory Board do not comply with such request to convene a Shareholders' Meeting or, upon court approval, convene a Shareholders' Meeting themselves;
- request that an item is put on the agenda of the Shareholders' Meeting;
- request the assertion of damage claims of the Company against members of the Management Board or the Supervisory Board or certain other parties, if a special report reveals facts that may entitle the Company to such damage claims;
- request court appointment of another auditor of the financial statements for cause;
- appeal a shareholders' resolution, if such resolution provides for amortization, accumulated depreciation, reserves and accruals exceeding the limit set by law or by the Articles of Association;
- apply for the appointment or removal of liquidators for cause; and
- request the audit of the annual financial statements during liquidation.

A shareholder or a group of shareholders holding at least 1% of the share capital may communicate to the Company proposals for resolutions with respect to any items on the agenda of the Shareholders' Meeting and request that these proposals are made public on the Company's website.

Dividend rights

According to the Articles of Association, each shareholder is entitled to receive dividends, if and to the extent the annual Shareholders' Meeting resolves to distribute dividends. It may also exclude the distribution of dividends entirely or partly. The shareholders' dividends are distributed in proportion to the contributions made in respect of the pro rata amount of the share capital of the shares. Unless otherwise decided by the Shareholders' Meeting, dividends are due thirty days after the Shareholders' Meeting which resolved on the dividends. Dividends not claimed within three years after falling due will forfeit in favor of the Company. For further information, see "Information on the share capital of the Company, applicable regulations and description of the Articles of Association—Applicable provisions under Austrian law—General regulations on earnings appropriation and dividend payments".

Liquidation proceeds

In the event of the Company's dissolution, any assets remaining after repayment of the outstanding debts and supplementary capital will be distributed pro rata to the shareholders. The Company's dissolution requires a majority of at least 75% of the share capital present or represented at a Shareholders' Meeting. For further information, see "Information on the share capital of the Company, applicable regulations and description of the Articles of Association—Applicable provisions under Austrian law—Liquidation rights".

Change or impairment of shareholders' rights

The Stock Corporation Act contains provisions that protect the rights of individual shareholders. As a rule, shareholders must be treated equally under equal circumstances, unless the shareholders concerned agree otherwise. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution. The Articles of Association generally do not provide for more stringent conditions for the exercise of shareholders' rights than those provided by the Stock Corporation Act. In addition, the Articles of Association do not allow changes to, or restriction on, shareholders' rights under less stringent conditions than those provided by the Stock Corporation Act. Neither Austrian law nor the Articles of Association restrict the right of non-resident or foreign holders of the shares to hold or vote the shares.

Disclosure obligations

There are no provisions in the Articles of Association governing the threshold above which share ownership must be disclosed. For further information, see "Regulation of the Austrian securities market—Notification and disclosure of shareholdings".

Redemption of Shares and treasury shares

Shares may be redeemed in the course of a decrease of the Company's share capital resolved by the Shareholders' Meeting or by the Company purchasing its own shares. A capital decrease requires a shareholders' resolution with a majority of at least 75% of the share capital present or represented at the Shareholders' Meeting. The Company's shares can be converted into a different class of shares (for example non-voting preferred shares), but only with the consent of the respective holder or, if the conversion negatively affects other shareholders whose shares are not converted, the consent of such shareholders. Pursuant to section 65 paragraph 1 Stock Corporation Act, the Company may acquire its own shares only under certain circumstances. For further information, see "Information on the share capital of the Company, applicable regulations and description of the Articles of Association—Applicable provisions under Austrian law—Authorization to purchase and sell treasury shares".

Authorized capital

The Articles of Association provide for an authorized capital (*genehmigtes Kapital*) as follows: Pursuant to section 169 Stock Corporation Act, the Management Board, within five years of registration of the relevant amendment to the Articles of Association in the Companies Register, with the consent by the Supervisory Board, is authorized to increase the Company's share capital by a nominal maximum amount of EUR 483,091,500 by issuing up to 221,500,000 bearer shares against cash contribution, also in several tranches, and to fix the issue price, any other terms of the issue and any further details, and the Management Board may in particular issue new shares carrying dividend rights from the beginning of the business year in which the implementation of the increase of the share capital is registered in the Companies Register, provided and on condition that the net issue proceeds for the Company do not exceed EUR 1,000,000,000. The net issue proceeds shall be the total proceeds from the issue less any external costs resulting from the issue which are to be borne by the Company. The Supervisory Board is authorized to adopt any amendments to the Articles of Association resulting from the issue of shares from the authorized capital.

Contestation of resolutions passed by the Shareholders' Meeting held on August 14, 2014

The contestation of resolutions passed by the Shareholders' Meeting held on August 14, 2014 also concerns changes to the Articles of Association which became effective on September 30, 2014. For further information, see "Business—Litigation and arbitration—Contestation of resolutions passed by the Shareholders' Meeting held on August 14, 2014".

CORPORATE BODIES, MANAGEMENT AND CORPORATE GOVERNANCE OVERVIEW

In accordance with Austrian law, the Company has a two-tier management and oversight structure comprising the Management Board and the Supervisory Board. The Management Board is responsible for executive management and represents the Company vis-à-vis third parties. The Supervisory Board is responsible for supervising the management and internal controls of the Company. Members of the Management Board are appointed by the Supervisory Board. Members of the Supervisory Board are elected or appointed by the Shareholders' Meeting. Under Austrian co-determination rules, a stock corporation's works council has the right to delegate one works council representative to the Supervisory Board for every two shareholders' representatives at the Supervisory Board, and in case of an uneven number of shareholders' representatives, and additional member. The Company's corporate bodies are bound in particular by the Stock Corporation Act, the Articles of Association, the rules of procedure for the Management Board (*Geschäftsordnung für den Vorstand*), the rules of procedure for the Supervisory Board (*Geschäftsordnung für den Aufsichtsrat*) (each as adopted by the Supervisory Board) and the Austrian Corporate Governance Code (the "**ACGC**").

The Company's registered office is located in Vienna, Austria. The telephone number is +43 50 664 0. The members of the Management Board and of the Supervisory Board may be contacted at the Company's business address Lassallestraße 9, A-1020 Vienna, Austria.

The following is a summary of the most important provisions of the Company's corporate legal framework.

MANAGEMENT BOARD

Appointment, duties and procedures of the Management Board

In accordance with the provisions of the Stock Corporation Act, the members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. Under applicable law, members of the Management Board may be re-elected. However, the re-election of a member of the Management Board will enter into effect only if the re-election is confirmed by the chairperson of the Supervisory Board in writing. The Articles of Association do not contain any personal qualification requirements.

The Supervisory Board may revoke the appointment of members of the Management Board prior to the expiration of their term for cause, such as breach of duties, the inability to manage the business properly, or a vote of non-confidence by the Shareholders' Meeting. The shareholders themselves are generally not entitled to appoint or dismiss members of the Management Board.

The Management Board is responsible for managing the Company's business and represents the Company in transactions with third parties. The Management Board is bound by Austrian law, the Articles of Association and its rules of procedure as adopted by the Supervisory Board. As a rule, the Management Board is not obliged to comply with orders or instructions from individual shareholders or the Supervisory Board.

However, pursuant to the Stock Corporation Act and the Management Board's rules of procedure, as resolved by the Supervisory Board, the Management Board requires approval by the Supervisory Board or one of its committees to engage in certain transactions and measures relating to Telekom Austria and certain affiliates. The consent of the Supervisory Board is required for material decisions such as:

- fundamental questions of business policy including material changes in the Group's overall structure;
- acquisition and disposal of participations exceeding a certain threshold;
- capital procurement measures exceeding a certain threshold;
- individual investments in tangible and intangible assets outside the approved budget exceeding a certain threshold;
- application for new licenses provided the license fee exceeds a certain threshold;
- acquisition, disposal and encumbrance of real estate exceeding a certain threshold;
- establishment or closing down of branch offices;
- entering into certain profit and loss takeover agreements;

- issuance of bonds or taking up loans and credits as well as assumption of liabilities and other long-term liabilities outside the approved budget if they exceed certain thresholds;
- establishing and ending business lines and product divisions;
- the annual Group budget, the draft profit and loss statement and liquidity plan as well as the annual three-year business plan;
- granting of loans and credits not related to usual business and exceeding certain thresholds;
- entering into and amending consultancy agreements exceeding a certain threshold;
- entering into contracts with members of the Supervisory Board, provided that these contracts deal with subjects outside the respective Supervisory Board member's functions and where the commitment by the Company or any of its affiliates is more than just a minor consideration;
- granting stock options or other considerations based on stock of the Company to employees and executives of the Company or of an affiliated company;
- relocation of the Group's headquarter;
- delisting from the Official Market.

In addition, ÖIAG enjoys certain veto rights. See "Shareholder structure—The Shareholders' Agreement between América Móvil and ÖIAG—Veto rights of ÖIAG".

If the Management Board fails to obtain such approval, it may be held liable for any resulting damage to the Company. The transactions, however, are generally effective and binding with respect to third parties acting in good faith (other than members of the Supervisory Board).

The Management Board adopts its resolutions by simple majority vote. The chairman does not have a casting vote.

The contestation of resolutions passed by the Shareholders' Meeting held on August 14, 2014 also concerns changes to the Articles of Association relating to the Management Board. See "Business—Litigation and arbitration—Contestation of resolutions passed by the Shareholders' Meeting held on August 14, 2014".

The Management Board is required to report to the Supervisory Board at least annually on strategy and business policy, as well as on the future development of the Company's assets, financial and earnings position based on a forecast and fundamental questions of future business policy (annual report; *Jahresbericht*). In addition, the Management Board shall report to the Supervisory Board at least quarterly on the progress of business activities and on the results of the Company's business forecast (quarterly report; *Quartalsbericht*). Upon request by the Supervisory Board, the Management Board is required to report to the Supervisory Board on any other matter concerning the Company.

Pursuant to the Articles of Association, the Management Board must consist of between two and four members. Currently, the Management Board consists of three members. According to the Articles of Association the Supervisory Board may appoint one Management Board member as chairman and may also appoint one deputy chairman. Hannes Ametsreiter has been appointed chairman of the Management Board. The Company may be represented by two members of the Management Board acting jointly or by one member of the Management Board together with an authorized signatory holding a general power of attorney (*Prokurist*) or, within the scope of legal representation authorities, by two holders of general power of attorney (*Prokuristen*) acting jointly. Currently, the Company has eight authorized signatories holding a general power of attorney (*Prokuristen*).

Members of the Management Board

The following table shows the current members of the Management Board:

Name	Position	Year first appointed	Appointment expires
Hannes Ametsreiter	Chief Executive Officer, Chairman of the Management Board	2009	December 31, 2016[1]
Siegfried Mayrhofer	Chief Financial Officer	2014	May 31, 2015
Günther Ottendorfer	Chief Technology Officer	2013	August 31, 2016[2]

[1] If the Supervisory Board does not inform Hannes Ametsreiter by December 31, 2015 in written form that his function as member of the Management Board and his employment will end with effect as of December 31, 2016, his function as member of the Management Board and his employment will automatically be extended until December 31, 2018.
[2] If the Supervisory Board does not inform Günther Ottendorfer by August 31, 2015 in written form that his function as member of the Management Board and his employment will end with effect as of August 31, 2016, his function as member of the Management Board and his employment will automatically be extended until August 31, 2018.

Hannes Ametsreiter

Hannes Ametsreiter was born in 1967. He studied at the University of Salzburg. After completing his doctorate, he continued his education with the MBA program at Pepperdine University/USA, as well as Executive Education programs at Stanford University/USA and INSEAD/France.

He began his professional career as a brand manager with Procter & Gamble, before joining product management at Mobilkom in 1996. In 2001, he was appointed Chief Marketing Officer of Mobilkom. From 2005 to 2006 he held the position of CMO of Mobiltel in Bulgaria.

On July 1, 2007 Hannes Ametsreiter was appointed Chief Marketing Officer of Telekom Austria TA AG. On January 1, 2009 he was appointed CEO of Telekom Austria Fixed Net.

Since April 1, 2009 Hannes Ametsreiter has served as chairman of the Management Board and CEO of the Company. He is also the CEO of A1.

In 2008 Booz & Company awarded Hannes Ametsreiter with the international marketing award "CMO of the Year". At the "40th Extel Awards" 2013, which are based on a survey conducted by the international news agency Thomson Reuters, Hannes Ametsreiter was named Austria's "CEO of the Year". Between 2009 and 2012 he was a member of the international board of the worldwide industry association "GSMA".

Areas of Responsibility

- Chief Executive Officer, Telekom Austria
- Chief Executive Officer, A1

Siegfried Mayrhofer

Siegfried Mayrhofer, born 1967, studied engineering management and mechanical engineering at the Graz University of Technology.

He began his professional career in 1994 at Voest Alpine Eisenbahnsysteme in the area of international acquisitions. From 1998 to 2000 he assisted Constantia Corporate Finance Mergers & Acquisitions in various areas as a consultant.

Siegfried Mayrhofer began his career at Telekom Austria in March 2000. After holding various management positions (Head of Corporate Planning and Group Controlling, Controlling Fixed Net, Accounting Fixed Net), he was appointed Chief Financial Officer of Telekom Austria TA AG. As of July 8, 2010 Siegfried Mayrhofer has been Chief Financial Officer of A1.

Areas of Responsibility

- Chief Financial Officer, Telekom Austria
- Chief Financial Officer, A1

Günther Ottendorfer

Günther Ottendorfer was born in 1968. He has had an international career in the telecommunications sector for over 20 years. From 1987 to 1992 Günther Ottendorfer studied IT at the Technical University of Vienna and was awarded a distinction upon completion of the degree.

In 1996, he was involved in establishing the mobile operator max.mobil in Austria. He became COO and CTO of T-Mobile Austria, CTO of T-Mobile Germany and European Technology Director of T-Mobile International.

Günther Ottendorfer advanced to managing director of Optus Singtel in 2011. Optus Singtel is Australia's second largest telecommunications provider, with over 11 million customers. At Optus he was responsible for mobile, fixed, cable-TV and satellite network infrastructure and as such managed 2,000 employees. In addition, he spearheaded the introduction of LTE which Optus pioneered as one of the first providers globally, and initiated several successful optimization and restructuring programs.

Since September 1, 2013 Günther Ottendorfer has been a member of the Management Board of Telekom Austria.

Area of responsibility

- Chief Technology Officer, Telekom Austria

Management Board compensation

The Remuneration Committee is responsible for structuring the remuneration package awarded to the Management Board. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component is agreed with the members of the Management Board. This performance-based component is contingent upon the achievement of defined targets and is limited to 150% of the base remuneration. The target for the reporting year 2013 is divided 50:50 between financial figures (the return on assets in excess of the costs of capital (weighting 15%), operating free cash flow (weighting 15%), net income (weighting 10%) and customer value (weighting 10%)) and strategic objectives. On the basis of the consolidated financial statements and the implementation of strategy, the Remuneration Committee decides on the degree of target achievement and the amount of the variable salary component. Performance-based remuneration becomes payable after the result for the financial year in question has been resolved, while an advance in the amount of 60% of the fixed salary is paid in 14 installments in the current financial year.

The Management also participates in the LTI introduced in 2010. The first tranche ("**LTI 2010**") was paid out in the amount of 41.1% in 2013, following the end of the three-year performance period and the determination by the Remuneration Committee of the degree of achievement. The second tranche ("**LTI 2011**") was paid out in June 2014 in the amount of 28%. The third tranche ("**LTI 2012**") was granted in 2012 and will be paid out in 2015. The LTI continued in 2013 ("**LTI 2013**") and in 2014 ("**LTI 2014**"). The LTI is an incentive scheme, designed for Management Board members, executives and selected employees and has a performance period of three years for each tranche. The LTI is not based on options but rather on the performance-based allocation of Shares. During the LTI, participants must invest in Shares, the number of which is determined by the defined number of potential Shares for each entitled beneficiary. If the targets are fully met, LTI 2012 bonus Shares will be paid out in an amount equal to the personal investment (LTI 2013 and LTI 2014 bonus Shares will be paid out in an amount twice the personal investment). Any payments for the tranches issued so far have been made in cash and the payments in connections with the LTI 2012, LTI 2013 and LTI 2014 will be paid out in cash. The amount of the payment depends on the achievement of targets in the form of key figures defined by the Supervisory Board within a three-year performance period, ranging from 0% to more than 175% of the participant's investment for the LTI 2012, and from 0% to more than 350% of the participant's investment for the LTI 2013 and the LTI 2014. Through the LTI, Telekom Austria Group conforms to the requirements of the Austrian Corporate Governance Code (C Rule 28). The relevant target performance indicators focus on the long-term development of the Company. The targets and key performance indicators are determined by the Supervisory Board at the beginning of each tranche. Free cash flow (weighting 45%), total shareholder return (weighting 35%) and earnings before interest, taxes, depreciation and amortization EBITDA (weighting 20%) were defined as the targets/key performance indicators for the LTI 2010, LTI 2011 and LTI 2012. The targets for the LTI 2013 and LTI 2014 were defined as net income (weighting 30%), EBITDA (weighting 35%) and relative total shareholder return (weighting 35%), which will be assessed against a defined peer group of nine European telecommunications companies.

The LTI 2010 was distributed to the beneficiaries in September 2013 after the end of the three-year performance period. The LTI 2010 was paid out in the amount of 41.1% in line with the level of performance determined by the Remuneration Committee, at a value of 178,262 bonus shares in total (measured using the average price for the fourth quarter of 2012 of EUR 5.25 and therefore EUR 0.936 million). The LTI 2011 was paid out in June 2014 in the amount of 28%.

Within the framework of the LTI, the members of the Management Board will receive for the LTI 2013 and the LTI 2014 the following number of Shares upon reaching 100% of the targets: LTI 2013 Hannes Ametsreiter 51,348 Shares (LTI 2014 51,981 Shares), Günther Ottendorfer 41,743 Shares (LTI 2014

43,722 Shares) and Siegfried Mayrhofer 21,450 Shares (LTI 2014 37,650 Shares). Any actual allocation of these LTI 2013 (LTI 2014) Shares (cash settlement) will occur after the end of the respective three-year performance period, namely for LTI 2013 not before September 1, 2016 (and for LTI 2014 not before July 1, 2017), commensurate with the level of achievement of objectives as determined by the Remuneration Committee. In the event of the termination of the appointment of a member of the Management Board during the three-year performance period the payout occurs only pro rata.

Furthermore, the members of the Management Board are entitled to a company car; and casualty insurance provides cover in the event of death or invalidity. There is also supplementary health insurance for Management Board members. The members of the Management Board are also beneficiaries of the D&O insurance policy concluded by Telekom Austria. Moreover, there is criminal defense insurance for administrative offenses or violations of criminal law.

The total expense for the basic remuneration of members of the Management Board, including remuneration in kind, amounted to EUR 1.118 million in 2013, EUR 0.959 million in 2012 and EUR 0.936 million in 2011, while the total expense for the variable remuneration amounted to EUR 1.349 million in 2013, EUR 0.780 million in 2012 and EUR 1.095 million in 2011. The expenses for the LTI 2010 amounted to EUR 0.111 million (while there were no expenses in 2012 and 2011). Comparisons of the year 2013 with the years 2012 and 2011 are, however, only of limited relevance due to the increase in size of the Management Board.

Management Board Remuneration in EUR thousand	**Basic remuneration (fixed salary incl. remuneration in kind)**			**Variable remuneration**			**Multi-year stock-based remuneration (LTI)**			**Total remuneration**		
Financial year	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Hannes Ametsreiter	493	488	465	495	398	560	55	-	-	1,043	886	1,025
Hans Tschuden[4]	472	471	471	474	382	535	55	-	-	1,001	853	1,006
Günther Ottendorfer[1]	154	-	-	380[(2)]	-	-	-	-	-	534	-	-
Total	**1,118**	**959**	**936**	**1,349**	**780**	**1,095**	**111[(3)]**	**-**	**-**	**2,578**	**1,739**	**2,031**

[1] Appointed as of September 1, 2013
[2] Upon commencing his role on September 1, 2013, Management Board member Günther Ottendorfer received a one-off payment of EUR 290,330 (of which EUR 114,334 were in the form of Shares (equivalent to 20,872 Shares) in compensation for relocating from Australia to Austria and for the loss of benefits acquired through his former employment contract). This payment is included in the variable remuneration.
[3] Differences in the sums due to rounding.
[4] No longer member of the Management Board.

Source: Company information.

In addition the members of the Management Board receive a contribution to their voluntary pension plan, which is paid into a corporate pension fund by the Company. For Hannes Ametsreiter, Günther Ottendorfer and Siegfried Mayrhofer this contribution amounts to 20% of their respective individual fixed salaries. The member will only receive an eventual payout from the corporate pension fund when he is over 55 years of age and no longer in a contractual relationship with the Company.

The amount of the severance payment to be paid in the event of the termination of a Management Board member's appointment is based on the length of his employment and is capped at one year's total remuneration for both Hannes Ametsreiter and Siegfried Mayrhofer. The Austrian Corporate Employee and Entrepreneur Pension Act (*Mitarbeiter- und Selbstständigenvorsorgegesetz*) applies to Günther Ottendorfer.

As of September 30, 2014, the total amount set aside by the Group to provide pension, retirement or similar benefits to members of the Management Board amounts to approximately EUR 1,496,559.47.

SUPERVISORY BOARD

Election, duties and procedures of the Supervisory Board

Pursuant to C-Rule 52a of the ACGC, the Supervisory Board of an Austrian stock market listed company may consist of between three and ten members (without employees' representatives). The Articles of Association specify that the Company shall have up to ten Supervisory Board members (excluding employees' representatives).

The members of the Supervisory Board are elected by the Shareholders' Meeting. Furthermore, in accordance with Austrian labor law, the Company's works council (or central works council) is entitled (but not obligated) to appoint one employee representative to the Supervisory Board for every two members elected by the Shareholders' Meeting ("**Employee Representatives**"). Unlike the members elected by the Shareholders' Meeting, the members delegated by the works council are employees of the Company. Currently, the Supervisory Board consists of ten members who are elected by the Shareholders' Meeting, and five Employee Representatives.

According to Rule C-54 of the ACGC, the members of the Supervisory Board elected by the Shareholders' Meeting or delegated by shareholders of corporations with a free float of more than 20% shall include at least one independent member who is not a shareholder with a stake of more than 10% or who represents such a shareholder's interest. In the case of corporations with a free float over 50%, at least two members of the Supervisory Board must meet these criteria. Currently, no member of the Supervisory Board serves as an independent member in the meaning of Rule C-54 of the ACGC.

The Supervisory Board supervises the Management Board and monitors the Company's management but is not authorized to make management decisions. Supervision is exercised by review, discussion and approval, as required, of reports prepared by the Management Board. In addition, the Supervisory Board may request reports on specific matters relating to the Company. The Supervisory Board is responsible for appointing and removing members of the Management Board and is authorized to represent the Company in transactions with members of the Management Board. Furthermore, certain material decisions of the Management Board require the consent of the Supervisory Board pursuant to Austrian law or in accordance with the Articles of Association or the rules of procedure for the Management Board.

The Supervisory Board elects a chairperson and one deputy chairperson from among its members. The Supervisory Board determines its own rules of procedure. The meetings of the Supervisory Board shall be held whenever necessary for the fulfillment of the Supervisory Board's duties. The Supervisory Board meets at least quarterly. The Supervisory Board has a quorum if at least half the members, including the chairman or his deputy, are present; however, in certain cases, the rules of procedure of the Supervisory Board may require the presence of the chairman for the meeting to form a quorum. The chairman of the Supervisory Board shall not have a casting vote.

Unless a shorter term is determined by the Shareholders' Meeting, a Supervisory Board member's term of office ends with the fourth ordinary Shareholders' Meeting following such member's election, with the financial year in which the respective member was elected not being counted. Pursuant to the Articles of Association, a Supervisory Board member may be re-elected. A person who already holds eight seats in supervisory boards of other listed companies or who already holds ten seats in other corporations, in each case with an appointment as chairperson being counted double, may not be elected as a member of the Supervisory Board.

The Shareholders' Meeting may, by resolution requiring a majority of at least 75% of the votes cast, revoke the appointment of a Supervisory Board member prior to the end of such member's term of office. Further, if a Supervisory Board member has been delegated by a works council, such member can be removed only by the works council.

The contestation of resolutions passed by the Shareholders' Meeting held on August 14, 2014 also concerns changes to the Articles of Association relating to the Supervisory Board. For further information, see "Business—Litigation and arbitration—Contestation of resolutions passed by the Shareholders' Meeting held on August 14, 2014".

Members of the Supervisory Board

Currently, the Supervisory Board consists of ten members who are elected by the ordinary Shareholders' Meeting, and five Employee Representatives. The term of office of the elected Supervisory Board members ends as follows:

Members elected by the Shareholders' Meeting

Name	Position	Year first appointed	Expected appointment expires
Rudolf Kemler	Chairman	2012	ordinary Shareholders' Meeting in 2018
Carlos José García Moreno Elizondo	Vice chairman	2014	ordinary Shareholders' Meeting in 2018
Ronny Pecik	Member	2012	ordinary Shareholders' Meeting in 2018
Elisabetta Castiglioni	Member	2013	ordinary Shareholders'

Oscar Von Hauske Solís	Member	2012	Meeting in 2016 ordinary Shareholders'
Alejandro Cantú Jiménez	Member	2014	Meeting in 2018 ordinary Shareholders'
Stefan Pinter	Member	2014	Meeting in 2016 ordinary Shareholders'
Carlos M. Jarque	Member	2014	Meeting in 2016 ordinary Shareholders'
Reinhard Kraxner	Member	2014	Meeting in 2018 ordinary Shareholders'
Günter Leonhartsberger	Member	2014	Meeting in 2016 ordinary Shareholders' Meeting in 2018

Employees' representatives

Name	Position	Year first appointed	Expected appointment expires
Silvia Bauer	Member	2012 (already served as Supervisory Board member from 2009 until 2010)	N/A
Walter Hotz	Member	2011	N/A
Werner Luksch	Member	2011 (already served as Supervisory Board member from 2007 until 2010)	N/A
Alexander Sollak	Member	2010	N/A
Gottfried Kehrer	Member	2010	N/A

Source: Company information.

Rudolf Kemler

Rudolf Kemler was born in 1956. He attended the Technical High School Spengergasse Vienna. He began his professional career in 1984 as a Managing Director of WBG Betriebswirtschaftgesellschaft m.b.H. Between 1989 and 1998, he held various executive functions at Nixdorf and Siemens Nixdorf. From 1998 until 2000, he was a Senior Vice President and Chief Investment Officer with GE Capital Corporation, Stamford, USA. In 2000 he became Chief Executive Officer of Stage1.cc Technology Business Incubator AG. From 2002 until 2008, he was Chief Executive Officer Austria and Central and Eastern Europe of T Systems Austria and Central Eastern Europe (Deutsche Telekom) and from 2008 until 2012, he was Chief Executive Officer and Head of the business segment Enterprise Business of Hewlett-Packard Austria. Since 2012, he has been the Chief Executive Officer of ÖIAG.

Ronny Pecik

Ronny Pecik was born in 1962. From 1982 until 2000, he held various positions in the Austrian banking and financial sector, including with Länderbank, Bank Austria, and Capital Bank. Since 2000, Ronny Pecik has acted as an entrepreneur and has held various management and supervisory board positions, including with Böhler Uddeholm AG, VA Tech AG, A-Tec Industries AG, M&A PrivatBank AG, OC Oerlikon Corporation AG, Saurer AG, Sulzer AG, Ascom AG, M+W Zander Gruppe and RP Trade Handelsgesellschaft.m.b.H. He currently serves as managing director of Marathon Beteiligungs GmbH, ANNA Industriebeteiligung GmbH, Theseus Beteiligungs GmbH, SANDRINA Holding GmbH, SANDORO Holding GmbH, SAFFON Holding GmbH and SAFFON Baufeld Sechs GmbH, as general partner of Schottengasse 6-8 Immobilien GmbH und Co OG and EMBRA Immobilien EINS GmbH & Co OG and as limited partner of Caboto Aircraft GmbH & Co KG.

Stefan Pinter

Stefan Pinter was born in 1978. He holds a law degree from the University of Graz. From 2007 until 2011, he was a European Affairs Manager with OMV AG. Since November 2012, he is a member of the management team (Head of/Manager Corporate Affairs) with Philip Morris Austria GmbH.

Carlos M. Jarque

Carlos M. Jarque was born in 1954. He holds a BSc in Actuarial Science and Finance from the Universidad Anáhuac, Mexico City, a post-graduate diploma in Statistics and Econometrics from the London School of Economics and Political Science, a MSc in Economics from the London School of Economics and Political Science, a post-graduate diploma in Planning and Economic Policy from the University of Oslo, a PhD from the Australian National University, and a post-doctorate in Economics from Harvard University.

He started his professional career as a Director of Economic Studies of Teléfonos de México from 1982 to 1983. From 1983 to 1985, he was the Chief Statistician of México. From 1986 to 1987, he was President of the InterMinisterial Committee of Public Finance Information. From 1987 to 1989, he was a Director of the International Statistical Institute. From 1989 to 1999, he was President of the National Institute of Statistics, Geography, and Informatics (INEGI), and from 1995 to 1996, he also served as Secretary of the Mexican National Development Plan 1995–2000. From 1999 until 2000, he was Minister of Social Development of the Mexican Government Cabinet. From 2001 until 2005, he was a Director of the Sustainable Development Department (Policy and Strategy Department) of the InterAmerican Development Bank. From 2005 until 2007, he served as Secretary of the InterAmerican Development Bank. From 2008 until 2013, he was the Representative in Europe of the InterAmerican Development Bank. Since 2013, he has been Director of International Affairs, Government Relations, and Corporate Affairs with América Móvil.

Reinhard Kraxner

Reinhard Kraxner was born in 1970. He holds a law degree from the University of Graz. He began his professional career as in-house Counsel Treasury of Creditanstalt AG/Bank Austria AG. From 2000 until 2001, he was legal Counsel with red-stars.com data AG. In 2002, he joined Philip Morris International Management SA, where he currently serves as Assistant General Counsel Treasury/Finance.

Günter Leonhartsberger

Günter Leonhartsberger was born in 1968. He holds a Master's Degree in Business Administration from the Vienna University of Economics and Business and holds the chartered financial analyst (CFA) designation. He started his professional career with GiroCredit und Bank der Österreichischen Sparkassen AG, Vienna, as an analyst and equity fund manager. From 1995 to 1997, he was a portfolio manager and key account manager of Capital Management der Tiroler Sparkasse GmbH, Vienna. From 1997 until 1999, he was an equity fund manager with Constantia Privatbank AG. From 1999 until 2004, he held various executive functions with Kathrein & Co Privatgeschäftsbank AG, Vienna. In 2004, he joined ÖIAG, where he currently serves as Director and Head of Participation Management and Privatization.

Alejandro Cantú Jiménez

Alejandro Cantú Jiménez was born in 1972. He holds a law degree from the Universidad Iberoamericana, Mexico City. Mr. Cantú was an international Associate with the law firm Fried, Frank, Harris, Shriver & Jacobson, New York, U.S.A. and an Associate with the law firm Mijares Angoitia, Cortés y Fuentes, S.C., Mexico City. He is currently the General Counsel of América Móvil.

Elisabetta Castiglioni

Elisabetta Castiglioni was born in 1964. She holds a Master's in Business Administration from the Ludwig-Maximilians-University Munich and a Doctorate in Business Administration from the Munich Technical University. She started her professional career in 1990 as a full-time assistant at the Munich Technical University. From 1994 until 1998, she was a Senior Project Manager with Siemens AG, Munich. From 1998 until 2002 she held various executive positions with MCI International Ltd, London and Reading, UK. From 2003 until 2006 she was an Executive Vice President Europe of the cordless telephones business unit of Siemens AG, Munich. From 2006 until 2011, she was the Chief Executive Officer of the business segment global media of Siemens IT Solutions and Services/ATOS, London. Since 2012, she has worked as an independent board consultant and adviser.

Carlos José García Moreno Elizondo

Carlos José García Moreno Elizondo was born in 1957. He holds an economics degree from the Universidad Anáhuac, Mexico City, and a PhD in Economics from Cornell University, Ithaca, New York. From 1989 until 1995, he was an Associate Director of Financing with Petróleos Mexicanos (PEMEX). Between 1995 and 1997, he served as Executive and Managing Director of UBS Warburg, Mexico City. From 1997 until 2001 he was the Director General of Public Credit with the Mexican Ministry of Finance. Since 2001 he is the Chief Financial Officer of América Móvil.

Oscar Von Hauske Solís

Oscar Von Hauske Solís was born in 1957. He holds a business degree from the Instituto Técnico Autónomo de México and he attended the Chief Executive Officer Management Program of the Kellogg School of Management, Northwestern University, USA. In 1996, he joined Teléfonos de México as Advisor to the Chief Executive Officer and was subsequently appointed as Chief Information Officer responsible for data networks, carriers operation & product development. He currently serves as Chief Executive Officer of Telmex Internacional and Chief Fixed-Line Operations Officer at América Móvil. He is a member of the Board of Directors of América Móvil.

Current Supervisory Board Committees

Pursuant to the Stock Corporation Act, the Supervisory Board may establish one or more committees from among its members in order to prepare its discussions and resolutions or to supervise the execution of its resolutions. Supervisory Board members appointed as Employee Representatives are entitled to a seat on each Supervisory Board committee, except in the case of meetings and votes concerning the relationship between the Company and the Management Board members, unless such resolutions concern the appointment or revocation of Management Board members or the granting of share options. The committees consist of at least three members. In the event a committee only consists of two elected members and one Employee Representative, the committee is only considered to have a quorum if both elected members are present. Unless the Supervisory Board issues rules of procedure for its committees, the rules of procedure for the Supervisory Board apply to the committees mutatis mutandis. Since securities of the Company have been listed on a regulated market, the Company is required by Austrian law to establish an audit committee ("**Audit Committee**"), which must convene at least two meetings in each financial year. In accordance with Rules C-41 and C-43 of the ACGC, the Supervisory Board shall further establish a nomination committee ("**Personnel and Nomination Committee**") and a remuneration committee ("**Remuneration Committee**").

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

Audit Committee

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

One member of the Audit Committee must be a financial expert with special knowledge and practical experience in finance, accounting and reporting. Persons who were members of the Management Board, executives or auditors of the Company or persons having certified the Group's consolidated financial statements within the last three years may not be appointed as a financial expert or chairperson of the Audit Committee.

The members of the Audit Committee are Carlos José García Moreno Elizondo (chairman), Rudolf Kemler, Ronny Pecik (financial expert), Elisabetta Castiglioni, Carlos M. Jarque and Oscar Von Hauske Solís as the shareholders' representatives, as well as Silvia Bauer, Walter Hotz and Alexander Sollak as the employee representatives.

Remuneration Committee

The Remuneration Committee is made up of Rudolf Kemler as chairman, Carlos García Moreno Elizondo as vice-chairman and Oscar Von Hauske Solís. The Remuneration Committee is responsible for concluding contract negotiations with the Management Board and defining the remuneration of the Management Board and it also sets the targets for the calculation of the performance-related bonuses and monitors the achievement of goals.

Personnel and Nomination Committee

The Personnel and Nomination Committee submits proposals to the Supervisory Board for appointments to positions on the Management Board that have become vacant and also deals with questions of succession planning. This Committee comprises Oscar Von Hauske Solís (chairman), Rudolf Kemler, Carlos José García Moreno Elizondo, Alejandro Cantú Jiménez, Carlos M. Jarque and Ronny Pecik as the shareholders' representatives, as well as Walter Hotz, Werner Luksch and Alexander Sollak as the employee representatives.

Supervisory Board compensation

The ordinary Shareholders' Meeting held on May 28, 2014 approved a remuneration of EUR 30,000 for the chairman of the Supervisory Board, EUR 22,500 for the two vice-chairmen and EUR 15,000 for all other members, and was therefore unchanged from the previous year. Remuneration for the Supervisory Board for 2013 was paid out following the approval of the actions of the Supervisory Board members by the Shareholders' Meeting in May 2014. Until further notice the attendance fee for meetings of the Supervisory Board is EUR 300 per member and meeting. The total remuneration including attendance allowances paid to members of the Supervisory Board for the financial year 2013 was EUR 0.22 million. In addition, the members of the Supervisory Board are reimbursed for expenses actually incurred for travel and accommodation in connection with Supervisory Board meetings. The members of the Supervisory Board also benefit from a D&O insurance policy taken out and paid for by Telekom Austria; there is also criminal defense insurance for administrative offenses or violations of criminal law.

Other than the provisions made by the Group for the Supervisory Board's employees' representatives in connection with their function as regular employees of the Group, no amounts have been set aside by the Group to provide pension, retirement or similar benefits to members of the Supervisory Board.

The Supervisory Board compensation for the financial year 2013 was as follows:

Name	Supervisory Board remuneration awarded for 2013 and paid in 2014 (in EUR)	2013 attendance allowances (in EUR)
Rudolf Kemler	30,000	8,100
Ronny Pecik	22,500	4,800
Stefan Pinter	N/A	N/A
Carlos M. Jarque	N/A	N/A
Reinhard Kraxner	N/A	N/A
Günter Leonhartsberger	N/A	N/A
Alejandro Cantú Jiménez	N/A	N/A
Elisabetta Castiglioni	8,917.81[1]	1,500
Carlos José García Moreno Elizondo	N/A	N/A
Oscar Von Hauske Solís	15,000	3,000
Walter Hotz	-	6,900
Silvia Bauer	-	3,900
Werner Luksch	-	3,300
Alexander Sollak	-	4,500
Gottfried Kehrer	-	2,400

[1] Appointed on May 29, 2013.

Source: Company information.

DUTY OF LOYALTY AND DUTY OF CARE

Members of the Management Board and Supervisory Board owe a duty of loyalty and care to the Company. In carrying out their duties, members of the Management Board and Supervisory Board must exercise the standard of care of a prudent and diligent business person. Both boards are required to take into account a broad range of considerations when making their decisions, including the Company's interests and those of the Company's shareholders, employees, creditors and the public. Under Austrian law on stock corporations, shareholders and other parties are prohibited from giving instructions to the Management Board or the Supervisory Board and from using their influence to cause a member of the Management Board or Supervisory Board to act in a way that is harmful to the Company or its shareholders. A controlling shareholder may not cause the Company to take measures disadvantageous to the Company or its shareholders. An individual shareholder or any other person exerting influence who causes a member of the Management Board or the Supervisory Board to act in a way that is unfavorable to the Company or its shareholders may be liable for damages to the Company and the shareholders. Board members who have neglected their duties by taking such actions may be jointly and severally liable for damages to the Company. In general, only the Company, and not an individual shareholder, has direct recourse against members of the Management Board and the Supervisory Board. The Company may waive the right to recourse or settle the claim only if (i) five or more years have passed since the alleged breach of duty, (ii) the shareholders approve the waiver or settlement at a Shareholders' Meeting by a simple majority of the votes cast, and (iii) shareholders opposing such a shareholders' resolution do not hold, in the aggregate, 5% or more of the Company's share capital.

CERTAIN ADDITIONAL INFORMATION ABOUT THE BOARD MEMBERS

Activities performed outside of the Group

The following table sets forth the names of the companies and partnerships in which a member of the Management Board or Supervisory Board has been a member of the administrative, management or supervisory boards or partner (as the case may be) at any time in the five years prior to the date of this Prospectus. The table does not include activities in companies which are fully consolidated in the Consolidated Financial Statements.

Name	Name of the company	Function	Still active
Management Board			
Hannes Ametsreiter	Wind Hellas, Greece	Member of the supervisory board	Yes
	media.at GmbH	Vice chairman of the supervisory board	No
	WASP Privatstiftung	Vice chairman of the foundation board	No
Siegfried Mayrhofer	media.at GmbH	Member of the supervisory board	No
Günther Ottendorfer	Optus Singtel (Australia)	Managing director	No
Supervisory Board			
Rudolf Kemler	ÖIAG	Chairman of the management board	Yes
	APK Pensionskasse AG	Chairman of the supervisory board	Yes
	OMV AG	Chairman of the supervisory board	Yes
	Österreichische Post AG	Chairman of the supervisory board	Yes
	Société Horlogère Reconvilier AG, Switzerland	Member of the administrative board	Yes
	American Chamber of Commerce in Austria	Vice President	Yes
	"Internetoffensive Austria"	President and Chairman	Yes
	HP Austria	Chief executive officer	No
Ronny Pecik	Marathon Beteiligungs GmbH	Managing director	Yes
	ANNA Industriebeteiligung GmbH	Managing director	Yes
	Theseus Beteiligungs GmbH	Managing director	Yes
	SANDRINA Holding GmbH	Managing director	Yes
	SANDORO Holding GmbH	Managing director	Yes
	SAFFON Holding GmbH	Managing director	Yes
	SAFFON Baufeld Sechs GmbH	Managing director	Yes
	Schottengasse 6-8 Immobilien GmbH und Co OG	General partner	Yes
	EMBRA Immobilien EINS GmbH & Co OG	General partner	Yes
	Caboto Aircraft GmbH & Co KG	Limited partner	Yes
	Vespucci Aircraft GmbH & Co KG	Limited partner	No
	LP Air Handels GmbH & Co KG	Limited partner	No

Name	Name of the company	Function	Still active
	"Magelan" HandelsgmbH & Co KG	Limited partner	No
	VICTORY Industriebeteiligung GmbH	Managing director	No
	Marathon Zwei Beteiligungs GmbH	Managing director	No
	Everest Investment GmbH	Managing director	No
	PK Aircraft Handels GmbH	Managing director	No
	Columbus Aircraft GmbH & Co KG	Limited partner	No
	Elcano GmbH & Co KG	Limited partner	No
Stefan Pinter	-	-	-
Carlos M. Jarque	IDEAL	Member of the supervisory board	Yes
	FRISCO	Member of the supervisory board	Yes
	CICSA	Member of the supervisory board	Yes
	Inmobiliaria CARSO	Member of the supervisory board	Yes
Reinhard Kraxner	-	-	-
Günter Leonhartsberger	APK Versicherung AG	Chairman of the supervisory board	Yes
	APK Pensionskasse AG	Member of the supervisory board	Yes
	Österreichische Post AG	Member of the supervisory board	Yes
Alejandro Cantú Jiménez	América Móvil, Mexico	General Counsel and board member of group companies of the América Móvil group	Yes
Elisabetta Castiglioni	-	-	-
Carlos José García Moreno Elizondo	América Móvil, Mexico	Chief Financial Officer	Yes
	Royal KPN, Netherlands	Member of the supervisory board	Yes
	Banco Inbursa, Mexico	Member of the supervisory board	Yes
	Nacional Financiera, Mexico	Member of the supervisory board	Yes
Oscar Von Hauske Solís	América Móvil	Member of the board, Chief Fixed-Line Operations Officer	Yes
	Telmex Internacional, Mexico	Chief Executive Officer	Yes
	Teléfonos de México S.A.B. de C.V., Mexico	Member of the board	Yes
	Embratel Participações S.A., Brazil	Member of the board	Yes
	Telmex Brasil, Brazil	Member of the board	Yes
	Telmex Argentina, Argentina	Member of the board	Yes
	Telmex Colombia, Columbia	Member of the board	Yes
	Telmex Perú, Peru	Member of the board	Yes
	Telmex Ecuador, Ecuador	Member of the board	Yes
	Telmex USA, USA	Member of the board	Yes
	Royal KPN, Netherlands	Member of the board	Yes
	Net Serviços de Comunicaçao, Brazil	Member of the board	Yes
Walter Hotz	ÖIAG	Member of the supervisory board	Yes
Silvia Bauer	-	-	-
Werner Luksch	ÖIAG	Member of the supervisory board	Yes
Alexander Sollak	-	-	-
Gottfried Kehrer	-	-	-

Source: Company information.

Conduct of board members

Within the five years prior to the date of this Prospectus, no member of the Management Board or Supervisory Board:

- has been convicted in relation to offenses involving fraud;
- has been associated with bankruptcies, receiverships or liquidations of the companies or partnerships referred to in connection with his or her name in "Corporate bodies, management and corporate governance overview—Management Board—Members of the Management Board" and "Corporate bodies, management and corporate governance overview—Supervisory Board—Members of the Supervisory Board;"
- has been officially and publicly incriminated and/or sanctioned by statutory or regulatory authorities (including designated professional bodies) except as set forth in the paragraphs below; or
- has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Telekom Austria Group is subject to various administrative regulations and degrees. Although Telekom Austria Group has implemented various processes and strategies to fully comply with these regulations and degrees in its day to day business, administrative authorities have found in the past and might find in the future reasons to initiate administrative proceedings against Telekom Austria Group and hence also against its management. In cases where Telekom Austria Group cannot prove compliance with said regulations and degrees, Telekom Austria Group and/or its management have been and will be subject to administrative pecuniary fines.

The Swiss financial market authority (*Eidgenössische Finanzmarktaufsicht*) pressed charges against Ronny Pecik starting in 2009 for violations of publication obligations pursuant to the Swiss Stock Exchange Act in connection with his investment into Sulzer AG and OC Oerlikon. The charges were dropped in connection with the Sulzer AG investment in October 2010 following a lengthy proceeding on the basis of a compensation payment. In relation to the OC Oerlikon investment, the Swiss Federal Criminal Court acquitted Mr. Pecik in September 2010.

Shares held by board members

As of the date hereof the members of the Management Board hold the following Shares: Hannes Ametsreiter holds 25.674 Shares (all of which serve to satisfy LTI participation requirements and 221 of which were allocated as part of an employee stock ownership program introduced prior to the LTI), Siegfried Mayrhofer holds 16,500 Shares (all of which serve to satisfy LTI participation requirements) and Günther Ottendorfer holds 20,872 Shares (all of which serve to satisfy LTI participation requirements).

As of the date hereof the members of the Supervisory Board hold the following Shares: Ronny Pecik is the beneficial owner of 64,721 Shares through RPR Privatstiftung, Silvia Bauer holds 303 Shares (all of which were allocated as part of employee stock ownership programs introduced prior to the LTI), Gottfried Kehrer holds 82 Shares (all of which were allocated as part of an employee stock ownership program introduced prior to the LTI), Walter Hotz holds 82 Shares (all of which were allocated as part of an employee stock ownership program introduced prior to the LTI), Alexander Sollak holds 610 Shares (110 of which were allocated as part of an employee stock ownership program introduced prior to the LTI) and Werner Luksch holds 110 Shares (all of which were allocated as part of an employee stock ownership program introduced prior to the LTI).

Other than under the LTI, the disposal of such Shares is not subject to restrictions.

Conflicts of interest

With the exception of Mr. García Moreno Elizondo, Mr. Jarque, Mr. Cantú Jiménez and Mr. Von Hauske Solís, who are members of the Supervisory Board and also hold executive positions in the management of América Móvil group, respectively serve as supervisory board members in companies of the América Móvil group (see "Risk Factors—Risks relating to the shareholder structure, the Offering and the New Shares—Certain Supervisory Board members also hold executive positions in the management of América Móvil or serve as members of supervisory boards in companies of América Móvil group, which may create conflicts of interest."), no potential conflict of interest exists with respect to any member of the Management Board or Supervisory Board between his or her duties to the Company and his or her private interests or other duties.

There are no family ties between the members of the Management Board and the Supervisory Board.

Other Legal Relationships with the Group

No material legal relationships exist between the members of the Management Board or the Supervisory Board (including service contracts of members of the Supervisory Board) and the Company or any of the Group companies other than their respective appointment as board members and the related agreements. In the case of the employees' representatives on the Supervisory Board they also receive their regular salaries and benefits as employees of Telekom Austria Group.

CORPORATE GOVERNANCE

The ACGC creates a body of rules and regulations for the responsible management and guidance of companies in Austria. Its objective is to create sustained and long-term value and to increase transparency for all shareholders. It is based on international standards of good corporate governance as defined in the OECD rules on corporate governance and includes relevant provisions of the Stock Corporation Act, the Stock Exchange Act as well as the Capital Markets Act. The text of the ACGC is available at http://www.corporate-governance.at in German and English. The ACGC was published by the Austrian Working Group on Corporate Governance, a group of private organizations and individuals, in 2002, and was most recently amended in July 2012.

The ACGC primarily applies to Austrian stock-market-listed companies that undertake to adhere to its principles. In addition, the Vienna Stock Exchange requires compliance with the ACGC under provisions applicable for companies whose shares are traded in its prime market segment. The ACGC is based on statutory provisions of Austrian corporate law, securities law and capital markets law (Legal Requirements, "**L-Rules**"). In addition, the ACGC contains rules considered to be part of common international practice, such as the principles set out in the OECD Principles of Corporate Governance and the recommendations of the European Commission. Non-compliance with these rules must be explained (Comply or Explain, "**C-Rules**").

The ACGC also contains rules that are voluntary and do not require explanation in the event of deviations (Recommendations, R-Rules). The principal rules and recommendations of the ACGC include:

- equal treatment of shareholders under equal circumstances;
- the Management Board's information and reporting duties should be determined by the Supervisory Board;
- remuneration for members of the Management Board should consider the scope of activities, responsibility and personal performance as well as the achievement of targets, the size and economic situation of the company, and comprise fixed and business performance-related components (based on long-term indicators); the individual remuneration for each member of the management board should be reported in the annual financial statements;
- stock option plans for members of the management board should be approved by the Shareholders' Meeting and be based on objective parameters defined in advance; subsequent changes to the parameters are not permitted; the number and distribution of options granted, the exercise price, and the respective estimated values at the time they are issued and upon exercise shall be reported in the annual financial statements;
- conflicts of interests of members of the Management Board and the Supervisory Board should be disclosed in the annual financial statements;
- a majority of the members of the Supervisory Board should be independent of the company and its management and the Supervisory Board should define the criteria that constitute independence;
- Supervisory Board committees should be established, in particular a remuneration committee (for remuneration and other issues with Management Board members) and a nomination committee (for

succession planning in the Management Board); the remuneration committee and the nomination committee may be identical;

- Supervisory Board members may not assume any functions on the boards of other enterprises that are competitors of the company;
- the number of members of the Supervisory Board (excluding employees' representatives) should be ten or less; Supervisory Board members should not sit on the supervisory boards of more than eight other listed companies (the function as a chairperson counts twice);
- annual and quarterly financial statements (drawn up according to internationally recognized accounting standards) should be published in a timely manner (within four and two months, respectively) and must remain publicly accessible for at least five years;
- communication structures should be established to meet information needs of shareholders in a timely and adequate manner, in particular by using the internet; dates essential for shareholders should be communicated sufficiently in advance; consolidated financial statements and interim reports should be published on the company's website in German and English;
- any director's dealings should be disclosed on the company's website directly or by referring to the website of the FMA;
- the independent auditors should make regular assessments of the company's risk management; and
- an annual report regarding compliance with the ACGC should be included in the annual financial statements posted on the respective company's website.

Telekom Austria Group has committed itself to voluntary compliance with the ACGC since 2003. The Group complies with all legal requirements set out in the L-Rules. However, the Group deviates from Rules C-28 and R-28a of the ACGC and explains as follows: Stock option plans and programs for the beneficial transfer of shares, including the long-term and sustainable exercise criteria, are decided upon by the Supervisory Board to ensure an optimal alignment with the business plan. The LTI was introduced at the ordinary Shareholders' Meeting on May 27, 2010, which replaced the existing employee stock option program as of the financial year 2010. Currently, no member of the Supervisory Board serves as an independent member in the meaning of Rule C-54 of the ACGC. This deviation from Rule C-54 of the ACGC is due to the Shareholders' Agreement which provides for nomination rights for all of the ten Supervisory Board members to be elected by the shareholders.

VIENNA STOCK EXCHANGE

The information relating to the Vienna Stock Exchange set out below is derived from information obtained from the Vienna Stock Exchange, in particular from the website of the Vienna Stock Exchange (*Source:* http://www.wienerborse.at), the Vienna Stock Exchange monthly statistics of September 2014 (*Source:* http://www.wienerborse.at/prices_statistics/statistics/monthly/monatsstatistik.html) and the FMA's 2013 annual report (*Source:* http://www.fma.gv.at/typo3conf/ext/dam_download/secure.php?u=0&file=12481&t=1412091303&hash=3674786b24be8a753bb72446aae2cde6). The website of the Vienna Stock Exchange (*Source:* http://www.wienerborse.at) contains further information about the Vienna Stock Exchange as well as a range of special services, such as quotations and ad hoc information about the companies listed on the Vienna Stock Exchange. The information contained on the Vienna Stock Exchange website and in the FMA's 2013 annual report is not part of or incorporated by reference into this Prospectus.

ORGANIZATION AND MARKET SEGMENTS

The Vienna Stock Exchange, founded in 1771, is operated by an independent, privately owned stock corporation, Wiener Börse AG (Vienna Stock Exchange), based on a license under the Stock Exchange Act issued by the Federal Ministry of Finance. Members of the Vienna Stock Exchange include banks, foreign investment firms and other firms trading in securities, derivatives and money market instruments, registered either within or outside of the EEA. In addition to the securities exchange, the Vienna Stock Exchange also operates a commodities exchange. The FMA is the supervisory authority of the Vienna Stock Exchange. As the market and stock exchange supervisory authority, the FMA is responsible for the supervision of the reporting requirements for reportable instruments in accordance with the Austrian Securities Supervision Act (*Wertpapieraufsichtsgesetz 2007*) ("**Securities Supervision Act**"), the supervision of market participants and the clarification and investigation of infringements against the ban on insider trading and the ban on market manipulation, the monitoring of securities analyses concerning the issue and dissemination of recommendations in Austria, the regularity and fairness of securities trading, the clarification and investigation of price manipulation, stock exchange supervision in compliance with the Stock Exchange Act and the monitoring of issuers and shareholders with respect to their duties of publication.

According to the Stock Exchange Act, for listing purposes the Austrian securities market consists of two statutory markets: the Official Market and the second-tier market (*Geregelter Freiverkehr*; the "**Second Regulated Market**"). The Official Market and the Second Regulated Market have been registered as "regulated markets" pursuant to Directive 2004/39/EC of the European Parliament and of the Council of April 21, 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC as amended ("**MiFID**").

As of September 30, 2014, shares of 76 companies have been listed on the Official Market and Second Regulated Market, the two most important (regulated) markets of the Vienna Stock Exchange (*Source: http://www.wienerborse.at/prices_statistics/statistics/daily/dailymarketcap/?markets=A_G&market=all*). As of September 30, 2014, the market capitalization of all companies listed on the Official Market and Second Regulated Market amounted to approximately EUR 78.9 billion (*Source: http://www.wienerborse.at/prices_statistics/statistics/daily/dailymarketcap/?markets=A_G&market=all*). The unregulated third market (the "**Third Market**") that existed prior to the Austrian Securities Supervision Act coming into force has been operated by the Vienna Stock Exchange since November 1, 2007, in the form of a multilateral trading facility within the meaning of the Securities Supervision Act and the MiFID. A multilateral trading facility is not a regulated market under the Stock Exchange Act and the MiFID. It is a trading facility operated on the basis of a license from the FMA in accordance with the provisions of the Securities Supervision Act. However, on the basis of a special approval by the FMA in accordance with the Stock Exchange Act, the stock exchange company of a regulated market, such as the Vienna Stock Exchange, is entitled to also operate a multilateral trading facility. Participation takes place on the basis of the operator's own general terms and conditions of business, the "Rules for the Operation of the Third Market". The criminal offense of "misuse of insider information" and the administrative offense of "market manipulation" are also applicable to multilateral trading facilities. In December 2004, the U.S.

Securities and Exchange Commission granted the Vienna Stock Exchange the status of a "Designated Offshore Securities Market" in accordance with the U.S. Securities Act of 1933, as amended. By meeting the statutory criteria, securities are admitted to listing on the Vienna Stock Exchange and are divided into various trading segments. To be traded in a specific segment, certain non-statutory criteria must be met by the issuer of the securities, in addition to the statutory listing criteria as provided by the Stock Exchange Act. Compliance with these additional listing criteria is undertaken on a contractual basis between the relevant issuer and the Vienna Stock Exchange.

The equity market is divided into the segments "prime market", "mid-market" and "standard market". Subject to admission to trading of the New Shares on the Official Market, the New Shares will be included for trading in the prime market segment. The prime market segment represents the market segment of the Vienna Stock Exchange that comprises stocks of those companies that agree to fulfill more stringent reporting, quality and disclosure requirements, apart from meeting the legal criteria for the admission to listing on the Official Market or Second Regulated Market of the Vienna Stock Exchange as set out in the Stock Exchange Act. The admission criteria and ongoing obligations are specified in "the prime market rules" which can be retrieved from the website of the Vienna Stock Exchange (currently under http://en.wienerborse.at/marketplace_products/segmentation/equitymarket/). To provide additional liquidity, stocks traded in the prime market segment must be serviced by a trading participant who assumes the function of a specialist and has agreed to enter firm quotes into the trading system on a permanent basis. The trading platform for the prime market is the Xetra® trading system with the trading procedure "continuous trading" in conjunction with several auctions (opening auction, intraday auction, closing auction). In the prime segment of the Vienna Stock Exchange, additional liquidity providers other than the designated specialists are encouraged to act as market makers in stocks already serviced by at least one specialist in order to increase the liquidity of the stock. The specialists' and the market makers' commitments must meet certain minimum requirements set up by the Vienna Stock Exchange.

As of September 30, 2014, out of the 39 companies listed on the prime market, only 20 companies are included in the Austrian Traded Index ("**ATX**") (*Source:* http://www.wienerborse.at/stocks/atx/). The ATX tracks the price trends of the most actively traded (and, thus, most liquid) and highly capitalized stocks in terms of free float on the prime market segment. This index is also available as a total return (ATX TR) or net total return index (ATX NTR). The base date of the ATX is January 2, 1991 and ATX is denominated in Euro. The ATX is calculated, disseminated and licensed by the Vienna Stock Exchange on a real-time basis. The "ATX Prime" index contains all shares presently traded in the prime market segment. The mid-market segment comprises shares that are admitted to listing on the Official Market or the Second Regulated Market or shares that are traded on the Third Market and that do not meet all listing criteria required for trading in the prime market, but meet certain non-statutory listing criteria in addition to those set out in the Stock Exchange Act. Shares listed on the mid-market are either traded continuously (mid-market continuous) or once a day (mid-market auction).

The standard market segment contains all shares admitted to listing on the Official Market or Second Regulated Market that are neither listed in the prime market nor in the mid-market. It is divided into two sub segments: standard market continuous and standard market auction. Shares listed on the standard market continuous are traded continuously, whereas shares listed on the standard market auction are traded only once a day in an auction.

TRADING AND SETTLEMENT

Officially listed securities are traded both on and outside of the Vienna Stock Exchange. Shares and other equity securities listed on the Vienna Stock Exchange are quoted in Euro per share. The electronic trading system used by the Vienna Stock Exchange is Xetra® (Exchange Electronic Trading), the same trading system used by the Frankfurt Stock Exchange. The settlement system uses automated netting procedures and daily mark-to-market evaluation of collateral requirements to further reduce transfer costs.

The settlement of transactions concluded on the Vienna Stock Exchange takes place outside the stock exchange. The Vienna Stock Exchange has appointed CCP Austria Abwicklungsstelle für Börsegeschäfte GmbH ("**CCP Austria**") to act as clearing agency pursuant to section 26 paragraph 3 Stock Exchange Act and to ensure the clearing and settlement of eligible exchange transactions. CCP Austria acts as the responsible central counterparty for the clearing and risk management of all trades concluded on the Vienna Stock Exchange and assumes the fulfillment and default risk involved with the clearing and settlement of securities and derivatives transactions. In case of non-delivery, the default of delivery mechanisms set out in the Rules for the Clearing and Settlement of Exchange Trades by CCP Austria (separation procedure, covering procedure and cash settlement) apply. Settlement terms of over-the-counter ("**OTC**") transactions depend on the parties' agreement. Trading can be suspended by the Vienna Stock Exchange if orderly stock exchange trading is temporarily endangered or if its suspension is necessary in order to protect the public interest. The electronic system provides for automatic volatility interruptions and market order interruptions during auctions and for automatic volatility interruptions during continuous trading.

SUPERVISION OF MARKET PARTICIPANTS

As the market and stock exchange supervisory authority, the FMA is responsible, in particular, for supervision of the reporting requirements for reportable instruments in accordance with the Securities Supervision Act, the supervision of market participants and the clarification and investigation of infringements against the ban on insider trading and the ban on market manipulation, the monitoring of securities analyses concerning the issue and dissemination of recommendations in Austria, the regularity and fairness of securities trading, the clarification and investigation of price manipulation, stock exchange supervision in compliance with the Stock Exchange Act and the monitoring of issuers and shareholders with respect to their duties of publication, in particular ad hoc disclosure obligations. The FMA is also responsible for the licensing of multilateral trading facilities, including the approval thereof, for stock exchange companies.

The FMA is further responsible for supervising the lawfulness of resolutions adopted by the executive bodies of the stock exchange operator, namely the Vienna Stock Exchange. For that purpose, it makes use of the so-called stock exchange commissioners (*Börsekommissäre* pursuant to section 46 Stock Exchange Act). The stock exchange commissioner and his deputies are appointed by the Minister of Finance, but act on behalf of the FMA and are bound by the instructions of the FMA, as the competent supervisory authority. The stock exchange commissioners (at present one stock exchange commissioner and two deputies) are to be invited to all shareholders' meetings, supervisory board meetings, all meetings of supervisory board committees with decision making powers and meetings of the management board which decide on the admission of a member of the stock exchange, the suspension of stock exchange membership, the exclusion of stock exchange membership or the admission or withdrawal of admission to the listing of negotiable instruments to the different types of trading. The stock exchange commissioners have the right to speak at any time if so requested. All minutes of the meetings of the bodies of the stock exchange operating company to which the stock exchange commissioners are invited shall be sent to the stock exchange commissioners without delay. The stock exchange commissioners and their deputies have the right to visit trading sessions any time they wish. The stock exchange commissioner reviews all resolutions and decisions of the Vienna Stock Exchange and is entitled to object to any resolutions and decisions he considers to be in violation of applicable law. Any such objection by the stock exchange commissioner postpones the date as of which the resolution shall take effect until the FMA reaches a decision on the matter.

REGULATION OF THE AUSTRIAN SECURITIES MARKET

The summary of Austrian securities markets regulation set forth below is for general information only and contains certain significant issues of Austrian securities law and regulations. The summary does not purport to be a comprehensive description of all the topics discussed below.

NOTIFICATION AND DISCLOSURE OF SHAREHOLDINGS

The following provisions of the Stock Exchange Act on the disclosure of major shareholdings generally apply in relation to issuers of securities listed on a regulated market (as defined in the Stock Exchange Act) in the EEA, and whose home member state is Austria and, as far as notifications to the Vienna Stock Exchange are required, only to issuers of securities listed on the Official Market or the Second Regulated Market.

Any natural person or legal entity (irrespective of whether domestic or foreign) whose voting rights in an issuer whose home member state, according to section 81a paragraph 1 item 7 Stock Exchange Act, is Austria, and whose shares are listed on the Official Market or the Second Regulated Market, reaches, exceeds or falls below 4%, 5%, 10%, 15%, 20%, 25%, 30%, 35%, 40%, 45%, 50%, 75% or 90% through acquisition or sale of shares, must give written notification to the issuer, the stock exchange and the FMA. The articles of association of a listed company can also lower the reporting threshold to 3%. This also applies to the thresholds stated by such issuer in its articles of association pursuant to section 27 paragraph 1 item 1 Takeover Act. The same applies among other things in relation to shares that are subject to option and trust arrangements and to banks that exercise voting rights on behalf of their depositaries by virtue of special voting proxies. In addition, the disclosure requirements also apply to any person who directly or indirectly reaches, exceeds or falls below the above mentioned thresholds by holding certain financial or comparable instruments such as option rights, convertible bonds, futures or contracts for difference or certain swaps. In each case, rules on the aggregation of various positions in voting rights and financial instruments need to be observed.

Notification must be made without undue delay, but no later than two trading days after noting, or having the possibility to note, that the relevant thresholds have been reached, exceeded or are no longer met. The notification must state among other things the number of voting rights after such an acquisition or sale of shares, if applicable, the chain of controlling companies through which the voting rights are actually exercised, the date on which the respective thresholds have been reached or exceeded and the name of the shareholder as well as the name of the person who is authorized to exercise the respective voting rights. In the case of financial instruments, the type of financial instrument as well as the expiration date/maturity, the exercise/conversion period/date as well as the number of shares and of voting rights that may be acquired if the instrument is exercised/converted must be disclosed. Listed issuers are required to publish any such event and information without undue delay after being notified thereof, but in any case within two trading days of such notification. Listed issuers are also obligated to publish any changes in the share capital and the total number of voting rights at the end of the calendar month in which the respective change occurred. Publications must be made through one of the EU-wide electronic information dissemination systems of Reuters, Bloomberg or Dow Jones Newswire (section 11 of the FMA's Disclosure and Reporting Regulation, *Veröffentlichungs- und Meldeverordnung der FMA*, Federal Law Gazette II No. 2005/109 as amended, the "**VMV**"). If the disclosure requirements are not complied with, voting rights may be temporarily suspended and administrative fines of up to EUR 150,000 may be imposed. The following provisions of the Stock Exchange Act on the disclosure of directors' dealings apply in relation to issuers having Austria as their home member state according to section 81a paragraph 1 item 7 Stock Exchange Act whose shares are listed on the Official Market or on the Second Regulated Market. Persons who undertake managerial responsibilities and, where applicable, persons closely associated with them, must publish without delay and notify the FMA within five working days of the existence of any transactions conducted on their own account relating to shares and securities equivalent to shares issued by the issuer or its affiliated companies, or to derivatives relating to such financial instruments (so-called directors' dealings). The form, content and type of disclosure of directors' dealings notifications are regulated by the VMV. Such a notification requirement does not apply if the aggregated value of such person's transactions does not reach EUR 5,000 per calendar year. Persons undertaking managerial responsibilities are in particular members of the management board and the supervisory board of a stock corporation. The same rules apply to persons who have a close relationship with persons undertaking managerial responsibilities, for example spouses, dependent children as well as any other family members who have lived in the same household for at least one year. Persons who have such close relationships are, in addition, legal entities, fiduciary institutions or partnerships which are managed by such a person or which are directly or indirectly controlled by such a person, or which have been established for the benefit of such a person or whose business interests, to a large extent, are similar to those of such a person. Violations of directors' dealings constitute an administrative offense and may be subject to a fine by the FMA in an amount of up to EUR 60,000. In addition to the above notification and disclosure obligations under the Stock Exchange Act, the acquisition of shares or other methods of obtaining control of a company within the meaning of the Austrian Cartel Act (*Kartellgesetz*) may, under certain circumstances, be subject to the approval of the Austrian Cartel Court (*Kartellgericht*).

INSIDER TRADING AND AD HOC INFORMATION

The Stock Exchange Act prohibits the abuse of inside information in Austria or abroad with regard to financial instruments admitted to trading on a regulated market in Austria or for which an application for admission to such a regulated market has been made. Austrian law further prohibits the abuse of inside information committed in Austria with regard to financial instruments admitted to trading on a regulated market in another EEA member state or for which an application for admission to such a regulated market has been made. Furthermore, such prohibitions also apply to financial instruments not admitted to a regulated market provided that such financial instruments depend on the value of a financial instrument that is admitted to a regulated market or for which an application for admission to such a regulated market has been made.

For the purposes of the abuse of inside information described in this section, the term "regulated market" also includes unregulated markets in the form of multilateral trading facilities (for example, the Third Market of the Vienna Stock Exchange).

"Inside information" is defined in section 48a paragraph 1 item 1 Stock Exchange Act as detailed information not known to the public which, directly or indirectly, concerns one or more issuers of financial instruments, or one or more financial instruments, and which would, if it were publicly known, significantly affect the market price of such financial instruments or of derivatives linked to them, because a reasonable investor would likely use such information as part of the basis for his investment decision. According to section 48b paragraph 4 Stock Exchange Act, an "insider" is any person who has access to inside information either due to his position as a member of the administrative, managing or supervisory body of an issuer or otherwise due to his profession, occupation, responsibilities or shareholding in the issuer (so-called primary insider (*Primärinsider*)). Any person who gains access to inside information by way of a criminal offense is also an insider. If an insider is a legal rather than a natural person, those persons who participate in the resolution on the execution of the relevant transaction shall be deemed insiders. Furthermore, any person who does not qualify as an insider will nevertheless be responsible under the insider trading rules if such person knows or, but for gross negligence, should have known that such information qualifies as inside information and makes use of such information in a penalized way. Any insider who uses inside information with the intent to gain a pecuniary benefit for himself or a third party by buying or selling financial instruments or by offering or recommending such instruments to third parties for acquisition or disposal, or who makes such information accessible to a third party without having any need to do so, is subject to a criminal penalty of up to three years' imprisonment. If the benefit gained exceeds EUR 50,000, the penalty is between six months' and five years' imprisonment. If this criminal offense is committed by a person who is not an insider, but has inside information which has been made available to him or which otherwise becomes known to him (so-called secondary insider (*Sekundärinsider*)), such secondary insider is subject to a criminal penalty of up to one year's imprisonment or to a financial penalty of up to 360 daily rates. If the benefit gained exceeds EUR 50,000, the penalty is up to three years' imprisonment.

Pursuant to the Stock Exchange Act, every issuer is obligated to:

- inform its employees and other persons providing services to it about the prohibition on the abuse of inside information;

- issue internal directives for the communication of information within the relevant company and to monitor compliance; and
- take organizational measures to prevent the abuse of inside information or its disclosure to third parties.

Evidence of adherence to these obligations, which must be provided by delivering the company's internal compliance directive, is a prerequisite for admission to the Official Market and the Second Regulated Market. The Issuers' Compliance Regulation (*Emittenten-Compliance-Verordnung* 2007, Federal Law Gazette II No. 2007/213 as amended, "**Issuers' Compliance Regulation**") enacted by the FMA regulates such measures in further detail (for example permanent and ad hoc confidentiality areas and blocking periods regarding trading in financial instruments). Also, it does not only cover inside information as defined above, but expands its scope of application to so-called compliance-relevant information (Compliance-relevant Information). "Compliance-relevant information" is defined as an inside information or any other confidential and price-sensitive information (which may not yet be qualified as inside information). Confidential and price-sensitive information comprises all information not publicly known which would, if it were known to a reasonable investor who regularly trades related financial instruments on the respective market, be considered as relevant by such investor when making his investment decision.

The Issuers' Compliance Regulation requires, among other things, each issuer whose securities are admitted to trading on the Official Market or the Second Regulated Market to issue a compliance directive (*Compliance-Richtlinie*). Furthermore, issuers are obligated to provide an annual operational report (*Tätigkeitsbericht*), as defined in the Issuers' Compliance Regulation, within five months of the end of an issuer's financial year to its supervisory board as well as to the FMA. Issuers are further required to establish a register of persons working for them who have access to compliance-relevant information, whether on a regular or on an occasional basis. Issuers are required to regularly update this register and submit it to the FMA, whenever requested.

Furthermore, the Stock Exchange Act requires any company, the shares of which are admitted to trading on the Official Market or the Second Regulated Market, to disclose to the public without delay any inside information that directly concerns such company (so-called ad hoc information). This obligation does not apply to issuers whose shares are not admitted to trading on a regulated market or who have not applied for admission to trading on a regulated market in the EEA. Material changes to published inside information must also be published and identified as such. Publication must be made through one of the EU-wide electronic information dissemination systems (Reuters, Bloomberg or Dow Jones Newswire). Issuers may delay the public disclosure of inside information in order not to prejudice their legitimate interests, provided that (i) such omission would not be likely to mislead the public and (ii) the issuer is able to ensure the confidentiality of such information. The issuer is obligated to inform the FMA without delay of its decision to delay public disclosure of inside information. To ensure confidentiality of compliance-relevant information, an issuer must control access to such information. In particular, an issuer must (i) establish effective arrangements to deny access to such information to persons other than those who require it for the exercise of their functions within the relevant company; (ii) take the necessary measures to ensure that any person with access to such information acknowledges the legal and regulatory duties entailed and is aware of the sanctions attaching to the misuse or improper dissemination of such information; and (iii) have in place measures which allow immediate public disclosure in the event the issuer is not able to ensure the confidentiality of the relevant information. Violations of these rules constitute an administrative offense and may be subject to a fine by the FMA in the amount of up to EUR 60,000.

MARKET MANIPULATION

Market manipulation refers to transactions or trade orders (i) which give, or may give, false or misleading signals regarding the supply of, demand for, or the price of financial instruments, or (ii) which influence, by a person, or persons acting in collaboration, the price of one or several financial instruments so as to reach an abnormal or artificial level, unless, with respect to both (i) and (ii), the person who entered into the transactions or placed the trade orders has legitimate reasons for doing so and these transactions or trade orders conform to accepted market practices on the regulated market concerned. Market manipulation also comprises transactions or trade orders which employ fictitious devices or any other form of deception or contrivance. Finally, market manipulation includes dissemination of information through the media, including the internet, or by any other means, which gives, or may give, false or misleading signals with respect to the financial instruments, among other things by the dissemination of rumors and false or misleading news, if the person who disseminated this information knew, or should have known, that the information was false or misleading.

Market manipulation is subject to an administrative fine of up to EUR 150,000, which may be imposed by the FMA, whereby even the attempt is punishable. Additionally, any pecuniary advantage attained by such a transaction or trade order is to be declared forfeited by the FMA.

On October 20, 2011, the European Commission adopted proposals for a regulation (the "**MAR**") on insider dealing and market manipulation, and for a directive on criminal sanctions for insider dealing and market manipulation, which were amended on July 25, 2012 to prohibit also the manipulation of benchmarks, such as LIBOR and EURIBOR, and to make such manipulation a criminal offense. The proposals include, among others, an increase in the scope of the market abuse regime, substantially increased administrative fines, the sanctioning of attempted market manipulation and whistleblower regulations. On September 10, 2013, the European Parliament resolved on the legislative resolution MAR proposal. As of the date of this Prospectus, these proposals are still under review and have not yet become effective.

TAKEOVER ACT

The Takeover Act primarily applies to public offers for the acquisition of the shares of stock corporations registered in Austria, the shares of which are admitted to the Official Market or Second Regulated Market. The primary purpose of the Takeover Act is to ensure that all shareholders of a company the shares of which are being acquired are treated equally and that the shareholders receive a fair compensation for their shares in the case of a change of control. The Takeover Act provides that any public offer for the acquisition of shares of an Austrian company listed on an exchange in Austria has to be prepared in accordance with the formal requirements of the Takeover Act and to be submitted to the Takeover Commission (*Übernahmekommission*) prior to its publication. Generally, a bidder must not disclose his intention to launch a public offer until he has notified the Takeover Commission thereof. If, however, rumors of the bidder's intention lead to significant changes in the price of the target company's shares prior to notification of the Takeover Commission, a bidder is required to publish his intention to bid for the shares of the target company immediately and must submit the offering documents to the Takeover Commission within ten trading days following publication. The Takeover Act distinguishes between voluntary offers, mandatory offers and voluntary offers to gain control. Any person who acquires a controlling interest in a target company must notify this to the Takeover Commission without undue delay and must prepare an offer ("mandatory offer") to purchase the remaining shares in the target company and must submit the offer document to the Takeover Commission within 20 trading days of acquiring the controlling interest. Furthermore, every voluntary offer aiming at acquiring a controlling influence is statutorily under the condition precedent that the bidder acquires more than 50% of the outstanding shares with permanent voting power ("voluntary offer to acquire control"). Important parts of the Takeover Act are based on a formal concept of control. Within the meaning of the Takeover Act, an interest is "controlling" if it confers more than 30% of the voting rights in the target company. Acquisitions of less than 30% of the voting rights do not trigger a mandatory offer under a safe harbor exemption. If the threshold of 30% is not exceeded, but a secured blocking minority (26%) is exceeded, only 26% of the voting rights can be exercised unless the Takeover Commission explicitly revokes the suspension of voting rights. In this event, the Takeover Commission becomes involved only upon request and, instead of suspending voting rights, can also establish conditions and obligations. In the event of a "passive" acquisition of control (meaning, where an investor acquires a controlling interest without own effort, for example, because the hitherto controlling shareholder sells its shares or a shareholders' agreement is terminated), there is no requirement to launch a mandatory offer if the acquirer of a controlling interest could not reasonably expect the acquisition of control at the time of acquiring the participation. However, such a shareholder may only exercise 26% of his voting rights unless the Takeover Commission, upon request, revokes the suspension of voting rights. Otherwise, the same provisions as outlined above apply (for example, suspension of voting rights). Under the "creeping-in" rule, the extension of an existing controlling interest shall also trigger a mandatory offer if a person with a controlling interest who does not have a majority of the voting rights of a listed company acquires an additional 2% or more of the voting rights within a period of twelve months. The "creeping-in" rule, accordingly, only applies to a shareholding between 30% and 50%. The articles of association of a stock corporation can, among other things, stipulate that during the takeover process certain restrictions on transfer and voting rights with respect to shares of the target company are not applicable ("break through"). The acquirer of an interest of at least 75% of the share capital of a stock corporation can call a shareholders' meeting within six months of a takeover process. If, in such a shareholders' meeting, a vote is taken on changes to the articles of association (in particular, the abolition of transfer restrictions, voting right restrictions and delegation rights) or the recall or election of members of the supervisory board, restrictions on voting rights do not apply.

As a rule, the price for a voluntary public offer can be freely determined. The price for a mandatory offer and a voluntary offer to gain control (i) must be at least equal to the average stock exchange price weighted according to the respective trading volume during the preceding six months before the day on which the intent to bid was announced and (ii) must be at least equal to the highest share price that the bidder or a legal entity acting jointly with the bidder has paid or agreed to pay during the last twelve months before publication of the offer. Under certain circumstances, an appropriate price is to be set for a mandatory offer.

The Takeover Act requires offer documents to be examined by an independent expert, either a qualified auditor or bank, before these offer documents are filed with the Takeover Commission and the target company. The management of the target company must issue a statement on the offer which is also subject to mandatory examination by an independent expert. Any offers providing for a higher consideration or competing offers must follow the same rules. From publication of a bidder's intention to submit a public offer, the management board and the supervisory board of the target company generally may not undertake measures to jeopardize the offer. The bidder and the parties acting in concert must refrain from selling any shares in the target company and from purchasing target shares for a higher consideration than offered in the offer. Violation of any legal provision may result in the obligation to pay the difference between the price such shares have been purchased and/or sold at and the price offered in the bid to all shareholders who have accepted such a bid, in the suspension of voting rights and in fines imposed by the Takeover Commission.

The acceptance period for an offer may not be less than two weeks and not more than ten weeks, calculated in each case from the date of publication of the offer documents. In certain instances, such as in the case of a mandatory offer, there is a follow-up period of three months after publication of the results of the offer within which the offer can be accepted.

The Takeover Commission monitors adherence to the Takeover Act and is authorized to penalize violations of takeover law. In addition to other civil and administrative sanctions, violations of provisions of the Takeover Act can result in the suspension of voting rights of the violator's shares and, in the case of serious violations, suspension of other shareholder rights. The Takeover Commission can also officially introduce proceedings and does not itself have a supervisory authority.

SQUEEZE-OUT OF MINORITY SHAREHOLDERS

Pursuant to the Austrian Act on the Squeeze-out of Minority Shareholders (*Gesellschafter-Ausschlussgesetz*), a majority shareholder holding no less than 90% of the entire (voting and non-voting) share capital of a corporation may squeeze out the remaining shareholders at an equitable price. The squeeze-out right is general and is not limited to a preceding takeover offer. The minority shareholders are not entitled to block the squeeze-out but have the right of separate judicial review of the fairness of the compensation paid for their minority stake. If a squeeze-out follows a takeover offer, the consideration offered in the takeover bid is presumed to be fair where, through the acceptance of the offer, the bidder has acquired shares representing no less than 90% of the share capital entitled to vote in the target company.

SHORT SELLING

On September 15, 2010, the European Commission adopted a proposal for a regulation on short selling and certain aspects of credit default swaps according to which, among other things, short selling may temporarily be banned or restricted either by national regulators or by the new European Securities and Markets Authority. On March 24, 2012, Regulation (EU) No 236/2012 of the European Parliament and the Council of March 14, 2012 on short selling and certain aspects of credit default swaps was published. The short selling regulation has applied since November 1, 2012. According to the regulation, short selling may (subject to certain exemptions) be temporarily banned or restricted either by national regulators or by the new European Securities and Markets Authority. It provides a coordinated European framework on short selling that aims at greater transparency, increases the powers for regulators and addresses the specific risks of naked short selling by requiring that to enter a short sale, an investor must have borrowed the instruments concerned, entered into an agreement to borrow them, or have an arrangement with a third party to locate and reserve them for lending so that they are delivered by the settlement date. In addition, the FMA has issued guidelines on short selling transactions that give rise to the suspicion of manipulative market behavior. Pursuant to the Stock Exchange Act, any person professionally engaged in arranging transactions must submit a notification of suspicious transactions involving insider trading or market manipulation to the FMA if such a person is registered or has its head office or branch in Austria. The FMA has specified that the notification duty is triggered if any person or entity enters into a holding of net short positions representing at least 0.25% of an issuer's outstanding share capital listed in Austria. OTC transactions in such shares and transactions taking place outside Austria are also included.

CONTROL OF ACCOUNTING ACT

On July 1, 2013, the Austrian Control of Accounting Act (*Rechnungslegungs-Kontrollgesetz*) entered into force. It aims to ensure that financial information (annual reports as well as interim financial information) as well as certain other information published by entities having securities admitted to trading on a regulated market in Austria are compliant with national and international accounting standards. To this end, either the Austrian Financial Reporting Enforcement Panel (*Österreichische Prüfstelle für Rechnungslegung*), acting for the FMA, or the FMA directly, may conduct audits either on a random basis or if indications exist that accounting standards have been infringed. The FMA will issue a decree on any inaccuracies detected in the course of such audit which can be appealed before the Austrian Federal Administrative Court (*Bundesverwaltungsgericht*); the decisions of the Austrian Federal Administrative Court (*Bundesverwaltungsgericht*) are in certain cases subject to appeal before the Austrian Constitutional Court (*Verfassungsgerichtshof*) or the Austrian Supreme Administrative Court (*Verwaltungsgerichtshof*). In addition, inaccuracies detected may also be made public if the public interest to be informed overrides the respective entity's interest in keeping the findings confidential. The RL-KG applies to published information relating to financial years ended after December 31, 2013.

TAXATION

AUSTRIAN TAXATION CONSIDERATIONS

This section on taxation contains a brief summary of the Company's understanding with regard to certain important principles which are of significance in connection with the purchase, holding or sale of the New Shares in the Republic of Austria. This summary does not purport to exhaustively describe all possible tax aspects and does not deal with specific situations which may be of relevance for certain potential shareholders. The following comments are rather of a general nature and included herein solely for information purposes. These comments are not intended to be, nor should they be construed to be, legal or tax advice. It is based on the currently valid tax legislation, case law and regulations of the tax authorities, as well as their respective interpretation, all of which may be amended from time to time. Such amendments may possibly also be effected with retroactive effect and may negatively impact on the tax consequences described. It is recommended that potential purchasers of the New Shares consult with their legal and tax advisers as to the tax consequences of the purchase, holding or sale of the New Shares. The Company does not assume any responsibility for withholding tax at source.

General remarks

Individuals having a permanent domicile (*Wohnsitz*) and/or their habitual abode (*gewöhnlicher Aufenthalt*) in Austria are subject to income tax (*Einkommensteuer*) in Austria on their worldwide income (unlimited income tax liability; *unbeschränkte Einkommensteuerpflicht*). Individuals having neither a permanent domicile nor their habitual abode in Austria are subject to income tax only on income from certain Austrian sources (limited income tax liability; *beschränkte Einkommensteuerpflicht*). Corporations having their place of effective management (*Ort der Geschäftsleitung*) and/or their legal seat (*Sitz*) in Austria are subject to corporate income tax (*Körperschaftsteuer*) in Austria on their worldwide income (unlimited corporate income tax liability; *unbeschränkte Körperschaftsteuerpflicht*). Corporations having neither their place of effective management nor their legal seat in Austria are subject to corporate income tax only on income from certain Austrian sources (limited corporate income tax liability; *beschränkte Körperschaftsteuerpflicht*). Private foundations (*Privatstiftungen*) pursuant to the Austrian Private Foundations Act (*Privatstiftungsgesetz*) ("**Private Foundations Act**") are subject to corporate income tax according to the afore-stated prerequisites. However, Austrian private foundations fulfilling certain disclosure obligations are subject to a special tax regime provided for in the Austrian Corporate Income Tax Act (*Körperschaftsteuergesetz*) ("**Corporate Income Tax Act**"). Both in case of unlimited and limited (corporate) income tax liability, Austria's right to tax may be restricted by double taxation treaties.

Income tax and corporate income tax

Taxation of dividends

Withholding tax regime

Dividends distributed by an Austrian corporation are generally subject to a withholding tax (*Kapitalertragsteuer*), levied at a rate of 25% by the distributing corporation. Corporate investors holding an investment of more than 10% of the nominal capital may ask for an exemption from the withholding tax.

Individuals

For holders of the New Shares who are subject to unlimited income tax liability, this 25% withholding tax is a final tax (*Endbesteuerung*), meaning no income tax is levied over and above the amount withheld. Furthermore, the dividends do not have to be included in the holder's income tax return. However –upon application – the option exists to tax all kind of capital income (in particular interest, dividends and realized capital gains) subject to the tax rate of 25% at the lower individual progressive income tax rate, which may be favorable in specific cases. Expenses incurred by the holder in connection with the New Shares (including interest expenses) must not be deducted for income tax purposes in any way.

For holders of the New Shares who are subject to limited income tax liability, the 25% withholding tax on dividend payments is a final tax which is, however, subject to applicable double taxation treaties. Many of these treaties generally reduce Austria's right to tax, in which case any balance will be refunded by the Austrian tax authorities upon request. In this respect, a holder of New Shares will generally be required to provide a certificate of residency issued by the tax authorities of its country of residence. Claims for refund of the Austrian withholding tax can be made my using the forms ZS-RD 1 (in German) or ZS-RE 1 (in English) together with ZS RD 1a proving the economical ownership at the time of the dividend distribution.

Corporations

For holders of the New Shares who are subject to unlimited corporate income tax liability, dividends derived from a participation in an Austrian corporation are exempt from corporate income tax. This is also the case for New Shares that are attributable to an Austrian permanent establishment (*Betriebsstätte*) of a corporation resident in an EU member state if it has one of the legal forms listed in the EU-Parent Subsidiary Directive (2011/96/EC). Any tax withheld is credited against the corporate income tax assessed; any excess amount may be reclaimed. Apart from interest expenses, no expenses incurred by the holder in connection with the New Shares may be deducted for corporate income tax purposes.

For holders of the New Shares who are subject to limited corporate income tax liability, the 25% withholding tax on dividend payments is a final tax, subject however to applicable double taxation treaties. Many of these treaties generally reduce Austria's right to tax, in which case any balance will be refunded by the Austrian tax authorities upon request. In this respect, a holder of the New Shares will generally have to provide a certificate of residence issued by the tax authorities of its country of residence. Claims for refund of the Austrian withholding tax can be made by using the forms ZS-RD 1 (in German) or ZS-RE 1 (in English) together with ZS RD 1a proving the economical ownership at the time of the dividend distribution. In addition, corporations resident in the EU as well as in the EEA (the latter only if there exists an agreement on comprehensive mutual administrative and enforcement assistance) may claim a refund of Austrian withholding tax levied on dividend distributions made by Austrian corporations to the extent that such Austrian withholding tax does not lead to a tax credit in the country of residence of the dividend recipient under the applicable double taxation treaty.

Private foundations

Private foundations (*Privatstiftungen*) pursuant to the Private Foundations Act are subject to special provisions that exempt Austrian sourced dividends from corporate income tax. Any tax withheld is credited against the corporate income tax assessed; excess amounts may be reclaimed.

Taxation of capital gains

Individuals

For holders of the New Shares who are subject to unlimited income tax liability, holding the New Shares as non-business assets (*Privatvermögen*), capital gains realized upon a sale are subject to Austrian income tax. In the case of capital gains with an Austrian nexus (*inländische Einkünfte aus Kapitalvermögen*), basically income that is paid by an Austrian custodian agent (*depotführende Stelle*) or by an Austrian paying agent (*auszahlende Stelle*) provided the non-Austrian custodian agent is a non-Austrian branch or group company of such paying agent and processes the payment in cooperation with the paying agent is subject to a final withholding tax of 25%; no additional income tax is levied over and above the amount of tax withheld. In the case of income from capital gains without an Austrian nexus, the income must be included in the income tax return and is subject to a flat income tax rate of 25%. In both cases, the option exists to tax all kind of capital income (in particular interest, dividends and capital gains) subject to the tax rate of 25% at the lower individual progressive income tax rate. Expenses incurred by the holder in connection with the New Shares (including interest expenses) must not be deducted for income tax purposes in any way.

For holders of the New Shares who are subject to unlimited income tax liability, holding the New Shares as business assets (*Betriebsvermögen*), capital gains realized upon a sale are subject to Austrian income tax. In the case of capital gains with an Austrian nexus (as described above), the income is subject to a withholding tax of 25%. The capital gains must always be included in the income tax return, and are taxed at a flat income tax rate of 25%, with any withholding tax being credited. In addition, the option exists to tax all income subject to the tax rate of 25% at the lower individual progressive income tax rate.

For holders of the New Shares who are subject to limited income tax liability, capital gains realized upon a sale are generally only taxable if the holder has, at any point in time during the five years prior to the sale, held a participation of at least 1% or, alternatively, if the New Shares are attributable to an Austrian permanent establishment. Except in the case of a permanent establishment, most Austrian double taxation treaties provide for an exemption of these capital gains. Note that in all of these cases, the withdrawal of the New Shares from a bank deposit (*Depotentnahme*) and circumstances leading to a loss of Austria's taxation right regarding the New Shares vis-à-vis other countries, for example, a relocation from Austria (*Wegzug*), are in general deemed to constitute a sale (see section 27 paragraph 6 item 1 Income Tax Act) upon which capital gains are realized.

Corporations

For holders of the New Shares who are subject to unlimited corporate income tax liability, capital gains realized upon the sale of the New Shares are taxed at the normal corporate income tax rate of 25%. Capital losses are to be spread over a period of seven years (as are write-downs in value).

For holders of the New Shares who are subject to limited corporate income tax liability, capital gains realized upon a sale are generally only taxable if the holder has, at any point in time during the five years prior to the sale, held a participation of at least 1% or, alternatively, if the New Shares are attributable to an Austrian permanent establishment. Except in the case of a permanent establishment, most Austrian double taxation treaties provide for an exemption of these capital gains. Note that in all of these cases, the withdrawal of the New Shares from a bank deposit (*Depotentnahme*) and circumstances leading to a loss of Austria's taxation right regarding the New Shares vis-à-vis other countries, for example, a relocation from Austria (*Wegzug*), are in general deemed to constitute a sale (see section 27 paragraph 6 item 1 Income Tax Act) upon which capital gains are realized.

Private foundations

Private foundations pursuant to the Private Foundations Act fulfilling the prerequisites contained in sections 13 paragraph 3 and 6 Corporate Income Tax Act and holding the New Shares as a non-business asset are subject to interim taxation at a rate of 25% on income from realized capital gains of the New Shares. Interim tax does not become due insofar as distributions subject to withholding tax are made to beneficiaries in the same tax period. In case of capital gains with an Austrian nexus (as described above), the income is, in general, subject to a withholding tax of 25%, which can be credited against the tax due. Under the conditions set forth in section 94 paragraph 12 of the Austrian Income Tax Act (*Einkommensteuergesetz*) ("**Income Tax Act**"), no withholding tax is levied.

Tax treatment of discounts on the price of shares for employees

Any benefit derived from the delivery of shares for no consideration or for a consideration which is below the shares' fair market value to an employee resident in Austria ("**Resident Employee**") constitutes taxable employment income. Such benefit becomes taxable at the time of beneficial ownership in the shares to the Resident Employee. In the case of third party income, the respective Austrian employer may be obliged to withhold payroll tax (*Lohnsteuer*) on such employment income under specific circumstances at the Resident Employee's marginal income tax rate of at most 50%. Austrian tax law provides for a beneficial tax regime for the granting of shares in the employer company (or a group company thereof) for no consideration or for a consideration that is below the shares' fair market value. Such tax relief only applies to shares that are granted to either all or at least to specific groups of employees. In addition, the shares granted have to constitute a direct participation in the mentioned entities. The tax relief is available for benefits of up to EUR 1,460 per year and employee. Any benefit exceeding such threshold has to be taxed as employment income at the individual Resident Employee's marginal income tax rate. Furthermore, the tax relief only applies if the shares are held by the Resident Employee for a period of five consecutive years. In addition, the shares acquired are to be deposited with an Austrian or an EU/EEA resident credit institution. Alternatively, the shares can be deposited with a legal entity designated as trustee by the employer and the workers' representation. Any sale or other transfer with or without consideration prior to expiry of the five years' holding period will lead to a recapture of the tax-exempt benefit from the delivery of shares. Within such a five year holding period, the Resident Employee is obliged to submit to its respective employer an excerpt of his/her stock account evidencing that the shares granted have not been sold until March 31 each year. Furthermore, there is a notification obligation of the Resident Employee vis-à-vis its respective employer in case of a transfer of the shares. The notification obligation as well as the recapture of the tax-exempt benefit does not apply in the case of a share transfer on the occasion of or after termination of the employment. As to the tax treatment of dividends and capital gains derived by a Resident Employee after having gained beneficial ownership in the shares, please see above.

Tax cooperation agreements Austria/Switzerland and Austria/Liechtenstein

On January 1, 2013, the Treaty between the Republic of Austria and the Swiss Confederation on Cooperation in the Areas of Taxation and Capital Markets entered into force. A similar treaty between the Republic of Austria and the Principality of Liechtenstein has been applicable since January 1, 2014. These treaties provide that a Swiss, or as the case may be Liechtenstein, paying agent has to withhold a tax of 25%, on, among other things, dividends and capital gains from assets booked with an account or deposit of such Swiss, or as the case may be Liechtenstein, paying agent or managed by a Swiss, or as the case may be Liechtenstein, paying agent, if the relevant holder of such assets (generally meaning individuals on their own behalf and as beneficial owners of assets held by a domiciliary company (*Sitzgesellschaft*)) is tax resident in Austria. For Austrian income tax purposes, the withholding tax has the effect of final taxation regarding the underlying income if the Income Tax Act provides for the effect of final taxation for such income. The taxpayer can opt for voluntary disclosure instead of the withholding tax by expressly authorizing the Swiss, or as the case may be Liechtenstein, paying agent to disclose to the competent Austrian tax authority the income and capital gains; these subsequently have to be included in the income tax return.

Under the treaty between Austria and Liechtenstein, capital income deriving from assets held by a transparent legal entity (*transparente Vermögensstruktur*), for example Liechtenstein foundations (*Liechtensteinische Stiftungen*), are subject to tax being withheld by the relevant body even if the assets are not booked with a Liechtenstein paying agent, but with a paying agent of a third country. The optional disclosure proceeding as described above applies.

Alternatively, the Treaty between Austrian and Liechtenstein defines criteria when a legal entity is "opaque" (*intransparent*) for tax purposes. If these criteria are fulfilled and capital assets are held by such an opaque legal entity (*intransparente Vermögensstruktur*), the opaque legal entity may be subject to limited corporate income tax liability in Austria as described above.

Inheritance and gift tax

Austria does not levy inheritance or gift tax. However, it should be noted that certain gratuitous transfers of assets to (Austrian or foreign) private law foundations and comparable legal estates (*privatrechtliche Stiftungen und damit vergleichbare Vermögensmassen*) are subject to a foundation entry tax (*Stiftungseingangssteuer*) pursuant to the Austrian Foundation Entry Tax Act (*Stiftungseingangssteuergesetz*) ("**Foundation Entry Tax Act**"). Such tax is triggered if the transferor and/or the transferee at the time of transfer have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Certain exemptions apply in the event of a transfer *mortis causa* of financial assets within the meaning of sections 27 paragraph 3 and 4 Income Tax Act (except for participations in corporations) if income from such financial assets is subject to the special tax rate of 25%. The tax basis is the fair market value of the assets transferred minus any adherent debt, calculated at the time of transfer. The tax rate is in general 2.5%, with a higher rate of 25% applying in special cases. Since January 1, 2014, special provisions apply to contributions to opaque legal entities falling under the scope of the tax treaty between Austria and Liechtenstein. Contributions of assets to transparent legal entities pursuant to the tax treaty between Austria and Liechtenstein are not subject to foundation entry tax (*Stiftungseingangssteuer*).

In addition, a special notification obligation exists for gifts inter vivos of money, receivables, shares in corporations, participations in partnerships, businesses, movable tangible assets and intangibles. The notification obligation applies if the donor and/or the donee have a domicile, their habitual abode, their legal seat or their place of effective management in Austria. Not all gifts are covered by the notification obligation. In case of gifts to certain related parties, a threshold of EUR 50,000 per year applies; in all other cases, a notification is obligatory if the value of gifts made exceeds an amount of EUR 15,000 during a period of five years. Furthermore, gratuitous transfers to foundations falling under the Foundation Entry Tax Act described above are also exempt from the notification obligation. Intentional violation of the notification obligation may lead to the levying of fines of up to 10% of the fair market value of the assets transferred. There is no notification obligation in case of a transfer mortis causa.

Further, it should be noted that gratuitous transfers of the New Shares may trigger income tax at the level of the transferor pursuant to section 27 paragraph 6 item 1 Income Tax Act (see above), for example if transferred from an Austrian resident subject to unlimited tax liability to an individual resident abroad.

Capital contribution tax

The issuance of equity by an Austrian corporation as defined in the Austrian Capital Transfer Tax Act (*Kapitalverkehrsteuergesetz*) is subject to capital contribution tax (*Gesellschaftsteuer*) amounting to 1% of the consideration. Such tax is levied on the issuing company, while the acquirer is liable for the tax.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR U.S. HOLDERS

The following is a general description of the material United States income tax considerations relating to the acquisition, ownership, and disposition of the New Shares. It does not purport to be a complete analysis of all tax considerations relating to the New Shares. Prospective purchasers of the New Shares should consult their tax advisors as to the consequences of acquiring, holding and disposing of the New Shares and receiving payments under the New Shares. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. It applies only to U.S. Holders (as defined below) that acquire and hold the New Shares pursuant to this Offering and hold the New Shares as capital assets (generally, property held for investment purposes). This section does not apply to holders subject to special rules, including brokers, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for securities holdings, tax-exempt organizations (including private foundations), insurance companies, banks, thrifts and other financial institutions, real estate investment trusts, regulated investment companies, persons liable for alternative minimum tax, persons that hold an interest in an entity that holds the New Shares, persons that will own, or will have owned, directly, indirectly or constructively 10% or more (by vote or value) of the Company's voting shares for U.S. federal income tax purposes, persons that hold the New Shares as part of a hedging, integration, conversion or constructive sale transaction or a straddle, persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar, certain former citizens or long-term residents of the United States, or entities classified as partnerships for U.S. federal income tax purposes. This discussion does not purport to be a complete analysis of all the potential U.S. federal income tax considerations that may be relevant to U.S. Holders in light of their particular circumstances. Further, it does not address any aspect of U.S. state, local or non-U.S. taxation, U.S. federal estate or gift taxation or the 3.8% tax imposed on certain net investment income. Each prospective investor should consult its tax adviser as to the U.S. federal, state, local, non-U.S. and any other tax consequences of the acquisition, ownership and disposition of the New Shares. This discussion is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), its legislative history, U.S. Treasury Regulations, Internal Revenue Service ("**IRS**") rulings, the Treaty (as defined below) and published court decisions, all as in effect as of the date hereof, and any of which may be repealed, revoked or modified (possibly with retroactive effect) so as to result in U.S. federal income tax consequences different from those discussed below. This summary is applicable to U.S. Holders who are residents of the United States for purposes of the Convention Between the United States of America and the Republic of Austria for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "**Treaty**") whose New Shares are not, for purposes of the Treaty, effectively connected with a permanent establishment in Austria and who otherwise qualify for the full benefits of the Treaty. A "**U.S. Holder**" is a beneficial owner of the New Shares that, for U.S. federal income tax purposes, is (i) a citizen or individual resident of the United States, (ii) a corporation that is created or organized in or under the laws of the United States or any State thereof or the District of Columbia, (iii) an estate whose income is subject to U.S. federal income tax regardless of its source, or (iv) a trust (A) if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust, or (B) that has validly elected to be treated as a U.S. person for U.S. federal income tax purposes. If an entity or arrangement that is treated as a partnership for U.S. federal income tax purposes holds the New Shares, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and on the activities of the partnership. Partnerships that hold the New Shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of acquiring, owning and disposing of the New Shares.

Distributions on the New Shares

Subject to the passive foreign investment company ("**PFIC**") rules discussed below, the gross amount of any distribution received by a U.S. Holder with respect to the New Shares (including any amounts withheld to pay Austrian or other non-U.S. withholding taxes) will be included in the gross income of the U.S. Holder as a dividend to the extent attributable to the Company's current and accumulated earnings and profits, as determined under U.S. federal income tax principles. The Company does not intend to calculate its earnings and profits in accordance with U.S. federal income tax principles. Accordingly, U.S. Holders should expect that a distribution generally will be treated as a dividend for U.S. federal income tax purposes. A distribution on the New Shares generally will be foreign-source income for U.S. foreign tax credit purposes, and should generally constitute "passive category income". A U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any Austrian or other non-U.S. withholding taxes imposed on dividends received on the New Shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign income tax withheld may instead deduct the taxes withheld, but only for a year in which the holder elects to do so for all creditable foreign income taxes. The foreign tax credit rules are complex, and U.S. Holders are urged to consult their tax advisers regarding the availability of the foreign tax credit based on their particular circumstances. Provided that the Company is not a PFIC, it should be considered a "qualified foreign corporation", and therefore distributions, if any, to non-corporate U.S. Holders that are treated as dividends may be eligible for a reduced rate of tax for qualified dividends. As discussed below, the Company does not believe that it was a PFIC for its most recent taxable year and does not believe that it will be treated as a PFIC in the current taxable year or in the foreseeable future. Distributions on the New Shares generally will not be eligible for the dividends received deduction generally available to U.S. Holders that are corporations on dividends from a U.S. issuer. For purposes of applying the rules discussed above, the amount of any dividend paid in Euros (including amounts withheld to pay Austria or other non-U.S. withholding taxes) will equal the U.S. dollar value of the Euros received calculated by reference to the exchange rate in effect on the date the dividend is received by the U.S. Holder, regardless of whether the Euros are converted into U.S. dollars. A U.S. Holder will have a tax basis in the Euros equal to their U.S. dollar value on the date of receipt. If the Euros received are converted into U.S. dollars on the date of receipt, the U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the distribution. If the Euros received are not converted into U.S. dollars on the date of receipt, a U.S. Holder may recognize foreign currency gain or loss on a subsequent conversion or other disposition of the Euros. In general, such gain or loss will be treated as U.S. source ordinary income or loss for foreign tax credit purposes.

Sale, exchange or other taxable disposition

Subject to the PFIC rules discussed below, in general, a U.S. Holder will recognize gain or loss on the sale, exchange or other taxable disposition of the New Shares in an amount equal to the difference, if any, between the amount realized for the New Shares and the U.S. Holder's adjusted tax basis in the New Shares exchanged therefore. Such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the New Shares for more than one year. Net long-term capital gains of non-corporate U.S. Holders may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations under the Code. Any capital gain or loss recognized by a U.S. Holder generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes. If a U.S. Holder receives Euro (or other currency other than U.S. dollars) upon a sale, exchange or other taxable disposition of the New Shares, such U.S. Holder generally will realize an amount equal to the U.S. dollar value of the Euro (or other non-U.S. currency) received at the spot rate on the date of disposition (or, in the case of cash basis and electing accrual basis taxpayers, at the spot rate on the settlement date). A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency on the settlement date. Any currency gain or loss realized on the settlement date or recognized on the subsequent sale, conversion or other disposition of the Euro (or other non-U.S. currency) for a different U.S. dollar amount generally will be U.S. source ordinary income or loss for foreign tax credit purposes.

Passive foreign investment company rules

A non-U.S. corporation will be considered a PFIC for any taxable year in which (i) 75% or more of its gross income is "passive income" under the PFIC rules or (ii) 50% or more of the average quarterly value of its assets produce (or are held for the production of) "passive income". For this purpose, "passive income" generally includes interest, dividends, rents, royalties and certain gains. Moreover, for purposes of determining if the non-U.S. corporation is a PFIC, if the non-U.S. corporation owns, directly or indirectly, at least 25%, by value, of the shares of another corporation, it will be treated as if it holds directly its proportionate share of the assets and receives directly its proportionate share of the income of such other corporation. The Company does not believe that it was a PFIC for its most recent taxable year and does not believe that it will be treated as a PFIC in the current taxable year or in the foreseeable future. However, the determination as to whether the Company is a PFIC for any taxable year can only be made on an annual basis after the end of such taxable year, is based on the application of complex U.S. federal income tax rules, which are subject to differing interpretations, and will depend on the composition of the income, assets and operations of the Company from time to time. Because of the above described uncertainties, there can be no assurance that the IRS will not challenge the determination by the Company concerning its PFIC status, that a court will not sustain such challenge, or that it will not be a PFIC for any taxable year. If the Company is classified as a PFIC in any year a U.S. Holder owns the New Shares, certain adverse tax consequences could apply to such U.S. Holder. Certain elections may be available (including a mark-to-market election) to U.S. Holders that may mitigate some of the adverse consequences resulting from the Company's treatment as a PFIC. U.S. Holders should consult their tax advisers regarding the application of PFIC rules to their investments in the New Shares and whether to make an election or protective election.

Information reporting and backup withholding

Under certain circumstances, information reporting and/or backup withholding may apply to U.S. Holders with respect to distributions on, or proceeds from the sale, exchange or other disposition of, New Shares, unless an applicable exemption is satisfied.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability if the required information is furnished by the U.S. Holder on a timely basis to the IRS.

Each U.S. Holder should consult its own tax advisor regarding the application of the information reporting and backup withholding rules to its purchase, ownership and disposition of New Shares.

Reportable transactions

A U.S. Holder that participates in any "reportable transaction" (as defined in U.S. Treasury Regulations) must attach to its U.S. federal income tax return a disclosure statement on IRS Form 8886. U.S. Holders should consult their own tax advisors as to the possible obligation to file IRS Form 8886 with respect to the sale, exchange or other disposition of any non-U.S. currency received as a dividend on, or as proceeds from the sale of, New Shares.

Foreign financial asset reporting

Certain U.S. Holders are required to report information relating to an interest in the New Shares, subject to exceptions (including an exception for New Shares held in accounts maintained by certain financial institutions), by attaching a completed IRS Form 8938, Statement of Specified Foreign Financial Assets, with such holder's tax return for each year in which such holder held an interest in the New Shares. U.S. Holders should consult their tax advisers regarding information reporting requirements relating to their ownership of the New Shares.

UNDERWRITING

GENERAL

On the date of this Prospectus, the Company entered into the Underwriting Agreement for the offer and sale of the New Shares (other than the New Shares committed to be directly subscribed for by the Core Shareholders) with the Joint Bookrunners. Subject to the terms and conditions of the Underwriting Agreement, the Joint Bookrunners have agreed, severally and not jointly, to procure subscribers or purchasers for the number of New Shares as set forth below opposite the applicable Joint Bookrunner's name:

Joint Bookrunners	Maximum number of New Shares to be underwritten	Percentage of New Shares underwritten by the Joint Bookrunners
Citigroup Global Markets Limited	5,261,213	20.00%
Deutsche Bank Aktiengesellschaft	5,261,216	20.00%
Erste Group Bank AG	5,261,213	20.00%
Raiffeisen Centrobank AG	5,261,213	20.00%
UniCredit Bank Austria AG	5,261,213	20.00%
Total	26,306,068	100.00%

Source: Company information.

Pursuant to the Underwriting Agreement, and subject to the conclusion by the Company and the Joint Bookrunners of a pricing and volume agreement on the date of pricing of the New Shares offered in the Rump Placement, Deutsche Bank Aktiengesellschaft, Erste Group Bank AG, Raiffeisen Centrobank AG and UniCredit Bank Austria AG, acting on account of the Joint Bookrunners, have agreed, severally and not jointly, to subscribe in equal parts for the New Shares at the issue price of EUR 2.181 per New Share to be issued in the Offering (other than the New Shares committed to be directly subscribed for by the Core Shareholders) and pay the difference between the issue price, on the one hand, and the Rights Offering Offer Price or the Rump Placement Offer Price, as the case may be, on the other hand, to the Company net of the agreed commissions at the time of delivery of the New Shares on the Closing Date.

The Core Shareholders have agreed with the Company to subscribe for the New Shares directly subscribed by them at the issue price of EUR 2.181 per New Share and pay the difference between the issue price, on the one hand, and the Rights Offering Offer Price, on the other hand, to the Company at the time of delivery of the New Shares on the Closing Date. The following table sets forth opposite each of the Core Shareholders the number of New Shares committed to be directly subscribed:

Core Shareholder	Number of New Shares to be directly subscribed
América Móvil	3,967,850
Carso Telecom	128,267,215
ÖIAG[1]	up to 62,958,867
Total	195,193,932

[1] ÖIAG has committed itself to acquire up to 62,958,867 New Shares according to its 125,917,735 Subscription Rights such that its participation in the share capital of the Company after the Offering (as defined below) corresponds as closely as possible to its current pro-rata participation in the Company (approximately 28.42%).

Source: Company information.

The Underwriting Agreement further provides that the obligations of the Joint Bookrunners are subject to the fulfillment of certain conditions such as the registration of the New Shares in the Companies Register and other customary conditions and that the Joint Bookrunners may terminate the Underwriting Agreement, and therefore their respective obligation to acquire the New Shares, under certain circumstances as more fully described above under "The Offering—Termination of the Offering".

Under the terms of the Underwriting Agreement, the Company will indemnify and hold harmless the Joint Bookrunners against certain liabilities in connection with the Offering, including liabilities under applicable securities laws.

In connection with the Offering, the Joint Bookrunners and their respective affiliated companies will be able to acquire Shares for their own accounts and hold, purchase or sell for their own accounts and can also offer or sell Shares outside of the Offering. The Joint Bookrunners do not intend to disclose the scope of such investments or transactions if not required by law.

The Joint Bookrunners and their respective affiliated companies have provided, currently provide or may provide in the future various investment banking, commercial banking, financial advisory and/or similar services to companies of the Telekom Austria Group on a regular basis, and maintain normal business relationships with the companies of the Telekom Austria Group in their capacity as credit institutions or as lenders under credit and/or guarantee facilities, for which they have received and may continue to receive customary fees and expenses. All investment, consulting and financial transactions with the Joint Bookrunners are conducted on an arm's length basis.

Telekom Austria Group sells products and delivers numerous services to the Joint Bookrunners and their affiliates from time to time in the ordinary course of its business and may continue to do so in the future. All such products and services are sold and delivered, as the case may be, on an arm's length basis.

UNDERWRITING COMMISSIONS

The Company will pay the Joint Bookrunners a fee of 1.75% of the gross proceeds from the Offering, other than for the New Shares directly subscribed by the Core Shareholders and, under certain preconditions, other than for New Shares purchased under a potential order by the Core Shareholders in the Rump Placement. The commissions will be allocated among the Joint Bookrunners according to their respective underwriting quotas of 20% each. The Company will pay to each of Citigroup and Deutsche Bank an additional fee of EUR 500,000 in their function as Joint Global Coordinators. The Company will not pay any commissions to its Core Shareholders subscribing directly or for New Shares acquired in the Rump Placement.

LOCK UP

In the Underwriting Agreement, the Company has agreed with each of the Joint Bookrunners that, to the extent legally permissible, during the period commencing on the date of the Underwriting Agreement and ending six months after the first day of trading in the New Shares on the Vienna Stock Exchange, and without the prior written consent of the Joint Bookrunners (which shall not be unreasonably withheld or delayed), the Company or, in respect of (i) and (ii) below, its Management Board or Supervisory Board will not:

(i) exercise an authorization pursuant to its Articles of Association to increase its capital;

(ii) submit a proposal for a capital increase to any meeting of the shareholders for resolution;

(iii) offer, pledge, allot, issue (unless being required by applicable law), sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares in its capital or any securities convertible into or exercisable or exchangeable for shares in its capital or enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of shares in its capital, whether any such transaction described above is to be settled by delivery of shares in its capital or such other securities, in cash or otherwise (other than for the purpose of issuing ordinary shares or options for ordinary shares to directors or employees of the Company or any of the Subsidiaries under a customary directors' and/or employees' stock option plan).

In separate letter agreements, América Móvil and Carso Telecom agreed vis-à-vis the Company and the Joint Bookrunners, and ÖIAG agreed vis-à-vis the Joint Bookrunners, that during the period commencing on the date hereof and ending six months after the first day of trading in the New Shares on the Vienna Stock Exchange, without the prior written consent of the Joint Bookrunners, they will not offer, pledge, allot, issue (unless being required by applicable law), sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Existing Shares or New Shares held by América Móvil, Carso Telecom and ÖIAG at any time during such period, or any securities convertible into or exercisable or exchangeable for such Existing Shares or New Shares or enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of such Existing Shares or New

Shares, whether any such transaction described above is to be settled by delivery of such Existing Shares or New Shares or other securities, in cash or otherwise.

STATEMENT PURSUANT TO COMMISSION REGULATION (EC) NO 809/2004 OF APRIL 29, 2004 AND PURSUANT TO SECTION 8 PARAGRAPH 1 CAPITAL MARKETS ACT

Telekom Austria Aktiengesellschaft, with its corporate seat at Lassallestraße 9, A-1020 Vienna, Austria, is responsible for this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information

Vienna, November 7, 2014

Telekom Austria Aktiengesellschaft as Issuer (*als Emittentin*)

Hannes Ametsreiter, CEO on behalf of the Issuer	Siegfried Mayrhofer, CFO on behalf of the Issuer

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following expressions have the following meanings.

2010 PD Amending Directive	Directive 2010/73/EU.
A1...	A1 Telekom Austria Aktiengesellschaft, 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
ACGC	The Austrian Corporate Governance Code.
Additional Markets	Operating segment comprising the Group's mobile communication companies operating in Slovenia, the Republic of Serbia, the Republic of Macedonia and, until the merger of mobilkom liechtenstein with Telecom Liechtenstein AG, which became effective on August 27, 2014, also Liechtenstein.
ADRs..	American depository receipts.
América Móvil	América Móvil, S.A.B. de C.V., a *sociedad anónima bursátil de capital variable* (public stock corporation with variable capital) established under Mexican law with business address at Lago Zurich 245, Plaza Carso/Edificio Telcel, Piso 16, Colonia Granada Ampliación, 11529, México, D.F., registered under 263,770 in Mexico City's Registro Público de Comercio.
Articles of Association................................	The Articles of Association of Telekom Austria.
ATX	The Austrian Traded Index.
Audit Committee	A committee of the Supervisory Board.
Audited Consolidated Financial Statements	English translations of the audited consolidated financial statements of the Company as of and for the financial years ended December 31, 2013, December 31, 2012 and December 31, 2011.
Australian Corporations Act.....................	The Australian Corporations Act of 2001.
Austria...	The Republic of Austria.
B.net..	B.net Hrvatska d.o.o, a Croatian cable company, prior to its merger with VIPnet, a 100% subsidiary of VIPnet and part of Telekom Austria Group.
Bell Labs..	Bell Laboratories, formerly known as AT&T Bell Laboratories and Bell Telephone Laboratories, the research and development subsidiary of Alcatel-Lucent S.A.
BEREC	The Body of European Regulators for Electronic Communications, which was established by Regulation (EC) No. 1211/2009 of the European Parliament and of the Council of November 25, 2009, as part of the 2009 Telecom Reform package.
blizoo Macedonia...	blizoo DOOEL Skopje, a Macedonian telecommunications company, now a 100% subsidiary of Telekom Austria Group.

Bloomberg Composite Rate	At any point of time, the mid-value rate between the highest bid rate and lowest ask rate of all banks contributing to currency exchange.
CAPEX	Capital expenditure, which is defined as additions to property, plant and equipment and intangible assets as reported in the cash flow statement under cash flow from investing activities.
Capital Markets Act	The Austrian Capital Markets Act 1991, as amended, *Kapitalmarktgesetz*.
Carso Telecom	Carso Telecom B.V., a *besloten vennootschap* (private limited liability company) established under Dutch law, with its corporate seat in Amsterdam and its business address at Prins Bernhardplein 200, 1097 JB, Amsterdam, The Netherlands, registered under 55341535 in the Companies' Register of The Netherlands.
CCP Austria	CCP Austria Abwicklungsstelle für Börsegeschäfte GmbH.
CESEE	Central, Eastern and South-Eastern Europe.
CET	Central European Time.
Clearstream	Clearstream Banking, *société anonyme*.
Closing Date	The date of the delivery of the New Shares in book-entry form through the facilities of OeKB, Euroclear and Clearstream against payment of the Rights Offering Offer Price, respectively the Rump Placement Offer Price, which is expected to occur on or about November 27, 2014.
Code	The U.S. Internal Revenue Code of 1986.
Commercial Code	The Austrian Commercial Code, *Unternehmensgesetzbuch –UGB*.
Communications Authority	The regulatory body within the Austrian broadcasting media sector (*Kommunikationsbehörde Austria*).
Companies Register	The Austrian companies register, *Firmenbuch*.
Company	Telekom Austria Aktiengesellschaft.
Condensed Consolidated Financial Statements	An English translation of the unaudited interim condensed consolidated financial statements of the Company as of and for the nine months ended September 30, 2014.
Consolidated Financial Statements	The Interim Consolidated Financial Statements together with the Audited Consolidated Financial Statements.
Core Shareholders	América Móvil, Carso Telecom and ÖIAG.
Corporate Income Tax Act	The Austrian Corporate Income Tax Act, *Körperschaftsteuergesetz*.
C-Rules	Comply or explain rules of the ACGC, where non-compliance with these rules must be explained.
Deloitte	Deloitte Audit Wirtschaftsprüfungs GmbH.
Demerger Act	The Austrian Demerger Act, *Spaltungsgesetz*.

Depositary	The Bank of New York Mellon, the depositary of the Company's American Depositary Receipts.
Disposition Period	The deadline for holders of Subscription Rights to exercise their Subscription Rights imposed by the Subscription Agent as well as their depositary bank, custodian or other financial intermediary through which they hold their Subscription Rights.
DTC	The Depositary Trust Company, a security depositary providing safekeeping of securities balances through electronic recordkeeping.
EBITDA	The Company's earnings before interest, taxes, depreciation and amortization.
EBITDA comparable	EBITDA as adjusted for the expenses of the restructuring program and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses; it consists of the sum of operating revenues and other operating income reduced by operating expenses.
EEA	The European Economic Area and its member states.
Employee Representatives	Employee representatives to the Supervisory Board.
EU	The European Union.
EU Roaming II Regulation	EC Regulation No. 544/2009.
EU Roaming III Regulation	EC Regulation No. 531/2012.
EU Roaming Regulation	EC Regulation No. 717/2007.
EURIBOR	The Euro Interbank Offered Rate, a reference interest rate index.
Euro or EUR	Refers to the legal currency of Austria since January 1, 2002.
Euroclear	Euroclear Bank S.A./N.V.
Exchange Act	The United States Securities Exchange Act of 1934, as amended.
Existing Shareholders	The current shareholders of the Company.
Existing Shares	The Company's existing no-par value ordinary bearer shares, each with a calculated notional amount of EUR 2.181 per share.
Federal Minister	The Austrian Minister of Transport, Innovation and Technology.
FIEL	The Japanese Financial Instruments and Exchange Law, as amended.
Financial Intermediaries	Credit institutions licensed to trade securities in accordance with Art. 4 number 1 of Directive 2006/48/EC of the European Parliament and of the Council of June 14, 2006, as amended.
FMA	The Austrian Financial Market Authority, *Finanzmarktaufsichtsbehörde*.
Foundation Entry Tax Act	The Austrian Foundation Entry Tax Act, *Stiftungseingangssteuergesetz*.

FP Order	The United Kingdom's Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.
FTE	Full-time equivalents.
GDP	Gross domestic product.
Group Company, Group Companies	Each and all consolidated subsidiaries of Telekom Austria.
Hybrid Bond	The 5.625% EUR 600 million undated subordinated fixed rate bonds subject to interest rate reset (ISIN XS0877720986).
ICT	Information and Communication Technology.
IFRS	International Financial Reporting Standards as adopted by the EU.
Income Tax Act	The Austrian Income Tax Act, *Einkommensteuergesetz*.
Interim Consolidated Financial Statements	An English translation of the unaudited interim condensed consolidated financial statements of the Company as of and for the nine months ended September 30, 2014.
IRS	The U.S. Internal Revenue Service.
Issuers' Compliance Regulation	The Austrian Issuers' Compliance Regulation, *Emittenten-Compliance-Verordnung*, 2007, as amended.
Joint Bookrunners	The Joint Global Coordinators together with Erste Group Bank AG, Raiffeisen Centrobank AG and UniCredit Austria Bank AG.
Joint Global Coordinators	Citigroup Global Markets Limited and Deutsche Bank Aktiengesellschaft.
KPMG	KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft.
LIBOR	London Interbank Offered Rate, the average interest rate estimated by leading banks in London that the average leading bank would be charged if borrowing from other banks.
L-Rules	Rules of the ACGC based on legal requirements.
LTI and LTI 2010-2014	The share-based long-term incentive program of Telekom Austria in general and for each of the cited financial years.
Main Operating Subsidiaries	A1, Mobiltel, VIPnet and velcom.
Management Board and Management	The Company's management board (*Vorstand*).
MiFID	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC as amended.
Mobilkom	mobilkom austria AG, a former mobile communication subsidiary of Telekom Austria which was merged into A1.

mobilkom liechtenstein	mobilkom liechtenstein AG, a former Liechtenstein 100% subsidiary of Telekom Austria that was merged into Telecom Liechtenstein AG in August 2014.
Mobiltel	Mobiltel EAD, a Bulgarian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
Moody's	Moody's Investors Service, Inc.
NATO	The North Atlantic Treaty Organization.
NCTE	The Belarusian National Center for Traffic Exchange, an entity endowed with a right of international connection in Belarus.
New Shares	Shares representing the newly issued capital following the share capital increase of Telekom Austria.
OeKB	Oesterreichische Kontrollbank Aktiengesellschaft.
Offer Period	The Subscription Period together with the Rump Placement Period.
Offering	The Rights Offering together with the Rump Placement.
Official Gazette	The Austrian official gazette (*Amtsblatt zur Wiener Zeitung*).
Official Market	The Official Market (*Amtlicher Handel*) of the Vienna Stock Exchange.
ÖIAG	Österreichische Industrieholding Aktiengesellschaft, a stock corporation organized under Austrian law, with its corporate seat in Vienna and its business address at Dresdner Straße 87, A-1200 Vienna, Austria, registered in the Companies Register under FN 80286 v.
OPEX	Operational expenditure.
Orange Austria	Orange Austria Telecommunication GmbH, a former mobile communications operator and competitor of A1.
ORF	The Austrian Broadcasting Corporation (*Österreichischer Rundfunk*).
OTC	Over-the-counter market trading in stocks that does not take place on stock exchanges.
Personnel and Nomination Committee	A committee of the Supervisory Board.
PFIC	Passive foreign investment company.
Private Foundations Act	The Austrian Private Foundations Act, *Privatstiftungsgesetz*.
Prospectus Directive	Directive 2003/71/EC (and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State).
PTA	Post and Telekom Austria AG, the former parent company of Telekom Austria.
PTSG	The Austrian Law on the Restructuring of Postal and Telecommunication Services, *Poststrukturgesetz*.
PTV	Post- und Telegrafenverwaltung, the former government telecommunications authority and predecessor of PTA.

Public Takeover Offer	The offer that occurred as a result of Shareholders' Agreement and by which Carso Telecom launched a voluntary public takeover offer pursuant to the Takeover Act aimed to acquire control with an option to convert into a mandatory offer for all outstanding Existing Shares not held by the América Móvil group, ÖIAG or Telekom Austria; by June 27, 2014 the Shareholders' Agreement became effective whereby the Public Takeover Offer was converted into a mandatory offer by June 30, 2014.
QIB Investment Letter	A letter to each QIB establishing, amongst others, that the QIB of the New Shares agrees to comply with the resale restrictions in connection with the Offering.
QIBs	Qualified institutional buyers, as defined in Rule 144A.
Record Date	November 7, 2014, at 24:00 (midnight) CET.
Relevant Implementation Date	The date on which the Prospectus Directive is implemented in that Relevant Member State.
Relevant Member State	A member state of the EU implementing relevant measures according to the Prospectus Directive.
Relevant Persons	Qualified investors who are (i) investment professionals falling within Article 19(5) of the FP Order, (ii) high net worth companies and other persons falling within Article 49(2)(a) to (d) of the FP Order or (iii) other persons who fall within an exemption in the FP Order and to whom the Offering can lawfully be communicated.
Remuneration Committee	The Supervisory Board's committee responsible for structuring the remuneration package awarded to the Management Board.
Resident Employee	An employee resident in Austria.
Revolving Facility Agreement	The, as of the date of the Prospectus, undrawn EUR 1,000 million syndicated Revolving Facility Agreement with a term of up to 5 years entered into by TFG on November 4, 2014.
Rights Offering	Entitlement of each Subscription Right holder to subscribe 1 New Share for every 2 Subscription Rights held.
Rights Offering Offer Price	The price per New Share of EUR 4.57, for which New Shares are offered in the Rights Offering.
RSA 421-B	Chapter 421-B of the New Hampshire Uniform Securities Act.
RTR	The Austrian Regulatory Authority for Broadcasting and Telecommunications, *Rundfunk und Telekom Regulierungs GmbH*.
Rule 144A	Rule 144A under the U.S. Securities Act.

Rump Placement	The offering of New Shares not subscribed for in the Rights Offering or committed by the Core Shareholders, which consists of private placements to qualified investors in Austria and other selected countries, including in the United States to QIBs in reliance on Rule 144A and outside of the United States to certain other eligible institutional investors in reliance on Regulation S.
Rump Placement Offer Price	The price per New Share, at or above the Rights Offering Offer Price, but in no event higher than EUR 7.15, for which New Shares are offered in the Rump Placement.
Rump Placement Period	The offer period during which investors may offer to purchase New Shares in the Rump Placement.
Securities Act	The U.S. Securities Act of 1933, as amended.
Securities Supervision Act	The Austrian Securities Supervision Act of 2007, as amended, *Wertpapieraufsichtsgesetz*.
Shareholders' Agreement	The agreement between América Móvil, through its wholly owned subsidiary Carso Telecom, and ÖIAG, entered into on April 23, 2014 for a 10 year term which became effective on June 27, 2014.
Shareholders' Meeting	The Company's shareholders' meeting (*Hauptversammlung*) that includes the election, appointment or removal of members of the Supervisory Board, approval of the annual financial statements, distribution of dividends, authorization to carry out capital increases or any other decision that requires approval of the Company's shareholders.
Shares	The Existing Shares and the New Shares, collectively.
Si.mobil	Si.mobil d.d, a Slovenian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
Standard & Poor's	Standard & Poor's Financial Services LLC.
Stock Corporation Act	The Austrian Stock Corporation Act, *Aktiengesetz*.
Stock Exchange Act	The Austrian Stock Exchange Act 1989, as amended, *Börsegesetz*.
Subscription Agent	UniCredit Bank Austria AG, *Bezugsstelle*
Subscription Period	Period, which will begin on November 10, 2014 and is expected to end on November 24, 2014, during which holders of the Existing Shares may exercise their Subscription Rights.
Subscription Ratio	2 : 1.
Subscription Rights	Right to purchase a set number of New Shares in the Rights Offering pursuant to the Subscription Ratio.
Supervisory Board	The Company's supervisory board (*Aufsichtsrat*).
Takeover Act	The Austrian Takeover Act, *Übernahmegesetz.*
TATA	Telekom Austria TA Aktiengesellschaft, a fixed-line operator in Austria, later merged with Mobilkom to form A1.

Telekom Austria	Telekom Austria Aktiengesellschaft.
Telekom Austria Group or Group	Telekom Austria Aktiengesellschaft including all its consolidated subsidiaries.
TFG	Telekom Finanzmanagement GmbH, Telekom Austria Group's financing company.
Third Market	A multilateral trading facility within the meaning of the Securities Supervision Act and the MiFID.
TKG 2003	The Austrian Telecommunications Act of 2003, *Telekommunikationsgesetz 2003*
TKK	The Austrian Telekom-Control Commission (*Telekom-Control Kommission*), the Austrian telecommunications regulating authority.
T-Mobile	T-Mobile Austria GmbH, a competitor of A1.
Treaty	The Convention Between the United States of America and the Republic of Austria for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income.
U.S. dollar, US$ or USD	The legal currency of the United States of America.
U.S. Holders	A beneficial owner of the New Shares that, for U.S. federal income tax purposes, is (i) a citizen or individual resident of the United States, (ii) a corporation that is created or organized in or under the laws of the United States or any State thereof or the District of Columbia, (iii) an estate whose income is subject to U.S. federal income tax regardless of its source, or (iv) a trust (A) if a U.S. court can exercise primary 170 supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust, or (B) that has validly elected to be treated as a U.S. person for U.S. federal income tax purposes.
U.S. or USA or United States	The United States of America.
Underwriters	The Joint Bookrunners.
Underwriting Agreement	The underwriting agreement entered into by the Company and the Underwriters on the date of this Prospectus.
VAT	Value-Added Tax.
velcom	Unitary enterprise velcom, a Belarusian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
Vetoes	Certain veto rights of ÖIAG, among others, veto on capital increases in Telekom Austria and its subsidiaries, appointment of the statutory auditors, related party transactions, relocation of the headquarters and major business functions including research and development, sale of core businesses, amendment of the corporate name of Telekom Austria and of trademarks of Telekom Austria Group.
Vip mobile	Vip mobile d.o.o., a Serbian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.

Vip Operator...	Vip Operator DOOEL Skopje, a Macedonian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
VIPnet..	VIPnet d.o.o., a Croatian 100% subsidiary of Telekom Austria and part of Telekom Austria Group.
VMV	The FMA's Disclosure and Reporting Regulation, *Veröffentlichungs- und Meldeverordnung der FMA*.
WTO	The World Trade Organization.
YESSS!	YESSS! Telekommunikation GmbH, a discount mobile operator, acquired by Telekom Austria Group in January 2013.

TECHNICAL GLOSSARY

2G..	Second generation mobile services.
3G..	Third generation mobile services.
4G/LTE..	Fourth generation mobile services / long term evolution technology, a standard for wireless communication of high-speed data for mobile phones and data terminals.
ARPL...	Average Revenue Per Line, a measure defined as total revenue divided by the number of lines.
ARPU...	Average Revenue Per User, a measure defined as total revenue divided by the number of subscribers.
DSL...	Digital Subscriber Line, a family of technologies that provide digital data transmission over the wires of a local telephone network.
FDD...	Frequency-division duplexing, a technology where signal transmitter and receiver operate at different carrier frequencies.
FL-RAIC	Forward-looking long run incremental costs.
FTR...	Fixed Termination Rate: charges which one telecommunications operator charges to another for terminating calls on its fixed network.
FTTB	Fiber to the building: fiber networks reach the building of customers.
FTTC	Fiber to the curb: fiber networks reach within approximately 500 meters of the customers' home or business.
FTTH...	Fiber to the home: fiber networks reach the home or business of customers.
GSM..	Global System for Mobile Communication, a standard developed to describe protocols for second generation digital networks used by mobile phones.
IPTV	Internet Protocol Television, a method through which television services are delivered over the Internet.
LTE...	Long-term evolution technology, a standard for wireless communication of high-speed data for mobile phones and data terminals.
M2M	Machine to Machine communication, a technology that allow wireless and wired systems to communicate with other devices of the same type.
Mbit/s..	Megabit per second: the data transfer rate used to measure the speed of network connections.
MHz	Megahertz.
MMS..	Multimedia Messaging Services.
MTR	Mobile Termination Rate: charges which one telecommunications operator charges to another for terminating calls on its mobile network.

MVNO	Mobile Virtual Network Operator, a wireless communications services provider that does not own the wireless network infrastructure over which the MVNO provides services to its customers.
SIM	Subscriber Identification Module cards.
SMS...	Short Message Service.
TDD	Time-division duplexing, the application of time-division multiplexing to separate outward and return signals
UMTS	Universal Mobile Telecommunications System, a third generation mobile cellular system for networks based on the GSM standard.
VDSL-2...	Very-high-bit-rate digital subscriber line 2 is an access technology that exploits the existing infrastructure of copper wires that were originally deployed for traditional telephone service as a way of delivering very high speed internet access.
VoD	Video-On-Demand.
VoIP or Voice over IP	Methodology for the delivery of voice communications and multimedia sessions over Internet Protocol (IP) networks, for example the Internet.
VULA	Virtual unbundled local access, access to the local loop of A1 provided to competitors based on layer 2 services.
XMPP	Extensible Messaging and Presence Protocol is a communications protocol for message-oriented middleware based on XML (Extensible Markup Language).

INDEX TO THE FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (AS OF AND FOR THE FIRST NINE MONTHS OF THE FINANCIAL YEAR 2014)

Condensed Consolidated Statements of Profit or Loss

in EUR million, except per share information	Q3 2014 (unaudited)	Q3 2013 (unaudited)	1– 9 M 2014 (unaudited)	1– 9 M 2013 (unaudited)
Operating revenues	1,048.7	1,036.0	2,987.7	3,128.3
Other operating income... ..	53.1	21.1	91.7	56.9
Material expenses	– 124.3	– 120.4	– 341.7	– 376.0
Employee expenses, including benefits and taxes .	– 196.0	– 192.4	– 626.2	– 618.3
Other operating expenses................................... ..	– 366.8	– 386.3	– 1,077.5	– 1,165.8
Operating expenses	– 687.2	– 699.2	– 2,045.4	– 2,160.1
EBITDA comparable... ..	414.6	357.9	1,034.0	1,025.1
Restructuring	– 5.4	– 27.7	– 12.1	– 35.3
Impairment and reversal of impairment............. ..	0.0	0.0	– 400.0	0.0
EBITDA incl. effects from restructuring and impairment testing	409.3	330.2	621.9	989.8
Depreciation and amortisation...........................	– 209.2	– 208.8	– 644.5	– 645.1
Operating result... ..	200.0	121.5	– 22.6	344.7
Interest income	3.8	4.4	10.5	12.5
Interest expense	– 48.5	– 49.4	– 147.4	– 151.6
Foreign exchange differences	– 2.0	– 6.4	– 0.6	– 3.0
Other financial result	0.0	0.0	0.1	– 0.1
Result from investments in affiliates	0.0	0.1	0.1	0.2
Financial result.. ..	– 46.8	– 51.3	– 137.2	– 142.0
Earnings before income taxes	153.3	70.2	– 159.8	202.8
Income taxes.. ..	– 25.5	– 18.9	– 30.2	– 43.5
Net Result	127.8	51.3	– 190.0	159.2
Attributable to:... ..				
Owners of the parent.. ..	121.3	42.7	– 209.1	136.8
Non-controlling interests	0.1	0.0	0.1	0.2
Hybrid capital owners.. ..	6.4	8.5	18.9	22.3
Basic and fully diluted earnings per share.................. ..	0.27	0.10	– 0.47	0.31
Weighted-average number of ordinary shares outstanding.. ..	442,584,841	442,570,548	442,584,841	442,566,170

Condensed Consolidated Statements of Comprehensive Income

in EUR million	Q3 2014 (unaudited)	Q3 2013 (unaudited)	1– 9 M 2014 (unaudited)	1– 9 M 2013 (unaudited)
Net Result	127.8	51.3	– 190.0	159.2
Unrealised result on securities available-for-sale	0.0	0.1	0.2	0.0
Income tax (expense) benefit	0.0	0.0	0.0	0.0
Realised result on securities available-for-sale	0.0	0.0	0.0	0.1
Income tax (expense) benefit	0.0	0.0	0.0	0.0
Unrealised result on hedging activities	0.0	0.0	0.0	0.4
Income tax (expense) benefit	0.0	0.0	0.0	– 0.1
Realised result on hedging activities	1.6	1.6	4.8	1.6
Income tax (expense) benefit	– 0.4	– 0.4	– 1.2	– 0.4
Foreign currency translation adjustment	– 11.8	– 4.8	– 13.5	– 3.9
Items that may be reclassified to profit or loss	– 10.5	– 3.5	– 9.8	– 2.2
Remeasurements of defined benefit obligations	– 1.2	2.3	– 3.5	1.0
Income tax (expense) benefit	0.3	– 0.6	0.9	– 0.3
Items that are not reclassified to profit or loss	– 0.9	1.7	– 2.6	0.7
Other comprehensive income (loss)	– 11.4	– 1.8	– 12.4	– 1.5
Total comprehensive income (loss)	116.4	49.5	– 202.4	157.7
Attributable to:				
Owners of the parent	109.9	40.9	– 221.5	135.3
Non-controlling interests	0.1	0.0	0.1	0.2
Hybrid capital owners	6.4	8.5	18.9	22.3

Condensed Consolidated Statements of Financial Position

in EUR million	30 Sept. 2014 (unaudited)	31 Dec. 2013 (audited)
ASSETS		
Current assets		
Cash and cash equivalents	265.4	201.3
Short-term investments	7.6	9.9
Accounts receivable - trade, net of allowances	607.8	683.8
Receivables due from related parties	0.8	0.1
Inventories	124.8	127.3
Prepaid expenses	113.6	101.7
Income tax receivable	23.7	22.2
Non-current assets held for sale	0.7	1.0
Other current assets	98.0	74.0
Total current assets	1,242.4	1,221.2
Non-current assets		
Investments in associates	39.4	5.0
Long-term investments	6.3	5.2
Goodwill	1,194.6	1,581.9
Other intangible assets, net	2,578.9	2,590.3
Property, plant and equipment, net	2,194.3	2,308.1
Other non-current assets	38.7	25.2
Deferred tax assets	119.1	123.0
Total non-current assets	6,171.3	6,638.8
TOTAL ASSETS	7,413.7	7,860.0
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities		
Short-term borrowings	–280.8	–230.3
Accounts payable – trade	–447.2	–573.8
Current provisions and accrued liabilities	–269.3	–301.4
Payables due to related parties	–4.3	–5.9
Income tax payable	–35.6	–34.7
Other current liabilities	–162.2	–137.1
Deferred income	–169.8	–159.1
Total current liabilities	–1,369.1	–1,442.3
Non-current liabilities		
Long-term debt	–3,625.9	–3,737.7
Employee benefit obligation	–171.0	–164.3
Non-current provisions	–833.6	–881.4
Deferred tax liabilities	–95.2	–105.3
Other non-current liabilities and deferred income	–16.1	–16.4
Total non-current liabilities	–4,741.7	–4,905.1
Stockholders’ equity		
Common stock	–966.2	–966.2
Treasury shares	7.8	7.8
Additional paid-in capital	–582.6	–582.6
Hybrid capital	–591.2	–591.2
Retained earnings	332.6	132.6
Available-for-sale reserve	–0.1	0.0
Hedging reserve	42.1	45.7
Translation adjustments	455.8	442.3
Equity attributable to equity holders of the parent	–1,301.7	–1,511.5
Non-controlling interests	–1.1	–1.1
Total stockholders’ equity	–1,302.9	–1,512.6
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	–7,413.7	–7,860.0

Condensed Consolidated Statements of Cash Flows

in EUR million	Q3 2014 (unaudited)	Q3 2013 (unaudited)	1– 9 M 2014 (unaudited)	1– 9 M 2013 (unaudited)
Net Result	127.8	51.3	– 190.0	159.2
Adjustments to reconcile net result to operating cash flow				
Depreciation, amortisation and impairment	209.2	208.8	1,044.5	645.1
Employee benefit obligation - non-cash	– 0.2	5.6	3.1	11.0
Bad debt expenses	9.3	11.0	29.9	34.3
Change in deferred taxes	8.8	1.5	– 5.2	2.6
Result from investments in affiliates	0.0	– 0.1	0.8	0.1
Share-based compensation	0.4	– 0.3	2.4	– 1.0
Change in asset retirement obligation - non-cash	1.5	2.2	5.0	5.9
Provision for restructuring - non-cash	7.4	29.2	21.4	46.0
Result on sale of investments	0.0	0.0	– 0.1	0.1
Result on disposal / retirement of equipment	– 3.0	– 0.9	– 2.8	– 0.4
Gain on monetary items - non-cash	0.4	– 0.3	0.6	– 0.1
Other	– 32.4	5.1	6.9	6.7
Gross cash flow	329.2	313.0	916.6	909.5
Accounts receivable – trade	29.8	– 1.7	– 5.3	– 30.8
Receivables due from related parties	– 0.6	0.0	– 0.7	– 0.1
Inventories	1.4	15.4	4.3	7.2
Prepaid expenses and other assets	– 24.8	15.6	– 55.5	6.0
Accounts payable – trade	– 13.7	– 17.1	– 126.1	– 46.6
Employee benefit obligation	0.0	– 8.2	0.0	– 8.3
Provisions and accrued liabilities	– 30.4	– 27.5	– 95.0	– 87.9
Other liabilities and deferred income	10.7	12.1	37.4	42.7
Payables due to related parties	– 1.1	– 6.0	– 1.5	– 2.2
Changes in assets and liabilities	– 28.6	– 17.5	– 242.6	– 120.0
Cash flow from operating activities	300.6	295.5	674.0	789.5
Capital expenditures	– 143.6	– 167.6	– 472.5	– 493.0
Acquisitions of subsidiaries, net of cash acquired	– 24.7	– 2.4	– 24.7	– 330.8
Sale of subsidiary, net of cash disposed	– 4.5	0.0	– 4.5	0.0
Sale of property, plant, equipment and intangible assets	4.7	3.3	8.7	7.1
Purchase of investments	– 2.1	– 50.9	– 7.0	– 555.4
Sale of investments	5.9	425.5	9.0	591.3
Cash flow from investing activities	– 164.2	207.8	– 491.0	– 780.8
Proceeds from issuance of long term debt	0.0	297.5	0.0	297.5
Principal payments on long-term debt	– 8.6	– 753.3	– 57.3	– 757.2
Changes in short-term borrowings	25.5	2.4	– 3.9	– 36.7
Issuance of hybrid bond	0.0	0.0	0.0	588.2
Dividends paid	0.0	0.0	– 56.0	– 22.2
Settlement of derivative financial instruments	0.0	0.0	0.0	– 65.1
Deferred consideration paid for business combinations	0.0	0.0	– 1.9	– 29.3
Cash flow from financing activities	16.9	– 453.4	– 119.1	– 24.8
Effect of exchange rate changes	1.1	4.8	– 0.4	1.3
Monetary loss on cash and cash equivalents	0.2	0.4	0.5	– 0.2
Change in cash and cash equivalents	154.6	55.0	64.1	– 15.0
Cash and cash equivalents at beginning of period	110.8	530.8	201.3	600.8
Cash and cash equivalents at end of period	265.4	585.8	265.4	585.8

Condensed Consolidated Statements of Changes in Stockholders' Equity

in EUR million (unaudited)	Common stock	Treasury shares	Additional paid-in capital	Hybrid capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total stockholders' equity
Balance at 1 January 2014	966.2	– 7.8	582.6	591.2	– 132.6	– 488.0	1,511.5	1.1	1,512.6
Net Result	0.0	0.0	0.0	0.0	– 190.1	0.0	– 190.1	0.1	– 190.0
Other comprehensive income (loss)	0.0	0.0	0.0	0.0	– 2.6	– 9.8	– 12.4	0.0	– 12.4
Total comprehensive income (loss)	0.0	0.0	0.0	0.0	– 192.8	– 9.8	– 202.6	0.1	– 202.4
Distribution of dividends	0.0	0.0	0.0	0.0	– 49.6	0.0	– 49.6	– 0.1	– 49.7
Hyperinflation adjustment	0.0	0.0	0.0	0.0	42.3	0.0	42.3	0.0	42.3
Balance at 30 Sept. 2014	966.2	– 7.8	582.6	591.2	– 332.6	– 497.8	1,301.7	1.1	1,302.9

in EUR million (unaudited)	Common stock	Treasury shares	Additional paid-in capital	Hybrid capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total stockholders' equity
Balance at 1 January 2013	966.2	– 8.2	582.9	0.0	– 236.2	– 486.7	818.0	1.1	819.0
Net Result	0.0	0.0	0.0	0.0	159.1	0.0	159.1	0.2	159.2
Other comprehensive income (loss)	0.0	0.0	0.0	0.0	0.7	– 2.2	– 1.5	0.0	– 1.5
Total comprehensive income (loss)	0.0	0.0	0.0	0.0	159.8	– 2.2	157.5	0.2	157.7
Distribution of dividends	0.0	0.0	0.0	0.0	– 16.6	0.0	– 16.6	0.0	– 16.6
Hyperinflation adjustment	0.0	0.0	0.0	0.0	10.5	0.0	10.5	0.0	10.5
Issuance of hybrid capital	0.0	0.0	0.0	591.2	0.0	0.0	591.2	0.0	591.2
Issuance of treasury shares	0.0	0.4	– 0.3	0.0	0.0	0.0	0.1	0.0	0.1
Balance at 30 Sept. 2013	966.2	– 7.8	582.6	591.2	– 82.4	– 489.0	1,560.9	1.2	1,562.0

For further details on the hybrid bond coupon payment and the tax benefit relating to the amount of interest attributable to hybrid bond owners, which is recognised as distribution of dividends, see "Stockholders' Equity".

Net Debt

in EUR million	30 Sept. 2014 (unaudited)	31 Dec. 2013 (unaudited)
Long-term debt	3,625.9	3,737.7
Short-term borrowings	280.8	232.2
Cash and cash equivalents and short-term investments	– 273.0	– 211.2
Long-term investments, instalment sale and finance lease receivables	– 102.8	– 62.9
Net debt	3,530.9	3,695.8
Net debt/EBITDA comparable (last 12 months)	2.7x	2.9x

The deferred consideration for the acquisition of SOBS paid in June 2014 is included in short-term borrowings as of 31 December 2013.

Condensed Operating Segments

in EUR million (unaudited)	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
				1– 9 M 2014				
External revenues	1,805.8	274.4	276.0	275.3	356.2	0.0	0.0	2,987.7
Intersegmental revenues	16.0	2.0	6.3	0.0	7.0	0.0	– 31.3	0.0
Total revenues	1,821.8	276.4	282.3	275.3	363.2	0.0	– 31.3	2,987.7
Other operating income	64.8	7.6	3.2	4.3	8.3	48.2	– 44.7	91.7
Segment expenses	– 1,285.0	– 170.6	– 211.5	– 143.3	– 266.3	– 44.3	75.4	– 2,045.4
EBITDA comparable	601.6	113.4	74.0	136.3	105.2	4.0	– 0.6	1,034.0
Restructuring	– 12.1	0.0	0.0	0.0	0.0	0.0	0.0	– 12.1
Impairment and reversal of impairment	0.0	– 400.0	0.0	0.0	0.0	0.0	0.0	– 400.0
EBITDA incl. effects from restructuring and impairment testing	589.5	– 286.6	74.0	136.3	105.2	4.0	– 0.6	621.9
Depreciation and amortisation	– 381.1	– 66.1	– 50.7	– 70.6	– 76.6	0.0	0.6	– 644.5
Operating result	208.4	– 352.6	23.3	65.7	28.7	4.0	0.0	– 22.6
Interest income	1.7	0.9	0.0	7.4	0.7	26.5	– 26.7	10.5
Interest expense	– 33.3	– 0.4	– 7.6	– 1.7	– 1.6	– 129.4	26.7	– 147.4
Result from investments in affiliates	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Other financial result	0.8	0.0	– 0.4	– 0.3	– 0.6	– 7.5	7.7	– 0.4
Earnings before income taxes	177.6	– 352.2	15.3	71.1	27.1	– 106.5	7.6	– 159.8
Income taxes								– 30.2
Net result								– 190.0
Segment assets	4,764.8	879.9	570.2	594.1	803.3	7,573.3	– 7,772.0	7,413.7
Segment liabilities	– 2,517.5	– 97.0	– 379.3	– 70.3	– 193.8	– 4,447.9	1,594.9	– 6,110.8
Capital expenditures – intangible	58.5	40.4	5.2	2.6	75.4	0.0	0.0	182.2
Capital expenditures – tangible	173.8	18.9	39.0	24.1	34.5	0.0	0.0	290.3
Total capital expenditures	232.4	59.3	44.2	26.7	109.9	0.0	0.0	472.5
EBITDA comparable margin	33.0%	41.0%	26.2%	49.5%	29.0%	n.a	n.a	34.6%

in EUR million (unaudited)	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
				1– 9 M 2013				
External revenues	1,976.0	296.1	284.0	243.9	328.2	0.0	0.0	3,128.3
Intersegmental revenues	16.3	3.9	9.7	0.0	9.2	0.0	– 39.2	0.0
Total revenues	1,992.3	300.0	293.7	244.0	337.4	0.0	– 39.2	3,128.3

Other operating income	63.5	3.9	5.4	3.6	5.8	17.9	– 43.1	56.9
Segment expenses	– 1,454.4	– 177.2	– 203.1	– 129.1	– 240.0	– 38.5	82.2	– 2,160.1
EBITDA comparable	601.4	126.7	96.0	118.4	103.2	– 20.6	0.0	1,025.1
Restructuring	– 35.3	0.0	0.0	0.0	0.0	0.0	0.0	– 35.3
Impairment and reversal of impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA incl. effects from restructuring and impairment testing	566.1	126.7	96.0	118.4	103.2	– 20.6	0.0	989.8
Depreciation and amortisation	– 384.4	– 70.1	– 49.2	– 64.0	– 78.0	0.0	0.7	– 645.1
Operating result	181.7	56.6	46.8	54.4	25.3	– 20.6	0.7	344.7
Interest income	1.9	0.8	0.7	6.3	0.8	16.8	– 14.7	12.5
Interest expense	– 29.8	– 2.2	– 8.4	– 1.5	– 0.5	– 123.9	14.7	– 151.6
Result from investments in affiliates	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Other financial result	– 0.1	0.0	– 1.8	0.1	– 0.1	205.0	– 206.2	– 3.1
Earnings before income taxes	153.9	55.0	37.3	59.4	25.4	77.3	– 205.6	202.8
Income taxes								– 43.5
Net result								159.2
Segment assets	4,167.9	1,297.5	562.9	579.9	809.5	7,326.0	– 7,380.1	7,363.6
Segment liabilities	– 1,935.3	– 164.7	– 383.5	– 62.5	– 192.1	– 4,113.3	1,049.8	– 5,801.6
Capital expenditures – intangible	117.3	13.0	4.3	1.8	20.8	0.0	0.0	157.2
Capital expenditures – tangible	214.6	21.2	36.8	15.8	47.5	0.0	0.0	335.8
Total capital expenditures	331.9	34.2	41.0	17.6	68.3	0.0	0.0	493.0
EBITDA comparable margin	30.2%	42.2%	32.7%	48.5%	30.6%	n.a	n.a	32.8%

Results by Segments

in EUR million	Q3 2014 (unaudited)	Q3 2013 (unaudited)	% change	1– 9 M 2014 (unaudited)	1– 9 M 2013 (unaudited)	% change
Revenues						
Austria	624.2	646.8	– 3.5%	1,821.8	1,992.3	– 8.6%
Bulgaria	93.7	101.2	– 7.4%	276.4	300.0	– 7.9%
Croatia	106.5	103.5	2.9%	282.3	293.7	– 3.9%
Belarus.................	109.0	81.2	34.3%	275.3	244.0	12.8%
Additional markets	127.6	117.3	8.8%	363.2	337.4	7.7%
Corporate & Other & Eliminations......	– 12.3	– 14.0	– 12.0%	– 31.3	– 39.2	– 20.0%
Total revenues.......	1,048.7	1,036.0	1.2%	2,987.7	3,128.3	– 4.5%
EBITDA comparable						
Austria	234.5	205.4	14.2%	601.6	601.4	0.0%
Bulgaria	37.6	44.3	– 15.2%	113.4	126.7	– 10.5%
Croatia	29.2	35.2	– 17.1%	74.0	96.0	– 22.9%
Belarus.................	54.6	38.1	43.1%	136.3	118.4	15.1%
Additional markets	39.1	41.1	– 4.9%	105.2	103.2	1.9%
Corporate & Other & Eliminations......	19.7	– 6.2	– 418.1%	3.4	– 20.6	– 116.3%
Total EBITDA comparable	414.6	357.9	15.8%	1,034.0	1,025.1	0.9%
EBITDA incl. effects from restructuring and impairment testing						
Austria	229.1	177.7	29.0%	589.5	566.1	4.1%
Bulgaria	37.6	44.3	– 15.2%	– 286.6	126.7	– 326.2%
Croatia	29.2	35.2	– 17.1%	74.0	96.0	– 22.9%
Belarus.................	54.6	38.1	43.1%	136.3	118.4	15.1%
Additional markets	39.1	41.1	– 4.9%	105.2	103.2	1.9%
Corporate & Other & Eliminations......	19.7	– 6.2	– 418.1%	3.4	– 20.6	– 116.3%
Total EBITDA incl. effects from restructuring and impairment testing	409.3	330.2	23.9%	621.9	989.8	– 37.2%
Operating result						
Austria	108.7	53.5	103.3%	208.4	181.7	14.7%
Bulgaria	16.9	21.4	– 20.9%	– 352.6	56.6	– 723.4%
Croatia	12.6	18.8	– 33.2%	23.3	46.8	– 50.1%
Belarus.................	27.5	18.6	48.2%	65.7	54.4	20.7%
Additional markets	14.4	15.3	– 5.4%	28.7	25.3	13.5%
Corporate & Other & Eliminations......	19.9	– 6.0	– 432.0%	4.0	– 20.0	– 119.8%
Total operating result	200.0	121.5	64.7%	– 22.6	344.7	– 106.6%
EBITDA comparabl						
Austria	37.6%	31.8%		33.0%	30.2%	
Bulgaria	40.1%	43.8%		41.0%	42.2%	
Croatia	27.4%	34.0%		26.2%	32.7%	
Belarus.................	50.1%	47.0%		49.5%	48.5%	

Additional markets	30.6%	35.0%	29.0%	30.6%
EBITDA comparable margin total...........	39.5%	34.6%	34.6%	32.8%

Capital Expenditures

in EUR million	**Q3 2014** (unaudited)	**Q3 2013** (unaudited)	**% change**	**1– 9 M 2014** (unaudited)	**1– 9 M 2013** (unaudited)	**% change**
Austria	91.0	107.4	– 15.3%	232.4	331.9	– 30.0%
Bulgaria	11.5	10.4	10.6%	59.3	34.2	73.4%
Croatia	13.2	12.0	10.3%	44.2	41.0	7.8%
Belarus	11.1	6.1	81.9%	26.7	17.6	51.8%
Additional markets	16.8	31.7	– 47.2%	109.9	68.3	61.1%
Total capital expenditures	143.6	167.6	– 14.4%	472.5	493.0	– 4.2%
Thereof tangible	112.6	116.4	– 3.2%	290.3	335.8	– 13.5%
Thereof intangible	30.9	51.2	– 39.7%	182.2	157.2	15.9%

Selected Explanatory Notes to the Consolidated Interim Financial Statements

Basis of Presentation

The consolidated interim financial statements, in the opinion of Management, include all adjustments necessary for a fair presentation in accordance with IAS 34 “Interim Financial Reporting” and are not audited or reviewed and should be read in connection with the audited Company’s annual consolidated financial statements according to IFRS for the year ended 31 December 2013. The consolidated results for the interim periods are not necessarily indicative of results for the full year.

No major related party transactions, commitments and guarantees have occurred since 31 December 2013.

The preparation of the interim financial statements in conformity with IAS 34 Interim Financial Reporting requires making estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

The Company has applied the same accounting policies and methods of computation in the interim financial statements as in the annual financial statements as of and for the year ended 31 December 2013, except the following standards/interpretations which became effective and were endorsed by EU as of 1 January 2014:

		Effective*	Effective**
IAS 32	Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32	1 January 2014	1 January 2014
IFRS 10.12; IAS 27	Investment Entities - Amendments to IFRS 10, 12 and IAS 27	1 January 2014	1 January 2014
IAS 36	Amendment IAS 36 Recoverable Amount Disclosures	1 January 2014	1 January 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1 January 2014
IFRIC 21	Levies	1 January 2014	1 January 2014

* 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).

The initial application of the IFRS and IFRIC mentioned above had an insignificant impact on the consolidated financial statements since the amendments and revisions were not fully applicable.

Compared to other economic sectors, the telecommunications industry is in general less cyclical. Within the telecommunication sector, the seasonality of the Company’s segments shows the same pattern as other European incumbents, having lower margins in the year-end quarter due to Christmas promotions, equipment provided to customers and increases in sales commissions. However, customer and visitor roaming revenues are above average in the third quarter due to the summer vacation season. In Austria, visitor roaming is also above average in the first quarter due to winter sports tourism.

Format of the Condensed Consolidated Statements of Profit or Loss

Telekom Austria Group defines EBITDA as net income excluding financial result, income taxes and depreciation and amortization. EBITDA comparable and EBITDA incl. effects from restructuring and impairment testing are used to better evaluate trends in the Company’s underlying operations. EBITDA comparable comprises EBITDA adjusted for effects from the restructuring programme and from impairment testing, if any. The restructuring programme 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. For details on restructuring expenses for the first nine months 2014 and 2013 see “Provisions and Accrued Liabilities”.

Business combinations

In June 2014, the Telekom Austria Group has signed an agreement for the merger of its subsidiary mobilkom liechtenstein into Telecom Liechtenstein AG to form a convergent market leader in Liechtenstein. Closing of this non-cash transaction was on 27 August 2014 and resulted in Telekom Austria Group holding a stake of 24.9% and the Principality of Liechtenstein 75.1% in Telecom Liechtenstein AG. The new company offers bundled products out of one hand – fixed line, mobile communications, internet and TV services. The new company is accounted for under the equity method and is presented in the segment Corporate & Other. The fair value of Telekom Austria Group’s stake in the new company was EUR 34.3 million and the transaction resulted in a gain of EUR 26.8 million which was recognised in item Other operating income in the Condensed Consolidated Statements of Profit or Loss.

On 30 July 2014, Telekom Austria Group acquired 100% of blizoo DOEL, Macedonia (“blizoo”) through its Austrian subsidiary mobilkom Mazedonien Beteiligungsverwaltungs GmbH, for a total consideration of EUR 13.8 million. Additionally, a receivable of the acquiree in the amount of EUR 11.2 million was acquired. Blizoo is presented in the segment Additional Markets and is the leading cable operator in the Republic of Macedonia, offering TV services, broadband and fixed voice. The acquisition represents a significant step in fulfilling the Group´s convergence strategy and enables Vip operator and blizoo to offer bundled fixed and mobile services in Macedonia. A goodwill in the amount of EUR 13.0 million was recognised. The factors contributing to the recognised goodwill are expected future earnings from the positive development of the market share (including increase in customer benefit by usage of the Vip operator network) and expected synergies in cost. Acquisition-related costs recognised as expense amounted to EUR 0.6 million and are presented in line item Other operating expenses in the Condensed Consolidated Statements of Profit or Loss.

The fair values of the assets acquired and liabilities assumed at the acquisition date were determined based on the provisional allocation of the considerations transferred and are shown in the following table:

	Fair values on acquisition
Property, plant and equipment	12.2
Intangible assets	3.0
Other assets and receivables	1.0
Cash and cash equivalents	0.3
Short-term borrowings	– 7.5
Accounts payable - trade and other liabilities	– 8.2
Net identifiable assets and liabilities	0.9
Goodwill on acquisition	13.0
Total purchase consideration	13.8
Cash paid for receivable acquired	11.2
Cash acquired	– 0.3
Net cash outflow	24.7

Since the acquisition date blizoo contributed revenues in the amount of EUR 1.7 million and EUR 0.1 million net income. Since the effect of the acquired entity on the consolidated financial statements of Telekom Austria Group is not considered significant, no pro-forma information is presented.

Change in accounting estimates

In the second quarter of 2014 a new billing system interface was implemented, which enables a largely automatic calculation of unbilled revenues in order to calculate deferred revenues. Additionally by applying a separate “Revenue Assurance Software” an automatic control of these deferred revenues is being performed. Due to the development of the system, the component of estimation could be reduced and the data quality was improved. The new interface accesses directly the billing data, which no longer have to be transferred from multiple different systems and aggregated in several automated and manual interfaces anymore. This change in accounting estimate resulted in a decrease in operating revenues and a decrease in accounts receivable – trade in the amount of EUR 47.5 million in the segment Austria. This change in accounting estimate according to IAS 8 does not have any effect on following periods.

In addition, in the first nine month of 2014, the discount rate applied to the calculation of asset retirement obligations was changed from 3.0% as per December 2013 to 2.0%. The discount rate used for the calculation is based on the risk-free interest rate of Austrian government bonds with a maturity of 25 years. The inflation rate was changed from 2.5% to 2.0% to reflect current market conditions in the individual countries. The obligation related to the disposal of hazardous substances upon retirement of buildings was based on a new external expert opinion. In the first nine months, the change of these parameters resulted in a decrease of the asset retirement obligation and a corresponding decrease in related tangible assets in the amount of EUR 3.0 million while EUR 2.9 million were recognised in Other operating income as the underlying sites were fully depreciated. In the segment Belarus, the inflation rate of 15% and the discount rate of 21% remain unchanged compared to the previous year.

Cash Flow

The item “other”, which is part of the reconciliation of net result to gross cash flow, in the first nine months 2014 mainly relates to the above mentioned non-cash effect of the change in accounting estimate for deferred unbilled revenues, non-cash changes in provisions and profit from the merger of mobilkom liechtenstein into Telecom Liechtenstein which is described under business combinations.

Cash disposed of in merger of mobilkom liechtenstein into Telecom Liechtenstein amounted to EUR 4.5 million and is presented within line item Sale of subsidiary, net of cash disposed.

Goodwill

In the second quarter of 2014 an impairment of goodwill in the amount of EUR 400.0 million was recognised in profit or loss in line item Impairment and reversal of impairment as the carrying amount (including goodwill) of the cash generating unit Bulgaria exceeded its value in use.

Due to a change in the weighted average cost of capital (WACC) of the Bulgarian segment as well as changed medium-term macroeconomic expectations for Bulgaria, leading to changed expectations of the development of the Bulgarian subsidiary Mobiltel, an impairment test had to be carried out in the second quarter 2014. This resulted in a reduction of the value in use of the cash-generating unit Mobiltel.

As of June 2014 Mobiltel's WACC used to measure discounted cash flows increased by over 20% versus the last impairment test in the fourth quarter of 2013. This is the result of a rise in Telekom Austria Group's beta factor (measure of correlation between the performance of a security and the market) and an increase in the estimated Country Risk Premium for Bulgaria. On 13 June 2014 rating agency Standard & Poor's cut its sovereign credit rating for Bulgaria from BBB to BBB-, expecting economic growth to remain mediocre unless there are meaningful political and structural reforms.

These changed medium-term macroeconomic expectations and weak operational performance of Mobiltel in 2014 (after being in line with the budget in the first quarter 2014) also resulted in changed expectations for the entire Bulgarian telecoms market and the development of the Bulgarian subsidiary Mobiltel. While the management expected a mid-term recovery of the region, this expectation appears no longer sustainable. The resulting effects on the business plan for the Bulgarian segment drive the remainder of the impairment.

The WACC used for the calculation of the value in use decreased from 12.6% - 9.1% in June 2014 to 10.4% to 8.2% in September 2014 due to the decrease in the risk free interest rate, the raw Beta levered of Telekom Austria and the inflation spread. This significant decrease in only three months arising from external factors is the main driver of the increase of the value in use by appr. EUR 161 million and shows the current volatility of WACC parameters.

The Croatian market is significantly influenced by regulatory impacts and market conditions. A possible adverse effect of these external factors could potentially cause Vipnet’s carrying amount to exceed its value in use. As of 30 September 2014 Vipnet’s value in use exceeds its carrying amount by more than EUR 160 million, compared to less than EUR 100 million in June due to both short- and mid-term improvements on budget and the decrease of external WACC parameters.

Other Non-Current and Current Assets

The increase in other non-current and current assets is mostly due to increase of instalment sales receivables in segments Croatia, Belarus and Si.mobil which is allocated to segment Additional Markets.

Non-Current and Current Liabilities

In the first nine months 2014, no long-term debt was issued and EUR 57.3 million of long-term debt was repaid.

Due to "change of control"-clauses, which were triggered by the shareholders' agreement between ÖIAG, America Movil and Carso Telecom B.V., effective since 27 June 2014, long-term loans in the amount EUR 641.7 million had to be presented under short-term borrowings according to IAS 1.74 as of 30 June 2014. For loans in the amount of EUR 541.7 million the lenders agreed not to demand payment as a consequence of the "change of control"-clauses, therefore the loans are presented as long-term debt again. EUR 100 million are still presented as short-term borrowings as Telekom Austria plans to repay them in the fourth quarter of 2014.

The resulting increase in short-term borrowings of these EUR 100 million was partly offset by the repayment of long-term debt classified as short-term as of 31 December 2013.

In August 2014, Asset Backed Security (ABS) programme in Austria was closed and therefore no accounts receivable were sold as of 30 September 2014.

The increase in other current liabilities is mainly due to higher liabilities to fiscal authorities.

In 2010 Telekom Austria Group has introduced a Long Term Incentive Programme (LTI). On 6 May 2014 the Supervisory Board approved the fifth tranche (LTI 2014). Grant date was 1 July 2014 the performance period is 1 January 2014 to 31 December 2016. Net income, total shareholder return and EBITDA were defined as key performance indicators. As of reporting date a liability for LTI 2014 measured at fair value for expected future expense which is already vested, in the amount of EUR 1.0 million is recorded.

Provisions and Accrued Liabilities

The provision for restructuring amounting to EUR 775.4 million as of 31 December 2013 decreased to EUR 724.5 million as of 30 September 2014, mainly due to the usage of the provision, partly compensated by the accretion and additions to the provision. In the first nine months 2014 a positive effect of restructuring of EUR 0.3 million, in the first nine months 2013 a restructuring expense of EUR 31.9 million, respectively, was recognized.

The provision for civil servants of the segment Austria who voluntarily changed to the Austrian government to take on administrative tasks amounting to EUR 26.6 million as of 31 December 2013 decreased to EUR 25.3 million as of 30 September 2014. In the first nine months 2014 and 2013, a restructuring expense of EUR 12.3 million and EUR 3.4 million, respectively, was recorded.

Income Taxes

The effective tax rate for the first nine months 2014 and 2013 was -18.9% and 21.5%, respectively. In the first nine months 2014 and 2013, the effective tax rate was lower than the Austrian statutory tax rate of 25% mainly due to tax incentives and foreign tax rate differentials. The effective tax rate 2014 does not include the effect of the impairment of the goodwill in the amount of EUR 400.0 million in segment Bulgaria as well as the relating deferred tax benefit in the amount of EUR 9.7 million, since goodwill was tax deductible in Bulgaria until 2006.

Net deferred tax assets of EUR 17.7 million as of 31 December 2013 increased to EUR 24.0 million as of 30 September 2014, mainly due to the recognition of deferred tax assets on loss carry-forwards, which was mostly offset by the deferred recognition of the impairments of investments in subsidiaries for tax purposes over seven years according to Austrian legislation.

Stockholders' Equity

In February 2014, the Telekom Austria Group paid the first annual coupon of 5.625% of the hybrid bond in the amount of EUR 33.8 million. The coupon payment, as well as the related tax benefit of the interest in the amount of EUR 6.3 million, which is recognised in profit or loss under local GAAP, is recognised as distribution of dividend in equity. The net result attributable to hybrid capital holders is presented in the allocation of the net result in the Condensed Consolidated Statements of Profit or Loss and equals the recognised interest for the first nine months according to local GAAP amounting to EUR 25.2 million, net of the related tax benefit of EUR 6.3 million, which is recognised in stockholders' equity according to IAS 12.

In June 2014, the Telekom Austria Group distributed dividends to its shareholders in the amount of EUR 22.1 million.

Other reserves in the Condensed Consolidated Statements of Changes in Stockholders' Equity include Available-for-sale reserve, Hedging reserve and Translation adjustments.

On 23 April 2014 Österreichischen Industrieholding AG („ÖIAG") entered into a shareholders' agreement, effective since June 27, 2014, with Carso Telecom B.V., Netherlands ("Carso Telecom") and América Móvil, S.A.B. de C.V., Mexico City ("América Móvil"), by which the parties have contractually undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria Group, by exercising voting rights on a concerted basis ("Syndicate Agreement"). On 15 May 2014 Carso Telecom, which is controlled by América Móvil, published a voluntary public takeover offer for all shares of Telekom Austria AG ("Offer"). On 17 July 2014 the Offer was settled. After the Offer, América Móvil holds in total 50.8% of the share capital of the Telekom Austria Group, while ÖIAG continues to hold 28.4%. The Syndicate Agreement currently covers 351,002,957 shares of Telekom Austria, which equates to a shareholding of 79.23%. During the 3-months additional acceptance ("sell-out") period following the publication of the Offer results (16 July – 16 October 2014), shareholders could have tendered their shares under the Offer conditions.

Financial Instruments

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

in EUR million	30 Sept. 2014 Carrying amount (unaudited)	Fair value (unaudited)	31 Dec. 2013 Carrying amount (audited)	Fair value (audited)
Cash and cash equivalents	265.4	265.4	201.3	201.3
Accounts receivable – trade	607.8	607.8	683.8	683.8
Receivables due from related parties	0.8	0.8	0.1	0.1
Other current financial assets	67.5	67.5	42.6	42.6
Other non-current financial assets	30.6	30.6	18.1	18.1
Loans and receivables	706.7	706.7	744.6	744.6
Long-term investments	5.1	5.1	4.7	4.7
Short-term investments	7.6	7.6	9.9	9.9
Available-for-sale investments	12.8	12.8	14.6	14.6
Investments at cost	1.2	1.2	0.6	0.6

The carrying amounts of cash and cash equivalents, accounts receivable – trade and other financial assets approximate their fair values, therefore no further information on the classification in the fair value hierarchy is provided.

Other current and non-current financial assets comprise instalment sales receivables, finance lease receivables and other financial assets decreased by allowance for financial assets.

Investments at cost mainly relate to the stake in CEESEG AG. As this stake can only be disposed of at the initial indexed purchase price and due to the absence of an active market, this equity instrument is carried at acquisition cost.

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

	30 Sept. 2014		31 Dec. 2013	
in EUR million	**Carrying amount** (unaudited)	**Fair value** (unaudited)	**Carrying amount** (audited)	**Fair value** (audited)
Liabilities to financial institutions	0.1	0.1	0.0	0.0
Bonds	3,028.6	3,403.2	3,025.5	3,206.8
Other current financial liabilities	57.1	57.1	68.2	68.2
Non-current liabilities to financial institutions	791.5	849.1	848.8	911.4
Other non-current liabilities	0.9	0.9	0.9	0.9
Accounts payable – trade	447.2	447.2	573.8	573.8
Payables due to related parties	4.3	4.3	5.9	5.9
Accrued interest	86.5	86.5	93.7	93.7
Financial liabilities at amortised cost	4,416.1	4,848.3	4,616.9	4,860.8

The carrying amounts of accounts payable – trade and other liabilities approximate their fair values, therefore no further information on the classification in the fair value hierarchy is provided. Non-current liabilities to financial institutions include the current portion of long-term debt.

The fair values of the quoted bonds (EMTN bonds and Eurobonds) equal the face value multiplied by the price quotations at the reporting date and are thus classified as Level 1 of the fair value hierarchy.

The fair values of liabilities to financial institutions are measured at the present values of the cash flows associated with the debt.

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:

30 Sept. 2014 in EUR million (unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale & other investments	7.0	5.5	0.0	12.5
Financial assets measured at fair value	7.0	5.5	0.0	12.5

31 Dec. 2013 in EUR million (audited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale & other investments	6.4	8.1	0.0	14.6
Financial assets measured at fair value	6.4	8.1	0.0	14.6

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.

Subsequent and Other Events

There were no subsequent events.

Vienna, 17 October 2014

The Management Board

Hannes Ametsreiter, Chairman of the Management Board,

Telekom Austria Group

Siegfried Mayrhofer, CFO, Telekom Austria Group

Günther Ottendorfer, CTO, Telekom Austria Group

CONSOLIDATED FINANCIAL STATEMENTS 2013

The Consolidated Financial Statements are a translation from the original German versions, which are solely valid.

TELEKOM AUSTRIA AG – Consolidated Statements of Profit or Loss

Notes	***in TEUR***	**2013**	**2012**
(4)	Operating revenues	4,183,949	4,329,703
(5)	Other operating income	87,079	82,086
	Materials	-547,302	-474,677
	Employee expenses, including benefits and taxes	-845,872	-833,268
(6)	Other operating expenses	-1,590,496	-1,648,095
	Operating expenses	**-2,983,669**	**-2,956,040**
	EBITDA comparable	**1,287,359**	**1,455,749**
(22)	Restructuring	-45,185	-34,685
(17) (18) (19)	Impairment and reversal of impairment	0	0
	EBITDA incl. effects from restructuring and impairment tests	**1,242,174**	**1,421,064**
(18) (19)	Depreciation and amortisation	-864,606	-963,972
	OPERATING INCOME	**377,568**	**457,093**
(7)	Interest income	16,123	16,937
(7)	Interest expense	-200,853	-232,674
(7)	Foreign exchange differences	-4,278	2,494
(7)	Other financial result	-137	-425
(15)	Result from investments in affiliates	1,697	981
	Financial result	**-187,447**	**-212,687**
	EARNINGS BEFORE TAXES	**190,121**	**244,405**
(30)	Income taxes	-80,421	-140,394
	NET RESULT	**109,700**	**104,011**
	Attributable to:		
	Owners of the parent	86,547	103,869
	Non-controlling interests	60	142
(29)	Hybrid capital holders	23,093	0
(29)	Basic and fully diluted earnings per share	0.20	0.23

See accompanying notes to the consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.
Comparative amounts for 2012 were restated as a result of the amendments to IAS 19.

TELEKOM AUSTRIA AG - Consolidated Statements of Comprehensive Income

Notes	*in TEUR*	2013	2012
	Net result	**109,700**	**104,011**
(8) (16)	Unrealised result on securities available-for-sale	19	321
	Income tax (expense) benefit	-5	-80
(7)	Realised result on securities available-for-sale	217	495
	Income tax (expense) benefit	-54	-122
(33)	Unrealised result on hedging activities	448	-27,430
	Income tax (expense) benefit	-112	6,857
(33)	Realised result on hedging activities	3,208	0
	Income tax (expense) benefit	-802	0
(29)	Foreign currency translation adjustment	-4,234	-27,819
	Items that may be reclassified to profit or loss	**-1,315**	**-47,778**
(27)	Re-measurement of defined benefit obligations	1,365	-15,775
	Income tax (expense) benefit	-370	3,924
	Items that are not reclassified to profit or loss	**994**	**-11,850**
	Other comprehensive income (loss)	**-320**	**-59,628**
	Total comprehensive income	**109,380**	**44,383**
	Attributable to:		
	Owners of the parent	86,226	44,241
	Non-controlling interests	61	142
(29)	Hybrid capital holders	23,093	0

See accompanying notes to the consolidated financial statements.
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Comparative amounts for 2012 were restated as a result of the amendments to IAS 19.

TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

Notes	*in TEUR*	31 December 2013	31 December 2012	1 January 2012
	ASSETS			
	Current assets			
	Cash and cash equivalents	201,334	600,763	459,952
(8)	Short-term investments	9,882	85,123	165,972
(9)	Accounts receivable – trade, net of allowances	683,843	751,102	758,939
(10)	Receivables due from related parties	58	7	85
(11)	Inventories	127,273	152,942	157,706
(12)	Prepaid expenses	101,684	106,692	101,010
(30)	Income tax receivable	22,162	21,140	40,633
(13)	Non-current assets held for sale	962	881	134
(14)	Other current assets	73,995	90,602	67,015
	TOTAL CURRENT ASSETS	**1,221,193**	**1,809,252**	**1,751,446**
	Non-current assets			
(15)	Investments in associates	4,979	3,661	3,699
(16)	Financial assets long-term	5,247	7,872	13,897
(17)	Goodwill	1,581,906	1,289,501	1,289,714
(18)	Other intangible assets, net	2,590,269	1,522,577	1,619,339
(19)	Property, plant and equipment, net	2,308,127	2,426,436	2,462,174
(20)	Other non-current assets	25,243	30,767	34,521
(30)	Deferred tax assets	123,006	167,083	275,676
(10)	Receivables due from related parties, long-term finance	0	0	106
	TOTAL NON-CURRENT ASSETS	**6,638,779**	**5,447,896**	**5,699,126**
	TOTAL ASSETS	**7,859,972**	**7,257,148**	**7,450,572**
	LIABILITIES AND STOCKHOLDERS' EQUITY			
	Current liabilities			
(21)	Short-term borrowings	-230,284	-1,049,424	-1,014,185
(23)	Accounts payable – trade	-573,836	-590,783	-684,025
(22)	Current provisions and accrued liabilities	-301,369	-301,789	311,573
(10)	Payables due to related parties	-5,891	-7,775	-9,816
(30)	Income tax payable	-34,658	-37,158	-41,259
(23)	Other current liabilities	-137,098	-171,454	-184,642
(24)	Deferred income	-159,134	-163,710	-166,517
	TOTAL CURRENT LIABILITIES	**-1,442,271**	**-2,322,093**	**-2,412,018**
	Non-current liabilities			
(25)	Long-term debt	-3,737,702	-2,831,983	-2,935,053
(27)	Employee benefit obligations	-164,332	-161,642	-136,187
(22)	Non-current provisions	-881,355	-923,146	-888,208
(30)	Deferred tax liabilities	-105,264	-115,176	-127,250
(28)	Other non-current liabilities and deferred income	-16,441	-84,014	-74,178
	TOTAL NON-CURRENT LIABILITIES	**-4,905,094**	**-4,115,961**	**-4,160,878**
	Stockholders' equity			
(29)	Common stock	-966,183	-966,183	-966,183
(29)	Treasury shares	7,803	8,196	8,196
(29)	Additional paid-in capital	-582,618	-582,896	-582,896
(29)	Hybrid capital	-591,186	0	0
(29)	Retained earnings	132,638	236,128	225,206
(29)	Available-for-sale reserve	15	191	805
(29)	Hedging reserve	45,717	48,459	27,887
(29)	Translation adjustments	442,296	438,062	410,243
	Equity attributable to equity holders of the parent	**-1,511,518**	**-818,042**	**-876,743**
	Non-controlling interests	-1,089	-1,052	-934
	TOTAL STOCKHOLDERS' EQUITY	**-1,512,607**	**-819,094**	**-877,677**
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**-7,859,972**	**-7,257,148**	**-7,450,572**

See accompanying notes to the consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.
Comparative amounts for 2012 were restated as a result of the amendments to IAS 19.

TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows

Notes	*in TEUR*	2013	2012
	Net result	109,700	104,011
	Adjustments to reconcile net result to cash flow		
(18) (19)	Depreciation and amortisation	864,606	963,972
(27)	Employee benefit obligation – non-cash	11,861	16,504
(6)	Bad debt expenses	37,985	49,885
(30)	Change in deferred taxes	29,877	97,217
(15)	Result from investments in affiliates	-1,419	-981
(31)	Share-based compensation	-378	15
(22)	Change in asset retirement obligation – non-cash	7,839	8,357
(22)	Provision for restructuring – non-cash	54,836	63,497
(7)	Result on sale of investments	218	495
(6)	Result on disposal/retirement of equipment	8,538	4,330
(7)	Gain on monetary items – non cash	-1,062	-4,112
(32)	Other	14,615	-7,286
	Gross cash flow	**1,137,217**	**1,295,903**
(9)	Accounts receivable – trade	36,311	-43,758
(10)	Receivables due from related parties	-72	15
(11)	Inventories	25,878	6,677
(12) (14)	Prepaid expenses and other assets	1,189	-8,784
(23)	Accounts payable – trade	-28,708	-94,334
(27)	Employee benefit obligation	-7,902	-6,554
(22)	Provisions and accrued liabilities	-92,513	-97,751
(23) (24)	Other liabilities and deferred income	-18,013	-1,452
(10)	Payables due to related parties	-1,822	-2,041
	CHANGES IN ASSETS AND LIABILITIES	**-85,652**	**-247,981**
	Cash flow from operating activities	**1,051,564**	**1,047,922**
(18) (19)	Capital expenditures	-1,779,085	-728,223
(2) (15)	Acquisitions of subsidiaries, net of cash acquired	-330,932	-44
(2) (15)	Sale of subsidiaries, net of cash disposed	-25	1,080
(18) (19)	Sale of property, plant, equipment, intangible assets	10,772	5,672
(8) (16)	Purchase of investments	-564,155	-766,737
(8) (16)	Proceeds from sale of investments	642,057	851,964
	Cash flow from investing activities	**-2,021,368**	**-636,288**
(25)	Proceeds from issuance of long-term debt	1,040,274	838,425
(25)	Principal payments on long-term debt	-932,223	-918,909
(21)	Change in short-term borrowings	-10,126	13,842
(29)	Issuance of hybrid bond	588,248	0
(29)	Dividends paid	-22,152	-168,198
(33)	Settlement of derivative financial instruments	-65,142	0
(2)	Deferred consideration paid for business combinations	-29,323	-34,727
	Cash flow from financing activities	**569,555**	**-269,566**
	Effect of exchange rate changes	1,803	-49
	Monetary loss on cash and cash equivalents	**-983**	**-1,208**
	CHANGE IN CASH AND CASH EQUIVALENTS	**-399,429**	**140,811**
	Cash and cash equivalents at beginning of the year	600,763	459,952
	Cash and cash equivalents at end of the year	201,334	600,763

See accompanying notes to the consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.
Comparative amounts for 2012 were restated as a result of the amendments to IAS 19.

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

in TEUR	Common stock Par value	Treasury shares at cost	Additional paid-in capital	Hybrid capital	Retained earnings	Available-for-sale reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
At 1 January 2012	**966,183**	**-8,196**	**582,896**	**0**	**-225,206**	**-805**	**-27,887**	**-410,243**	**876,743**	**934**	**877,677**
Net result	0	0	0	0	103,869	0	0	0	103,869	142	104,011
Other comprehensive income (loss)	0	0	0	0	-11,850	613	-20,572	-27,819	-59,628	0	-59,628
Total comprehensive income	**0**	**0**	**0**	**0**	**92,019**	**613**	**-20,572**	**-27,819**	**44,241**	**142**	**44,383**
Distribution of dividends	0	0	0	0	-168,174	0	0	0	-168,174	-24	-168,198
Hyperinflation adjustment	0	0	0	0	65,233	0	0	0	65,233	0	65,233
At 31 December 2012	**966,183**	**-8,196**	**582,896**	**0**	**-236,128**	**-191**	**-48,459**	**-438,062**	**818,042**	**1,052**	**819,094**
Net result	0	0	0	0	109,641	0	0	0	109,641	60	109,700
Other comprehensive income (loss)	0	0	0	0	993	177	2,742	-4,234	-321	1	-320
Total comprehensive income	**0**	**0**	**0**	**0**	**110,634**	**177**	**2,742**	**-4,234**	**109,319**	**61**	**109,380**
Distribution of dividends	0	0	0	0	-14,430	0	0	0	-14,430	-24	-14,454
Hyperinflation adjustment	0	0	0	0	7,286	0	0	0	7,286	0	7,286
Issuance of hybrid capital	0	0	0	591,186	0	0	0	0	591,186	0	591,186
Issuance of treasury shares	0	392	-278	0	0	0	0	0	114	0	114
At 31 December 2013	**966,183**	**-7,803**	**582,618**	**591,186**	**-132,638**	**-15**	**-45,717**	**-442,296**	**1,511,518**	**1,089**	**1,512,607**

See accompanying notes to the consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.
In 2013, the tax benefit resulting from the accrued interest attributable to hybrid capital holders is included in the distribution of dividends (see Note (29)).
Comparative amounts for 2012 were restated as a result of the amendments to IAS 19.

TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements

Consolidated Segment Reporting

2013 ***(in TEUR)***	**Austria**	**Bulgaria**	**Croatia**	**Belarus**	**Additional Markets**	**Corporate & Other**	**Eliminations**	**Consolidated**
External revenues	2,637,497	395,720	377,487	331,676	441,569	0	0	4,183,949
Intersegment revenues	21,081	3,729	11,708	55	11,918	0	-48,490	0
Total revenues	**2,658,578**	**399,449**	**389,194**	**331,731**	**453,487**	**0**	**-48,490**	**4,183,949**
Other operating income	87,501	11,897	5,834	4,866	12,359	23,908	-59,288	87,079
Segment expenses	-2,000,792	-252,754	-277,389	-180,712	-327,353	-52,371	107,703	-2,983,669
EBITDA comparable	**745,287**	**158,592**	**117,640**	**155,886**	**138,493**	**-28,463**	**-75**	**1,287,359**
Restructuring	-45,185	0	0	0	0	0	0	-45,185
Impairment and reversal of impairment	0	0	0	0	0	0	0	0
EBITDA incl. effects from restructuring and impairment tests	**700,102**	**158,592**	**117,640**	**155,886**	**138,493**	**-28,463**	**-75**	**1,242,174**
Depreciation and amortisation	-516,059	-94,587	-65,836	-84,332	-104,679	0	887	-864,606
Operating income	**184,043**	**64,005**	**51,803**	**71,554**	**33,814**	**-28,463**	**812**	**377,568**
Interest income	2,411	1,054	916	8,160	800	21,602	-18,820	16,123
Interest expense	-38,972	-2,766	-10,999	-1,823	-768	-164,349	18,822	-200,853
Equity in earnings of affiliates	1,697	0	0	0	0	0	0	1,697
Other financial income	-527	-58	-2,116	810	-135	326,308	-328,696	-4,415
Earnings before income taxes	**148,652**	**62,235**	**39,604**	**78,702**	**33,711**	**155,099**	**-327,882**	**190,121**
Income taxes								-80,421
Net result								109,700
Segment assets	4,926,958	1,282,159	544,657	572,539	751,667	7,723,350	-7,941,357	7,859,972
Segment liabilities	-2,695,242	-146,488	-366,134	-58,261	-126,911	-4,435,668	1,481,339	-6,347,365
Capex other intangible assets	1,203,488	22,550	30,850	5,158	30,046	0	0	1,292,093
Capex property, plant and equipment	306,327	37,616	51,532	28,813	62,706	0	0	486,993
Total capital expenditures	1,509,815	60,165	82,382	33,971	92,752	0	0	1,779,085
Cost to acquire property, plant, equipment and intangible assets	1,515,020	60,270	82,747	34,152	95,543	0	0	1,787,731
Other non-cash items	96,006	4,766	4,419	7,854	5,414	5,817	0	124,277
EBITDA comparable margin	28.0%	39.7%	30.2%	47.0%	30.5%	n.a.	n.a.	30.8%

2012 ***(in TEUR)***	**Austria**	**Bulgaria**	**Croatia**	**Belarus**	**Additional Markets**	**Corporate & Other**	**Eliminations**	**Consolidated**
External revenues	2,763,741	448,316	405,380	301,174	411,093	0	0	4,329,703
Intersegment revenues	23,394	20,752	15,005	61	15,510	0	-74,721	0
Total revenues	**2,787,134**	**469,068**	**420,385**	**301,235**	**426,603**	**0**	**-74,721**	**4,329,703**
Other operating income	90,067	7,181	1,997	4,339	7,766	23,512	-52,776	82,086
Segment expenses	-1,974,033	-268,828	-285,784	-181,203	-317,087	-56,717	127,611	-2,956,040
EBITDA comparable	**903,169**	**207,421**	**136,598**	**124,370**	**117,282**	**-33,205**	**114**	**1,455,749**
Restructuring	-34,685	0	0	0	0	0	0	-34,685
Impairment and reversal of impairment	0	0	0	0	0	0	0	0
EBITDA incl. effects from restructuring and impairment tests	**868,484**	**207,421**	**136,598**	**124,370**	**117,282**	**-33,205**	**114**	**1,421,064**
Depreciation and amortisation	-554,526	-152,200	-67,167	-94,905	-100,278	0	5,104	-963,972
Operating income	**313,958**	**55,221**	**69,431**	**29,465**	**17,004**	**-33,205**	**5,217**	**457,093**
Interest income	4,554	1,172	1,846	3,801	630	34,810	-29,876	16,937
Interest expense	-61,692	-6,358	-6,922	-2,264	-1,039	-184,370	29,972	-232,674
Equity in earnings of affiliates	981	0	0	0	0	0	0	981
Other financial income	-938	-110	-1,207	5,055	-271	376,093	-376,553	2,069
Earnings before income taxes	**256,862**	**49,925**	**63,148**	**36,056**	**16,325**	**193,328**	**-371,240**	**244,405**
Income taxes								-140,394
Net result								104,011
Segment assets	3,915,941	1,326,843	532,911	598,204	805,513	7,221,944	-7,149,815	7,257,148
Segment liabilities	-2,182,606	-197,692	-331,851	-52,909	-179,550	-4,661,795	1,168,333	-6,438,054
Capex other intangible assets	94,634	20,514	27,758	15,544	19,329	0	-241	177,537
Capex property, plant and equipment	353,605	48,335	51,061	28,189	69,495	0	0	550,686
Total capital expenditures	448,238	68,849	78,819	43,733	88,824	0	-241	728,223
Cost to acquire property, plant, equipment and intangible assets	510,184	70,557	79,288	43,962	91,298	0	-241	795,048
Other non-cash items	109,365	7,703	5,284	-3,801	5,804	1,834	0	126,189
EBITDA comparable margin	32.4%	44.2%	32.5%	41.3%	27.5%	n.a.	n.a.	33.6%

For further information on segments, see Note (3).
The use of automated calculation systems may give rise to rounding differences.

Table of Other Intangible Assets

in TEUR	Licenses	Brand names	Software	Customer base	Advances/ construction in progress	Other	Total
Cost							
At 1 January 2012	**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
At 31 December 2012	**1,041,083**	**549,820**	**1,093,913**	**1,099,088**	**76,630**	**182,584**	**4,043,118**
Hyperinflation adjustment	974	967	629	3,444	60	42	6,117
Additions	75,893	10,000	98,719	333	1,088,052	19,095	1,292,093
Disposals	-95	0	-51,763	-22,682	-61	-20,254	-94,854
Transfers	19,792	0	67,879	0	-82,498	810	5,983
Translation adjustment	-2,329	-295	-941	-566	-109	-707	-4,947
Changes in reporting entities	0	12,950	-3,024	42,168	0	6,695	58,788
At 31 December 2013	**1,135,319**	**573,442**	**1,205,413**	**1,121,786**	**1,082,074**	**188,264**	**5,306,298**
Accumulated amortisation and impairment							
At 1 January 2012	**-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
At 31 December 2012	**-667,750**	**-27,493**	**-792,572**	**-904,621**	**0**	**-128,105**	**-2,520,541**
Hyperinflation adjustment	-295	0	-534	-2,010	0	-40	-2,878
Additions	-54,391	-5,753	-152,119	-53,699	0	-16,548	-282,510
Disposals	95	0	51,164	22,682	0	12,897	86,837
Transfers	0	0	-118	0	0	1,090	972
Translation adjustment	776	20	764	341	0	592	2,493
Changes in reporting entities	0	0	1,462	0	0	-1,863	-401
At 31 December 2013	**-721,564**	**-33,227**	**-891,954**	**-937,306**	**0**	**-131,977**	**-2,716,029**
Carrying amount at							
31 December 2013	413,755	540,215	313,459	184,479	1,082,074	56,287	2,590,269
31 December 2012	373,333	522,327	301,341	194,467	76,630	54,479	1,522,577

For further information on other intangible assets, see Note (18).
The use of automated calculation systems may give rise to rounding differences.

Table of Property, Plant and Equipment

in TEUR	Land, buildings & leasehold improvements	Communications network and other equipment	Finance leases	Advances/ construction in progress	Total
Cost					
At 1 January 2012	**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
At 31 December 2012	**892,542**	**10,480,897**	**390**	**153,421**	**11,527,250**
Hyperinflation adjustment.........	393	3,702	0	204	4,299
Additions	13,515	365,467	0	116,657	495,639
Disposals..................................	-8,938	-773,756	-390	-2,309	-785,394
Transfers	4,926	113,680	0	-126,982	-8,376
Translation adjustment.............	-673	-8,559	0	-272	-9,504
Changes in reporting entities.....	81	11,627	0	0	11,708
At 31 December 2013	**901,845**	**10,193,058**	**0**	**140,719**	**11,235,622**
Accumulated depreciation and impairment					
At 1 January 2012	**-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
At 31 December 2012	**-573,357**	**-8,527,213**	**-244**	**0**	**-9,100,814**
Hyperinflation adjustment.........	-36	-2,631	0	0	-2,667
Additions	-33,255	-548,810	-30	0	-582,095
Disposals..................................	7,742	748,824	274	0	756,840
Transfers	1,985	-914	0	0	1,071
Translation adjustment.............	272	6,242	0	0	6,514
Changes in reporting entities.....	-13	-6,329	0	0	-6,343
At 31 December 2013	**-596,664**	**-8,330,831**	**0**	**0**	**-8,927,495**
Carrying amount at					
31 December 2013	305,182	1,862,226	0	140,719	2,308,127
31 December 2012	319,185	1,953,684	146	153,421	2,426,436

For further information on property, plant and equipment, see Note (19).
The use of automated calculation systems may give rise to rounding differences.

(1) The Company and Significant Accounting Policies

Description of business 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, Bulgaria, Croatia, Belarus, Slovenia, Serbia, Macedonia and Liechtenstein.

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 regulates certain activities of Telekom Austria Group via the Rundfunk und Telekom Regulierungs-GmbH ("RTR"). 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.

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 31 December 2013 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 IFRS Interpretations Committee ("IFRIC") and the interpretation of the former Standards Interpretation Committee ("SIC"), effective as of 31 December 2013 and as endorsed by the European Union.

The following amendments to and revisions of existing IFRS as well as new IFRS and IFRIC are effective as of 1 January 2013.

IAS 1	Presentation of Financial Statements (amended)
IAS 19	Employee Benefits (amended)
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities (amended)
IFRS 13	Fair Value Measurement
IFRS 1	Government Loans (amended)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
IFRS 2009– 2011	Amendments as a Result of Improvements Project 2009 – 2011

The IASB issued the following standards and interpretations, which are not yet effective for the financial year 2013, but were early adopted by Telekom Austria Group as of 1 January 2013.

		Effective*	Effective**
IAS 27	Separate Financial Statements (amended)	1 January 2013	1 January 2014
IAS 28	Investments in Associates and Joint Ventures (amended)	1 January 2013	1 January 2014
IFRS 10	Consolidation	1 January 2013	1 January 2014
IFRS 11	Joint Arrangements	1 January 2013	1 January 2014
IFRS 12	Disclosures of Interests in Other Entities	1 January 2013	1 January 2014
IFRS 10-12	Transition Guidance – Amendments to IFRS 10-12	1 January 2013	1 January 2014

* 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).

The initial application of the IFRS and IFRIC listed above resulted in the following changes compared to 31 December 2012.

IAS 19 Employee Benefits (amended): The most significant change relates to the accounting for changes of the defined benefit obligations and plan assets. As Telekom Austria Group does not have any plan assets, the changed recognition relates to the defined benefit obligations in the financial statements only.

The "corridor approach" is no longer permitted, all actuarial gains or losses have to be recognised immediately in other comprehensive income. The amendments to IAS 19 require retrospective application. Therefore, the consolidated statement of profit or loss of 2012 was adjusted for actuarial losses of TEUR 310 less corresponding deferred taxes of TEUR 78. Employee benefit obligations at 31 December 2012 and 1 January 2012 were increased by accumulated unrecognised actuarial losses of TEUR 22,676 and TEUR 7,211, respectively. Corresponding deferred tax assets were adjusted by TEUR 5,608 and TEUR 1,768 and deferred tax liabilities were adjusted by TEUR 16 and TEUR 9, respectively. Retained earnings were reduced by the net effect of the accumulated unrecognised actuarial losses.

in TEUR	**Retained earnings**
Balance at 1 January 2013 as previously reported	-219,076
Impact of changes in accounting policy IAS 19	-17,052
Balance at 1 January 2013 adjusted	-236,128
Balance at 1 January 2012 as previously reported	-219,772
Impact of changes in accounting policy IAS 19	-5,434
Balance at 1 January 2012 adjusted	-225,206

IAS 1 Presentation of Financial Statements (amended): The amendments to IAS 1 rename the "statement of comprehensive income" to "statement of profit or loss and other comprehensive income". An entity may use titles other than those used in the Standard. Telekom Austria Group maintains the name statement of comprehensive income. Items of other comprehensive income have to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss, or (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income shall be allocated on the same basis.

The initial application of the other standards (IAS, IFRS) and interpretations (IFRIC) mentioned above had an insignificant impact on the consolidated financial statements since the amendments and revisions were not fully applicable.

The following standards and interpretations were issued by the IASB, but were not effective for the financial year 2013. 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****
IFRS 9	Financial Instruments	1 January 2015	not endorsed
IAS 32	Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32	1 January 2014	1 January 2014
IFRS 10.12; IAS 27	Investment Entities – Amendments to IFRS 10, 12 and IAS 27	1 January 2014	1 January 2014
IAS 36	Amendment IAS 36 Recoverable Amount Disclosures	1 January 2014	1 January 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1 January 2014
IFRIC 21	Levies	1 January 2014	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 25 (2012: 26) subsidiaries in Austria and 31 (2012: 33) subsidiaries abroad in which Telekom Austria Group has the rights to variable returns and the ability to affect those returns through power over an investee.

According to IFRS 3, business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which the acquirer 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 recognised 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 recognised in profit or loss. All transactions with non-controlling interests holders are directly recognised in stockholder's equity. In the course of purchase price allocations, fair values of assets and liabilities acquired are determined based on state of the art discounted cash-flow methods. The input factors used are categorised as Level 3 of the fair value hierarchy defined by IFRS 13.

Investments in companies in which Telekom Austria Group has significant influence, but no control of the investee, are accounted for using the equity method. The consolidated financial statements include one investment (2012: two) accounted for using the equity method. Under the equity method, only Telekom Austria Group's investments in as well as receivables due from and liabilities due to these equity investees are included in the consolidated statements of financial position. Telekom Austria Group's share of the investee's earnings is included in the consolidated statements of profit or loss. In the consolidated statements of cash flows only dividends, loans or cash received from or paid to the investee are included.

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

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

Foreign currency translation

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

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. Until the disposal of the respective operation, the foreign currency translation adjustment classified in stockholders' equity, is recognised in other comprehensive income (OCI).

Transaction gains and losses that arise from exchange rate fluctuations between the recognition of the transaction and payment date or translation at year-end 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 31 December		**Average exchange rates for the period ended 31 December**	
	2013	**2012**	**2013**	**2012**
Bulgarian Lev (BGN).........................	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)........................	7.6265	7.5575	7.5787	7.5214
Czech Koruna (CZK).........................	27.4270	25.1510	25.9734	25.1445
Hungarian Forint (HUF)	297.0400	292.3000	296.9530	289.2950
Serbian Dinar (CSD)..........................	114.6421	113.7183	113.0943	113.0237
Swiss Franc (CHF).............................	1.2276	1.2072	1.2308	1.2052
Rumanian Leu (RON)........................	4.4710	4.4445	4.4190	4.4583
Turkish Lira (TRY)............................	2.9605	2.3551	2.5311	2.3141
Macedonian Denar (MKD)	61.5113	61.5050	61.5826	61.5305
Belarusian Ruble (BYR)*	13,080.0000	11,340.0000	13,080.0000	11,340.0000
US Dollar (USD)................................	1.3791	1.3194	1.3278	1.2852

*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 recognised in the statements 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 amortised 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 stockholders' 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 statements of profit or loss 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
2013	16.5

Monthly inflation in %	**2013**	**2012**
January	3.0	1.9
February	1.2	1.5
March	1.1	1.5
April	0.5	1.7
May	0.7	1.6
June	0.3	1.8
July	1.0	1.3
August	0.1	2.3
September	1.7	1.3
October	1.9	1.8
November	1.6	1.7
December	2.3	1.4

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 profit or loss

Telekom Austria Group defines EBITDA as the net result excluding financial result, income taxes and depreciation and amortisation. 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 programme described in Note (22) and from impairment testing, if any. The restructuring programme 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 organisations 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 centre 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. 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, the activation fee, the yearly SIM-card fee and the 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 recognises 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 recognised in the period the call occurs.

Access fees, monthly base fees, maintenance fees, service fees and lines leased to business customers are billed in advance resulting in deferred revenues. These fees are recognised 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 recognised 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 recognised when the setup 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 recognise 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 realised through reduced interconnection revenues and expenses, respectively.

Telekom Austria Group recognises 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 recognised 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 recognised pro-rata over the contract period as marketing expenses when a service contract exists.

In the case of customer loyalty programmes, 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 recognised 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.

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 2013 and 2012, research and development expenses of TEUR 18,301 and TEUR 18,000, respectively, are recognised based on their origination as employee expenses, depreciation and amortisation as well as other operating expenses in the consolidated statements of profit or loss. For information on the capitalisation of internally developed software, see Note (18).

Interest, royalties and dividends

Interest is recognised using the effective interest method in accordance with IAS 39. Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement; dividends are recognised 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 2013 and 2012 for current share-based compensation plans.

Cash and cash equivalents

Telekom Austria Group considers cash in banks and highly liquid investments with remaining maturities of up to three months from the date of acquisition 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 statements of cash flows is equal to unrestricted cash and cash equivalents reported in the consolidated statements of financial position.

Marketable securities and other long-term investments

In accordance with IAS 39, Telekom Austria Group has classified all marketable securities and certain long-term investments as either held-to-maturity or available-for-sale, and carries these securities at amortised cost or fair value. When the fair value cannot be determined, the investment is recorded at cost. Unrealised gains and losses resulting from the change in the fair value of available-for-sale investments 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 acquisition cost and the fair value 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 recognises 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 recognised 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 amortised 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 reorganisation, 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 recognised in the consolidated statements of profit or loss in other operating expenses. 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 realisable value, with cost being determined on the basis of weighted average cost. Net realisable value of merchandise 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 realisable 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. They are no longer depreciated and are classified separately in the statements 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.

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 amortised, but are tested for impairment in accordance with 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.

Other intangible assets with finite useful lives are amortised over their respective useful lives to their estimated residual values and tested 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 recoverable amount if lower than its carrying amount and amortised 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 based on capital-market oriented valuation methodology. The weighted average cost of capital (WACC) applied corresponds to the weighted average interest on equity and debt. 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 taking into account current results and current internal expectations backed by external market data and estimates. Significant assumptions to determine the value in use comprise the development of sales, cost drivers, 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. Taking into account these estimates, the present value of the perpetual annuity is calculated based on a constant growth rate. Discount rates are determined using market data while at the same time taking into account the risks that the cash generating units are exposed to. Future changes to these estimates can have a substantial impact on the value in use of cash generating units.

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 recognised 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 recognise 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 amortised 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 amortised over more than 20 years relate to indefeasible rights of use of cable fibre or wave length over a fixed period of time. The indefeasible rights are amortised 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, its carrying amount is amortised 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 capitalised once the project has reached the application development stage. The costs are amortised 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 capitalised 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 amortised 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 capitalised. The cost and accumulated depreciation of assets sold or retired are removed from the accounts, and any resulting gain or loss is recognised in other operating expenses or other operating income.

Borrowing costs

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

Government grants

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

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 may be impaired, an evaluation of recoverability is performed, regardless of whether they are to be held and used or to be disposed of. In accordance with IAS 36, an impairment loss is recognised 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 statements of profit or loss.

If there is any indication that the impairment recognised 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 recognised initially in the amount corresponding to the financial inflow. Differences between the amount received and the amount to be repaid are recognised over the term of the liability using the effective interest rate method in the financial result (amortised cost).

Other liabilities

Other liabilities are carried at amortised 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 contain onerous contracts in accordance with IAS 37 as well as provisions for social plans in accordance with IAS 19.

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 recognised 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 recognised over the term of the lease contract in the consolidated statements of profit or loss 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. 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 are recognised in employee expenses in 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 pensions, Telekom Austria Group recognises actuarial gains and losses in other comprehensive income, whereas actuarial gains and losses for service awards are immediately recognised in profit or loss. The re-measurement of defined benefit plans relates to actuarial gains and losses only as Telekom Austria Group holds no plan assets. Interest expense related to employee benefit obligations is reported in the financial result, while service cost is reported in employee expenses.

According to IAS 19.133, entities may distinguish between current and non-current assets and liabilities arising from employee benefit obligations. Telekom Austria Group applies this distinction in its financial statements.

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. The provisions require that an increase in the liability that reflects the passage of time shall be recognised 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 statements of profit or loss. 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 calculated for each taxable entity based on the expected actual income tax rate applicable. In accordance with IAS 12 "Income Taxes", deferred tax assets and liabilities are recognised 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 recognised in the period the tax rate is effectively enacted. A deferred tax asset is recognised 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 recognised 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 recognised 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 recognised 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 recognised at the trade date and derecognised when settled. Financial assets and financial liabilities are initially recognised at the fair value of the consideration given or received. Transaction costs are included in the initial measurement, except for financial instruments, which are recognised at their fair value through profit or loss.

For financial liabilities carried at amortised cost, gains or losses are recognised in the consolidated statements of profit or loss when the financial liability is derecognised.

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position only when the entity has a contractual right to offset the recognised 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, issued 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 recognises all derivative financial instruments as assets or liabilities in the statements of financial position, and measures all at fair value, regardless of Telekom Austria Group's intent. Changes in the fair value of derivative instruments designated as hedging instruments are recognised in profit or loss 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 recognised in profit or loss. For derivatives designated as a cash flow hedge, changes in the fair value of the effective portion of the hedging instrument are recognised in other comprehensive income (hedging reserve) until the hedged item is realised and recognised in profit or loss.

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 recognised in profit or loss immediately.

Fair value of financial instruments

According to IFRS 13, the fair value is the price that would be received to sell an asset or paid to transfer a liability. The hierarchy categorises the inputs used in valuation techniques into three levels. Level 1 contains financial assets and liabilities based on quoted prices in active markets for identical assets or liabilities. Level 2 contains financial assets and liabilities based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 contains financial assets and liabilities based on inputs that are unobservable. When determining the fair value, the risk of non-fulfilment is taken into account as well.

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.

At the balance sheet dates, 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 of risk 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 which bear a significant risk of necessitating a material adjustment to the carrying amounts of assets and liabilities within the next financial year. For all sensitivity analyses, the remaining parameters of the original calculation remain unchanged, thus no possible correlation effects are taken into account.

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 amortisation represent the estimated periods during which the assets will be in use. With respect to changes in depreciation and amortisation 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. 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 realised. The ultimate realisation 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 realised and therefore will not be recognised (see Note (30)).

f) Restructuring (includes provisions for onerous contracts according to IAS 37 as well as provisions for social plans according to IAS 19): The provision is based on various parameters such as discount rate, salary increase, employee turnover and the probability of the acceptance of termination offers. Changes in these parameters could result in higher or lower expenses (see Note (22)).

(2) Business Combinations

On 2 February 2012, Telekom Austria AG and A1 Telekom Austria AG agreed to acquire assets of up to TEUR 390,000 from Orange Austria Telecommunication GmbH ("Orange Austria"). The acquisitions include following assets:

- the mobile phone operator YESSS! Telekommunikation GmbH ("YESSS!"), which was conditional to merger control approval (by Telekom Austria AG).
- a company into which base stations of Orange Austria had been demerged (by Telekom Austria AG).
- 2 x 13.2 MHz frequencies in 900 MHz, 2,100 MHz and 2,600 MHz frequency ranges (by A1 Telekom Austria AG).
- collocation rights relating to base stations (by A1 Telekom Austria AG).
- specific intellectual property rights including the brand "ONE" (by A1 Telekom Austria AG).

On 3 January 2013, Telekom Austria AG acquired 100% of the mobile phone operator YESSS! for a total consideration of TEUR 339,500. 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. The factors contributing to the goodwill of TEUR 292,110 are expected future earnings from the positive development of the market share (including increase in customer benefit by usage of the A1 network), know-how concerning no-frills and expected synergies in cost, especially by using the A1 network. TEUR 158,532 of the acquisition costs are, as expected, deductible for tax purposes in the course of group taxation. YESSS! was merged into A1 Telekom Austria AG, which had no impact on the consolidated financial statements.

On 17 June 2013, Telekom Austria AG acquired 100% of SOBS Base Stations GmbH ("SOBS"), the company into which the base stations of Orange Austria had been demerged, for a total consideration of TEUR 3,920, which equals net identifiable assets and liabilities. As of 31 December 2013, TEUR 2,016 of the consideration were paid in cash. SOBS was merged into A1 Telekom Austria AG, which had no impact on the consolidated financial statements.

Acquisition-related costs recognised in other operating expense amounted to TEUR 4,371. The following table shows the fair values of the assets acquired and liabilities assumed on the acquisition date.

Acquisition of YESSS! and SOBS *in TEUR*	**Fair values on acquisition date**
Property, plant and equipment	4,244
Intangible assets	58,096
Other assets and receivables	6,335
Cash and cash equivalents	14,822
Deferred tax liabilities	-14,458
Accounts payable – trade and other liabilities	-17,729
Net assets acquired	**51,310**
Goodwill	292,110
Consideration transferred	**343,420**
Purchase price not yet paid	-1,904
Cash and cash equivalents acquired	-14,822
Net cash outflow	326,694

The following acquisitions of separate assets from Orange Austria, which do not qualify as a business combination, are not included in the above table: In January, March, September and November 2013, A1 Telekom Austria AG acquired intellectual property rights and part of the frequencies from Orange Austria for a total consideration of TEUR 46,173. Additionally, on 17 June 2013, A1 Telekom Austria AG closed the collocation agreement for a purchase price of TEUR 13,969. 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. The last payment of the total consideration relating to the acquisition of frequencies amounting to TEUR 5,000 was effected in January 2014.

In the segment Croatia, the following companies were acquired in 2013:

On 6 March 2013, 100% of DIGI satelitska televizija d.o.o ("Digi TV"), a provider of satellite television services, were acquired for a total consideration of TEUR 929. With this acquisition, Vipnet reinforces the preconditions of convergent communications and TV services to be able to offer complete communication solutions. The gain resulting from the bargain purchase of TEUR 1,077 is recognised in other operating income and is mainly due to deferred tax assets on loss carry-forwards.

On 4 June 2013, 100% of Optika Kabel Infrastruktura d.o.o. ("OKI") were acquired for a total consideration of TEUR 942. Goodwill of TEUR 174 was recognised.

On 10 July 2013, 100% of Metronet Home d.o.o. ("Metronet") were acquired for a total consideration of TEUR 1,165. The gain resulting from the bargain purchase of TEUR 199 was recognised in other operating income.

On 15 July 2013, 100% of Kabelska Televizija Sibenik d.o.o. ("KTS") were acquired for a total consideration of TEUR 418. Goodwill of TEUR 258 was recognised.

On 16 September 2013, 100% of Istarska Kabelska d.o.o. ("Istarska") were acquired for a total consideration of TEUR 816. Goodwill of TEUR 706 was recognised.

The acquisitions of the local cable network providers enable Vipnet to offer further convergent solutions in the fixed net business. The factors contributing to the goodwills recognised are expected earnings from the future development of the customer base.

Acquisition-related costs for the acquisitions in the segment Croatia recognised in other operating expense amount to TEUR 137. In 2013, the newly acquired subsidiaries as well as B.net, which was acquired in 2011, were merged into Vipnet, which had no impact on the consolidated financial statements. The following table shows the fair values of the assets acquired and liabilities assumed on the acquisition date.

Acquisition of Metronet, KTS, OKI, Istarska and Digi TV *in TEUR*	**Fair values on acquisition date**
Property, plant and equipment	1,188
Intangible assets	1,857
Deferred tax assets	1,588
Other assets and receivables	355
Cash and cash equivalents	33
Deferred tax liabilities	-244
Accounts payable – trade and other liabilities	-369
Net assets acquired	**4,408**
Goodwill	1,139
Gain resulting from bargain purchase	-1,276
Consideration transferred	**4,270**
Cash and cash equivalents acquired	-33
Net cash outflow	4,237

As the acquired entities were merged in 2013, no pro-forma information could be presented.

On 26 February 2013, the remaining deferred consideration for the acquisition of SB Telecom Limited (SBT), the sole owner of FE VELCOM ("velcom"), in the amount of TEUR 29,323 was paid, as the predetermined performance criteria agreed at the date of acquisition in 2007 had been fulfilled. As of 31 December 2012, this consideration was recorded in other current liabilities (see Note (23)).

On 20 June 2013, 100% of Airwin Entertainment GmbH, which was reported in the segment Austria, were sold resulting in a loss of TEUR 2,280 which was recognised in other operating expenses.

(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 "Extended Board", which regularly convenes in Extended Board Meetings, is Telekom Austria Group's chief operating decision maker. It consists of the Management Board (Group CEO, Group CFO and Group CTO) as well as the Group Officers of Telekom Austria AG who represent human resources, technology and marketing.

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 and satellite 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 statements 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.

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 column Corporate & Other comprises mainly holding companies as well as the group financing company and it is reported in addition to the column eliminations for improved transparency. Other financial income reported in the column Corporate & Other relates to dividend income from fully consolidated subsidiaries which is eliminated in consolidation, thus having no impact on the consolidated financial statements.

The elimination column contains intersegment consolidation entries and the reconciliation of segment assets and liabilities to consolidated total assets and liabilities. Capital expenditures, as well as depreciation and amortisation, relate to property, plant and equipment and other intangible assets.

In 2013 and 2012, 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 2013, this item contains the gain on bargain purchases in the segment Croatia as well as the loss from the sale of the stake in Airwin Entertainment GmbH in the segment Austria (see Note (2)).

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

For information on restructuring in the segment Austria, see Note (22).

The item other financial income includes other financial result as well as foreign exchange differences.

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

in TEUR	**2013**	**2012**
Monthly fee and traffic	3,021,376	3,107,808
Data and ICT Solutions	225,462	215,034
Wholesale (incl. Roaming)	167,744	205,487
Interconnection	408,823	493,350
Equipment	331,394	284,282
Other revenues	29,150	23,741
Total revenues	**4,183,949**	**4,329,703**

(4) Revenues

in TEUR	**2013**	**2012**
Services	3,852,555	4,045,421
Equipment	331,394	284,282
Operating revenues	**4,183,949**	**4,329,703**

(5) Other Operating Income

in TEUR	**2013**	**2012**
Rental revenue	16,240	15,006
Own work capitalised	38,356	37,692
Other	32,483	29,389
Other operating income	**87,079**	**82,086**

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

In 2013 and 2012, other operating income includes research and educational tax credits amounting to TEUR 1,993 and TEUR 2,136, respectively. In 2013, the gain on bargain purchases amounting to TEUR 1,276 from acquisitions in the segment Croatia is included in other operating income (see Note (2)).

(6) Other Operating Expenses

in TEUR	2013	2012
Interconnection	401,428	439,249
Repairs and maintenance	169,011	167,525
Services received	204,186	216,566
Advertising and marketing	158,558	158,221
Other support services	149,009	152,695
Rental and lease expenses	160,812	154,488
Commissions	76,887	73,144
Bad debt expenses	37,985	49,885
Other consulting	12,220	17,449
Legal consulting	5,007	6,668
Travel expenses	16,216	17,207
Other taxes	15,146	12,558
Energy	58,258	58,364
Transportation	27,575	30,201
Training expenses	7,887	9,934
Net loss from retirement of fixed assets	8,538	4,330
Other	81,773	79,609
Other operating expenses	**1,590,496**	**1,648,095**

Impairment losses and reversal of impairment losses for trade and other receivables classified as loans and receivables are recognised in other operating expenses.

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

At the Annual General Meeting on 29 May 2013, Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna ("Deloitte") was appointed as group auditor for Telekom Austria Group. In 2012, the consolidated financial statements of Telekom Austria Group were audited by KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna ("KPMG Austria"). Expenses related to the group auditor amount to:

in TEUR	2013	2012
Audit fees	634	896
Other reviews	0	300
Fees Deloitte/KPMG Austria	**634**	**1,196**

In 2012, the expenses relate to KPMG Austria.

(7) Financial Result

in TEUR	2013	2012
Interest income on loans and receivables	11,900	13,154
Interest income on bank deposits	3,788	3,337
Interest income on available-for-sale financial assets	292	355
Net gain on hedging transactions	143	91
Interest income	**16,123**	**16,937**

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 recognised as interest income or interest expense depending on the net amount:

in TEUR	2013	2012
Result on interest rate swaps – fair value hedge	-6,479	-4,531
Result from fair value measurement of EMTN bonds	6,622	4,623
Interest income	**143**	**91**

in TEUR	2013	2012
Interest expense on financial liabilities	164,779	181,758
Interest expense on restructuring provision	21,441	36,273
Interest expense on employee benefit obligations	5,817	6,286
Interest expense on asset retirement obligations	7,839	8,357
Net loss on hedging transactions	978	0
Interest expense	**200,853**	**232,674**

Provisions for restructuring contain onerous contracts in accordance with IAS 37 as well as provisions for social plans in accordance with IAS 19.

The net loss on hedging transactions relates to the settlement cost of the pre-hedges (see Note (33)).

Foreign exchange differences

in TEUR	2013	2012
Foreign exchange gains	5,703	13,188
Foreign exchange losses	-11,043	-14,806
Net monetary gain	1,062	4,112
Foreign exchange differences	**-4,278**	**2,494**

In 2013, foreign exchange losses result mainly from the devaluation of the Belarusian Ruble and the Croatian Kuna. In 2012, foreign exchange losses result mainly from devaluation of the Croatian Kuna.

Other financial result

in TEUR	2013	2012
Dividends received	80	70
Gain on disposal of available-for-sale securities		
transferred from other comprehensive income	5	39
Loss on disposal of available-for-sale securities		
transferred from other comprehensive income	-222	-534
Result from financial assets	**-137**	**-425**

The amounts previously recognised in other comprehensive income (OCI) and subsequently recognised in profit or loss are disclosed in the consolidated statements of comprehensive income. Telekom Austria Group recognises gains and losses relating to financial instruments in the financial result.

(8) Short-term Investments

***in TEUR*, at 31 December**	2013	2012
Marketable securities short-term – available-for-sale	1,739	53,060
Other short-term investments	8,143	32,063
Short-term investments	**9,882**	**85,123**

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 31 December 2013, these comprise mainly fixed and variable interest bonds. As of 31 December 2012, these comprise substantially commercial papers.

As of 31 December 2013, other short-term investments relate to fixed deposits in Belarus. As of 31 December 2012, they contain US Dollar fixed deposits.

(9) Accounts Receivable – Trade

***in TEUR,* at 31 December**	**2013**	**2012**
Accounts receivable – trade, gross	864,772	954,553
Allowances	-180,929	-203,451
Accounts receivable – trade, net	683,843	751,102

At 31 December 2013 and 2012, accounts receivable – trade have a maturity of less than twelve months and are non-interest bearing. Beginning 2013, roaming credits are reported in accounts receivable – trade. Comparative amounts as of 31 December 2012 and 2011 were increased by TEUR 18,356 and TEUR 28,733, respectively (see Note (14)). Beginning 2013, instalment sales receivables are reported in other current financial assets. Comparative amounts as of 31 December 2012 and 2011 were decreased by TEUR 14,110 and TEUR 7,415, respectively.

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

in TEUR	**2013**	**2012**
At 1 January	203,451	197,153
Foreign currency adjustment	-858	-919
Change in reporting entities	814	-162
Reversed	-5,287	-7,906
Charged to expenses	43,272	57,791
Amounts written-off	-58,470	-42,506
Reclassification	-1,992	0
At 31 December	180,929	203,451
Thereof		
Specific allowance	11,156	15,356
General allowance	**169,774**	**188,095**

The reclassification of the allowance relates to the opening balance of the allowance for instalment sales receivables (see Notes (14) and (28)).

The ageing of accounts receivable – trade is as follows:

	Gross	**Allowance**	**Gross**	**Allowance**
in TEUR, at 31 December	2013	2013	2012	2012
Not yet due	600,603	8,509	617,845	11,231
Past due 0-90 days	70,106	12,158	81,200	12,343
Past due 91-180 days	25,839	11,773	30,917	17,687
Past due 181– 360 days	36,289	23,756	44,322	27,578
More than one year	131,935	124,733	180,268	134,612
Total	**864,772**	**180,929**	**954,553**	**203,451**

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. At 31 December 2013 and 2012, there is no allowance for accounts receivable – trade not due amounting to TEUR 239,119 and TEUR 221,222, respectively. As these accounts receivable – trade mainly relate to deferred marketing expenses related to customer loyalty programmes, roaming credits, accruals related to multiple deliverables and access fees invoiced in advance, there is no risk of non-fulfilment.

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 31 December 2013 and 2012, accounts receivable contain receivables sold under civil law to a special purpose entity under the asset backed security programme as described in Note (33) amounting to TEUR 384,103 and TEUR 378,357, respectively. In accordance with IFRS 10 ("Consolidated financial statements" – Relevant activities and direction of relevant activities), the special purpose entity ("SPE") 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 shareholders ÖIAG as well as América Móvil are considered related parties due to their stake in Telekom Austria AG allowing them 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 as well as Rundfunk und Telekom Regulierungs-GmbH ("RTR"), 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 except for the acquisition of licenses at the Austrian spectrum auction (see Note (18)). In 2013 and 2012, services received from the related parties mentioned above mainly relate to postage fees, transportation, commissions and fees to RTR and amount to less than 3.8% and 2.0%, respectively, of the material expense and other operating expense recognised in the segment Austria. In 2013 and 2012, revenues generated by transactions with these related parties were below 3.2% and 2.7%, respectively, of the total revenues in the segment Austria. The services rendered to and received from related parties 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 1 July 2011 of Euro 13.81 per customer per month. The reimbursement for customers having a valid official notice issued after 1 July 2011 amounts to Euro 10.00 per month. The total reimbursement recorded as revenue in the service period was TEUR 20,382 and TEUR 24,834 in 2013 and 2012, respectively.

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

The revenues from and expenses charged to related parties relate to investments in associates and are set forth in the following table:

in TEUR	**2013**	**2012**
Revenues	60	111
Other operating income	13	1
Expenses	**28,436**	**24,337**

In 2013 and 2012, the expenses relate mainly to advertising and marketing services provided by media.at-Group (see Note (15)).

As of 31 December 2013 and 2012, accounts receivable from related parties and accounts payable due to related parties relate primarily to media.at-Group (see Note (15)).

From 28 June 2001 to 29 May 2013, a partner in a law firm which provides legal services to Telekom Austria Group was a member of the Supervisory Board. Up to the resignation in 2013 and in the full year 2012, Telekom Austria Group was charged TEUR 159 and TEUR 1,679, respectively, for legal services provided by this law firm.

All transactions with related parties are carried out at arm's length.

The following table shows the compensation of key management personnel:

in TEUR	2013	2012
Short-term employee benefits	11,807	11,952
Pensions	561	446
Other long-term benefits	124	90
Termination benefits	579	1,036
Share-based payments	-75	28
Compensation of key management	**12,997**	**13,553**

Expenses for pensions and severance for other employees amounted to TEUR 25,053 and TEUR 23,918 in 2013 and 2012, respectively. Expenses consist of voluntary and legal severance expenses, contributions to pension plans and other pension payments.

(11) Inventories

***in TEUR,* at 31 December**	2013	2012
Spare parts, cables and supplies	51,399	79,830
Merchandise	75,818	72,977
Prepayments	56	135
Inventories	**127,273**	**152,942**

As of 31 December 2013 and 2012, the carrying amount of merchandise measured at fair value less cost to sell, amounted to TEUR 31,423 and TEUR 15,125, respectively. In 2013 and 2012, Telekom Austria Group recognised impairment charges related to inventories amounting to TEUR 25,919 and TEUR 24,337. Reversals of impairment charges amounting to TEUR 2,849 and TEUR 11,567 were recognised in 2013 and 2012 and relate to material used for the construction of networks. As of 31 December 2013 and 2012, no inventories were pledged as collateral for liabilities.

(12) Prepaid Expenses

***in TEUR,* at 31 December**	2013	2012
Advances to employees	16,639	16,690
Rent	6,513	7,185
Prepaid marketing expenses	46,475	36,988
Other	32,057	45,829
Prepaid expenses	**101,684**	**106,692**

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

(13) Non-current Assets Held for Sale

***in TEUR* at 31 December**	2013	2012
Land and buildings	962	881
Non-current assets held for sale	**962**	**881**

As of 31 December 2013 and 2012, non-current assets held for sale relate to land and buildings in the segment Austria. In 2013, a loss of TEUR 1,821, and in 2012 a profit of TEUR 365, were recognised from the sale of assets held for sale and are reported in the net result from retirement of fixed assets (see Note (6)).

(14) Other Current Assets

***in TEUR*, at 31 December**	**2013**	**2012**
Derivative financial instruments	0	11,003
Instalment sales	22,667	14,110
Finance lease receivables	19,215	13,721
Other financial assets	6,485	15,586
Other non-financial assets	33,594	37,864
Other current assets, gross	81,960	92,284
Less allowance for financial assets	-5,788	-670
Less allowance for non-financial assets	-2,177	-1,012
Other current assets	**73,995**	**90,602**

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

Instalment sales receivables relate to the instalment sales of mobile handsets and tablets and equal the present value of the revenue. As of 31 December 2013, the instalment sales receivables relate to the segment Belarus and to a lesser extent to Si.mobil in Slovenia. Until 2012, instalment sales receivables were reported in accounts receivable – trade. Comparative amounts as of 31 December 2012 and 2011 were increased by TEUR 14,110 and TEUR 7,415, respectively, and relate only to instalment sales in the segment Belarus (see Note (9)).

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

Until 31 December 2012, roaming credits were reported in other current financial assets. Beginning 2013, roaming credits are reported in accounts receivable – trade. Comparative amounts as of 31 December 2012 and 2011 were thus decreased by TEUR 18,356 and TEUR 28,733, respectively (see Note (9)).

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

The following table sets forth the ageing of derivative financial instruments, finance lease receivables, instalment sales receivables and other current financial assets:

	Gross	**Allowance**	**Gross**	**Allowance**
in TEUR, at 31 December	2013	2013	2012	2012
Not yet due	44,157	3,037	51,793	650
Past due 0-90 days	525	0	813	0
Past due 91-180 days	366	230	322	0
Past due 181-360 days	1,439	938	1,316	0
More than one year	1,880	1,583	175	20
Total	**48,366**	**5,788**	**54,419**	**670**

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

in TEUR	**2013**	**2012**
At 1 January	**670**	**581**
Foreign currency adjustment	-2	-1
Charged to expenses	3,472	90
Amounts written-off	-170	0
Reclassification	1,819	0
At 31 December	**5,788**	**670**

The reclassification of the allowance relates to the opening balance of the allowance for instalment sales receivables (see Note (9)).

(15) Investments in Associates

Investments in associates accounted for using the equity method as of 31 December 2013, are set forth in Note (38).

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

in TEUR	2013	2012
At 1 January	**3,661**	**3,699**
Dividends received	-279	0
Recognised income	1,716	-39
Changes in reporting entities	-119	0
At 31 December	**4,979**	**3,661**

The investment in media.at-Group is included in the investments in associates with the proportionate total consolidated equity of the media.at-group. The difference between the investment and the proportionate equity of media.at-Group as of the acquisition date was recorded as goodwill and included in the carrying amount of the investment.

In April 2013, Telekom Austria Group sold its 25.029% interest in Marx Media Vienna GmbH in the segment Austria resulting in a loss of TEUR 19, which is reported in the result from investments in affiliates.

The following table provides a summary of aggregated financial information of the investments in associates representing the total amounts and not Telekom Austria Group's proportionate share:

Statements of profit or loss *(in TEUR)*	2013	2012
Revenues	126,640	139,426
Operating income	4,845	2,083
Net income	**3,678**	**575**

The financial information of media.at-Group is based on its reporting period 1 July to 30 June.
The financial information for Marx Media Vienna GmbH is no longer included in 2013.

in TEUR	2013	2012
Total assets	36,349	27,036
Total liabilities	32,110	25,444
Total stockholders' equity	**4,238**	**1,593**

Financial information of media.at-Group is included based on 30 June reporting.
As assets and liabilities are substantially short-term, no split between short-term and long-term is provided.

(16) Financial Assets Long-term

***in TEUR*, at 31 December**	2013	2012
Other investments carried at cost	558	554
Other financial assets, long-term	0	2,194
Marketable securities – available-for-sale, long-term	4,690	5,124
Financial assets, long-term	**5,247**	**7,872**

Other investments carried at cost include investments in unquoted equity instruments (investments) and unconsolidated affiliated companies (see Note (38)). These relate mainly to CEESEG AG. As this stake can only be disposed of at the initial indexed purchase price and due to the absence of an active market, this equity instrument is carried at acquisition cost. As of 31 December 2013, Telekom Austria Group has no intentions to dispose of any of the investments it holds.

As of 31 December 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 TEUR	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
At 1 January 2012	**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
At 31 December 2012	**416,101**	**642,691**	**94,450**	**0**	**136,260**	**1,289,501**
Acquisitions	292,110	0	1,139	0	0	293,249
Translation adjustment	0	0	-844	0	-0	-844
At 31 December 2013	**708,211**	**642,691**	**94,744**	**0**	**136,260**	**1,581,906**

For details on the changes in reporting entities (acquisitions), see Note (2).

As of 31 December 2013 and 2012, the accumulated impairment charges on goodwill total TEUR 570,056 and relate mainly to Belarus.

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.

***in TEUR*, at 31 December**	**2013**	**2012**
A1 Telekom Austria	708,211	416,101
Total Austria	708,211	416,101
Mobiltel	642,691	642,691
Total Bulgaria	642,691	642,691
Vipnet	94,744	94,450
Total Croatia	94,744	94,450
Si.mobil	136,260	136,260
Total Additional Markets	136,260	136,260
Total Goodwill	**1,581,906**	**1,289,501**

The following parameters were used to calculate the value in use:

	Growth rates perpetual annuity		**Pre-tax interest rates***	
	2013	**2012**	**2013**	**2012**
Segment Austria	0.0%	0.0%	8.3%	8.7%
Segment Bulgaria	0.0%	0.0%	8.5% – 9.4%	8.9% – 9.5%
Segment Croatia	0.0%	0.0%	9.3% – 11.5%	9.6% – 11.0%
Segment Belarus	0.0%	0.0%	21.4% – 33.0%	20.1% – 32.2%
Segment Additional Markets	0.0%	0.0%	7.6% – 13.6%	6.5% – 13.8%

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

The value in use is set forth in the following table:

in TEUR **at 31 December**	**2013**	**2012**
Segment Austria	4,340	4,239
Segment Bulgaria	1,172	1,546
Segment Croatia	748	793
Segment Belarus	652	504
Segment Additional Markets	1,228	1,239

The value in use was compared with the carrying amount of the cash-generating units (including goodwill). Impairment charges are recognised if the carrying amount of the cash-generating units exceeds the value in use.

Sensitivity analysis

The use of the following pre-tax interest rates would lead to the carrying amount equalling the value in use at 31 December 2013:

	Pre-tax interest rates*
Segment Austria	12.9%
Segment Bulgaria	9.3%– 10.2%
Segment Croatia	21.1% – 23.3%
Segment Belarus	30.9% – 42.5%
Segment Additional Markets	14.3% – 22.2%

* Based on a risk-free interest rate, adjusted for market, country and industry-specific risks.
In the segment Austria, the sensitivity analysis was only carried out for A1 Telekom Austria.

With respect to the substantial markets, the following table sets forth the changes in revenues, cost drivers and capital expenditure which would lead to the carrying amounts equalling the value in use at 31 December 2013:

	Revenues	**Cost**	**Capital expenditures**
Segment Austria	-5.9%	8.3%	36.8%
Segment Bulgaria	-2.5%	4.3%	16.7%
Segment Croatia	-10.8%	15.5%	89.0%
Segment Belarus	-6.1%	9.5%	44.7%

In the segment Austria, the sensitivity analysis was only carried out for A1 Telekom Austria.

(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 31 December 2013 and 2012, the line item software comprises internally developed software with a carrying amount of TEUR 32,910 and TEUR 32,992, acquisition cost of TEUR 144,683 and TEUR 144,921 and the related accumulated amortisation of TEUR 111,773 and TEUR 111,929, respectively. Additions in 2013 and 2012 amounted to TEUR 5,488 and TEUR 4,586, respectively.

In 2013 and 2012, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

In 2013 and 2012, interest capitalised totalled TEUR 84 and TEUR 525, respectively. For details on the interest rate applied, see Note (19).

As of 31 December 2013 and 2012, purchase commitments for intangible assets amounted to TEUR 16,708 and TEUR 28,408, respectively.

Licenses are recorded at cost and amortised on a straight-line basis. 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	1,341,554	294,476	521,757
End of the term	2014-2034	2017-2025	2024-2029

Telekom Austria Group holds mobile telecommunication licenses provided by regulatory authorities in Austria, Croatia, Slovenia, Serbia, Bulgaria, Belarus, Macedonia and Liechtenstein.

On 21 October 2013, A1 Telekom Austria acquired four blocks of the 800 MHz spectrum, three blocks of the 900 MHz spectrum and seven blocks of the 1800 MHz spectrum at the Austrian spectrum auction. By official notice of 19 November 2013, the total consideration was set at TEUR 1,029,896 and is reported in advances/construction in progress.

The 800 MHz spectrum band will be used from 1 January 2014 until 31 December 2029. The 800 MHz spectrum provides an unparalleled position to roll out a leading LTE network across Austria. This fully supports Telekom Austria Group's high value strategy and network quality leadership and allows Telekom Austria Group to protect its fixed-line as well as its mobile customer base, in particular in rural areas.

The blocks in the 900 MHz and the 1800 MHz band were granted until 31 December 2034 for all operators. The blocks in the 900 MHz band serve to protect the existing GSM customer base, while the blocks in the 1800 MHz band provide further network capacity on a long-term basis to be able to offer modern multimedia services in highest quality. The start of the licensing period depends on the requirements stipulated by the official notice, on the current allocation of frequencies and on the other hand on the technical implementation of the intended use, which is subject to evaluation on an annual basis. According to the official notice, the use of the 900 MHz band starts on 1 January 2016 and the use of the 1800 MHz band will start between 1 January 2016 and 1 January 2020.

In October 2013, Vipnet acquired a 2x5 MHz block for a total amount of TEUR 23,110. The license is valid until 18 October 2024. Vipnet has to ensure a coverage of 50% of the territory of Croatia within a period of five years which starts once the national regulatory agency has ratified the spectrum as usable.

On 10 July 2013, Vip operator acquired a 10 MHz paired frequency block (in total 20 MHz) of the 800 MHz spectrum and a 15 MHz paired block (in total 30 MHz) in the 1800 MHz spectrum for a total amount of TEUR 10,300 in Macedonia. The frequency blocks have a term of 20 years. Vip operator has to ensure a coverage of 70% of the population of the Republic of Macedonia within a period of six years beginning with the date the blocks were awarded. The acquisition of the frequency blocks of the 800 MHz spectrum will enable Vip operator to provide LTE services, at the latest by 1 August 2014.

In 2013, Si.mobil prolonged frequencies in the 900 MHz spectrum for a consideration of TEUR 3,519 and acquired 2x10 MHz frequency blocks in the 1800 MHz spectrum for a total consideration of TEUR 886. The licenses are valid until 2016.

In 2013 and 2012, the useful lives of certain items of software in the segment Austria were reduced, which led to an increase in amortisation of TEUR 721 and TEUR 213, respectively.

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

2014	296,758
2015	232,808
2016	206,094
2017	152,265
2018	114,170
Thereafter	1,057,868

The following table presents the changes of the carrying values of brand names by segment:

in TEUR	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
At 1 January 2012	**145,897**	**247,040**	**30,107**	**83,974**	**4,297**	**511,316**
Amortisation	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
At 31 December 2012	**145,897**	**245,706**	**28,996**	**97,422**	**4,305**	**522,327**
Acquisitions	22,950	0	0	0	0	22,950
Amortisation	-3,333	-1,394	-1,026	0	0	-5,753
Translation adjustment	0	0	-256	0	-19	-275
Hyperinflation adjustment	0	0	0	967	0	967
At 31 December 2013	**165,514**	**244,312**	**27,714**	**98,389**	**4,286**	**540,215**

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

Brand names classified as intangible assets with indefinite useful lives are tested for impairment in the fourth quarter of each year in accordance with IAS 36, as described in Note (1). If an event or circumstance indicates that an asset may be impaired, impairment tests are carried out. Due to the fact that brand names do not generate cash inflows that are largely independent of those from other assets, the value in use can be determined only for the asset's cash generating unit. The second step according to IAS 36.107 is to determine whether an impairment loss should be recognised based on the total cash generating unit.

As Telekom Austria Group does not intend to use the brand name "ONE" acquired in the segment Austria in 2013 (see Note (2)), it is amortised on a straight-line basis over a period of 1.5 years. Furthermore, the brand names acquired in the segments Bulgaria and Croatia in 2011 will only be used for a specific period of time and are thus amortised on a straight-line basis. The useful life in Croatia is five years. In 2012, the useful life in Bulgaria was reduced from six to 3.4 years.

Brand names were allocated to the following cash-generating units:

***in TEUR*, at 31 December**	**2013**	**2012**
A1 Telekom Austria	144,910	144,910
Cable Runner	491	491
Paybox Bank	496	496
YESSS!	12,950	0
ONE	6,667	0
Total Austria	**165,514**	**145,897**
Mobiltel	243,704	243,704
Megalan	249	846
Spectrum Net	194	659
Orbitel	165	496
Total Bulgaria	**244,312**	**245,706**
Vipnet	25,079	25,308
B.net	2,635	3,688
Total Croatia	**27,714**	**28,996**
velcom	98,389	97,422
Total Belarus	**98,389**	**97,422**
mobilkom liechtenstein	1,138	1,157
Si.mobil	3,148	3,148
Total Additional Markets	**4,286**	**4,305**
Total Brand Names	**540,215**	**522,327**

(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 2013 and 2012, borrowing cost capitalised totalled TEUR 1,617 and TEUR 1,520, respectively. Calculation of capitalised borrowing cost was based on an interest rate of 4.3% and 4.4% for the years 2013 and 2012, respectively.

As of 31 December 2013 and 2012, the carrying amount of land amounted to TEUR 55,141 and TEUR 55,368, respectively.

In 2013 and 2012, Telekom Austria Group reduced the estimated useful lives of certain technical equipment in the segments Austria and Bulgaria due to the rapid technological progress. The changes resulted in an increase in depreciation of TEUR 2,540 and TEUR 2,990 in 2013 and 2012, respectively.

Government grants totalling TEUR 432 and TEUR 3,792 were deducted from acquisition cost in 2013 and 2012, respectively.

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

As of 31 December 2013 and 2012, no property, plant and equipment is pledged as collateral.

As of 31 December 2013 and 2012, purchase commitments for property, plant and equipment amount to TEUR 55,522 and TEUR 71,581, respectively.

Sensitivity analysis

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. A change in the useful lives by one year would lead to the following changes in depreciation and amortisation.

in TEUR	
Decrease due to extension by one year	193,097
Increase due to reduction by one year	257,577

(20) Other Non-current Assets

***in TEUR*, at 31 December**	**2013**	**2012**
Finance lease receivables	9,763	8,424
Instalment sales	6,546	3,109
Other financial assets	3,055	2,881
Other non-financial assets	7,137	16,548
Other non-current assets, gross	**26,502**	**30,962**
Less allowance for financial assets	-1,258	-195
Other non-current assets	**25,243**	**30,767**

For information on finance lease receivables and instalment sales receivables, see Notes (26) and (14). Other non-financial assets mainly include prepayments for maintenance agreements, license fees and rent.

The following table sets forth the ageing and the development of the allowance of long-term finance lease receivables, long-term instalment sales receivables and other non-current financial assets:

	Gross	**Allowance**	**Gross**	**Allowance**
***in TEUR*, at 31 December**	**2013**	**2013**	**2012**	**2012**
Not yet due	18,783	677	14,414	195
More than one year	581	581	0	0
Total	**19,365**	**1,258**	**14,414**	**195**

in TEUR	2013	2012
At 1 January	**195**	**131**
Charged to expenses	890	64
Reclassification	173	0
At 31 December	**1,258**	**195**

In 2012, the allowance of long-term instalment sales receivables was reported in the allowance of accounts receivable – trade. In 2013, the opening balance of this allowance was reclassified to long-term instalment sales receivables (see Note (9)).

(21) Short-term Borrowings

***in TEUR,* at 31 December**	**2013**	**2012**
Current portion of long-term debt	136,551	939,027
Accrued interest	93,720	103,511
Current liabilities to financial institutions	14	6,840
Current portion of lease obligations	0	45
Short-term borrowings	**230,284**	**1,049,424**

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)). Average interest rates relating to short-term borrowings as well as further funding sources are listed in Note (33), for lease obligations, see Note (26).

(22) Provisions and Accrued Liabilities

in TEUR	Restructuring	Employees	Customer allowances	Asset retirement obligation	Legal	Other	Total
At 1 January 2013	**837,743**	**84,175**	**52,465**	**190,160**	**14,709**	**45,683**	**1,224,935**
Additions	141,679	47,170	31,838	4,620	3,886	27,458	256,651
Changes in estimate	-30,038	0	0	-13,785	0	0	-43,823
Used	-85,940	-41,999	-35,021	-575	-385	-23,630	-187,549
Released	-78,245	-8,372	-7,219	-689	-592	-4,021	-99,139
Accretion expense	21,440	0	0	7,839	0	0	29,280
Reclassifications*	-4,603	8,214	0	0	86	-227	3,470
Translation adjustment	0	-109	0	-1,491	-15	-5	-1,621
Changes in reporting entities	0	94	0	283	0	144	521
At 31 December 2013	**802,036**	**89,173**	**42,063**	**186,362**	**17,689**	**45,401**	**1,182,724**
Thereof long-term							
31 December 2013	**694,993**	**0**	**0**	**186,362**	**0**	**0**	**881,355**
31 December 2012	732,986	0	0	190,160	0	0	923,146

* Reclassification to current 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 utilised 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

In 2008, a comprehensive restructuring programme was initiated in the segment Austria. The provision for restructuring includes future compensation of employees, who will no longer provide services for Telekom Austria Group but who cannot be laid off due to their status as civil servants. These employment contracts are onerous contracts under IAS 37, as the unavoidable cost related to the contractual obligation exceeds the future economic benefit. The restructuring programme also includes social plans for employees whose employments will be terminated in a socially responsible way. In 2009, 2011, 2012 and 2013, new social plans were initiated which provide for early retirement, special severance packages and golden handshake options. Due to their nature of post-employment benefits, these social plans are accounted for according to IAS 19. At 31 December 2013 and 2012, the corresponding liability amounts to TEUR 775,474 and TEUR 795,057 and includes 1,725 and 1,540 employees, respectively. The expense recognised 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 released since a number of employees returned to regular operations, were transferred to the government or 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 2012. The changes in estimate are due to the adjustment of the employee turnover rate from 16% in 2012 to 27% in 2013. The employee turnover rate takes into consideration employees leaving in the future as well as temporary re-employment within Telekom Austria Group and is only applicable to the provision for employees permanently leaving the service process and not to provisions for social plans.

Furthermore, restructuring includes agreements from previous years concluded 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. 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 30 June 2016 at the latest. The civil servants are compensated for any shortfall in salary or pension payments.

In 2013, a new general agreement for the transfer of personnel, replacing previous agreements, was concluded with the Austrian government. Employees transferring voluntarily to the government can apply for a permanent transfer after a probation period of six months. During this probation period, Telekom Austria Group bears the salary expense. In case of a permanent transfer, Telekom Austria Group has to compensate the government for any excess expense arising due to differing professional classifications of work places. Furthermore, compensation payments have to be effected to civil servants up to the age of 62.

As of 31 December 2013 and 2012, the provision for the transfer of civil servants to the government amounts to TEUR 26,562 and TEUR 42,686 and comprises 330 and 308 employees, respectively. In addition, Telekom Austria Group recognised a liability for employees transferred to the government amounting to TEUR 7,933 and TEUR 14,979 (see Note (23)).

In 2013 and 2012, the estimated rate of compensation equals the rate used for the calculation of employee benefit obligations (see Note (27)). The following table sets forth the interest rates applied.

	2013	**2012**
Employees permanently leaving the service process	3.5%	3.5%
Social plans	2.0%	2.0%
Civil servants transferred to the government	2.0%	2.0%

EBITDA was adjusted for restructuring expenses which comprise expenses of the restructuring programme in 2013 and 2012 amounting to TEUR 39,560 and TEUR 17,462 respectively, and for TEUR 5,625 and TEUR 17,233 resulting from the transfer of civil servants to the government.

Sensitivity analysis

A change of one percentage point in the discount rate respectively in the rate of compensation would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR at 31 December	1 percentage point increase	1 percentage point decrease
Change in discount rate	-39,229	43,187
Change in rate of compensation	37,433	-34,753

Employees

The provisions for employees contain unused vacation days, bonuses 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 on 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 2013, the minimum terms and probable extensions of rental contracts as well as the decommissioning cost for base stations were adjusted to reflect the current situation based on past experience. Furthermore, the estimated decommissioning cost of wooden masts was increased.

In addition, in 2013, the discount rate applied to the calculation of asset retirement obligations was changed from 3.5% to 3.0%. The discount rate used for the calculation is based on the risk-free interest rate of Austrian government bonds with a maturity of 25 years. The inflation rate was changed from 3.0% to 2.5% to reflect current market conditions in the individual countries. The change of these parameters resulted in a decrease of the asset retirement obligation and a corresponding decrease in related tangible assets. In the segment Belarus, the inflation rate of 15% and the discount rate of 21% remain unchanged compared to the previous year.

Sensitivity analysis

A change of one percentage point in the discount rate or in the inflation rate would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR, at 31 December	1 percentage point increase	1 percentage point decrease
Change in discount rate	-18,771	21,929
Change in inflation rate	22,620	-19,578

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) Accounts Payable – Trade and Other Current Liabilities

At 31 December 2013 and 2012, accounts payable – trade amounting to TEUR 779 and TEUR 568, respectively, have a maturity of more than twelve months. These accounts payable relate mainly to financial retentions.

Beginning 2013, roaming credits are reported in accounts payable – trade. Accordingly, comparative amounts as of 31 December 2012 and 2011 were increased by TEUR 23,638 and TEUR 41,848, respectively.

Other current liabilities consist of the following items:

in TEUR, at 31 December	**2013**	**2012**
Fiscal authorities	61,544	63,331
Social security	9,475	8,383
Employees	18,877	17,141
Long-term incentive program	709	1,381
Employees – transferred to government	7,933	14,979
Prepayments from customers	7,784	6,595
Government	213	186
Other non-financial liabilities	4,394	2,227
Other current non-financial liabilities	**110,928**	**114,221**
Other current financial liabilities	26,170	57,233
Other current liabilities	**137,098**	**171,454**

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 due 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 salaries, 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 2013 and 2012, other current financial liabilities include substantially cash deposits received and liabilities arising from customer deposits as well as in 2012, the interest-bearing purchase price liability relating to the acquisition of SBT in 2007 (see Note (2)). Starting 2013, roaming credits are reported in accounts payable – trade. As of 31 December 2012 and 2011, other current financial liabilities were decreased correspondingly by TEUR 23,638 and TEUR 41,848.

(24) Deferred Income

***in TEUR,* at 31 December**	**2013**	**2012**
Unearned income	119,340	125,064
Customer loyalty programmes	39,794	38,646
Deferred income, current portion	**159,134**	**163,710**

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 recognised over the period the service is provided.

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

(25) Long-term Debt

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

		At 31 December 2013				At 31 December 2012			
Currency	Maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds									
TEUR				0	0	fixed	5.000%	750,000	756,118
TEUR	2017	fixed	4.250%	500,000	498,030	fixed	4.250%	500,000	497,390
TEUR	2016	fixed	6.375%	750,000	747,635	fixed	6.375%	750,000	746,497
TEUR	2022	fixed	4.000%	750,000	740,455		4.000%	750,000	739,295
TEUR	2023	fixed	3.500%	300,000	297,585			0	0
TEUR	2021	fixed	3.125%	750,000	741,746			0	0
Total Bonds				**3,050,000**	**3,025,452**			**2,750,000**	**2,739,300**
Bank debt									
TEUR	2013-2019	fixed	4.88%	31,958	31,958	fixed	4.88%	37,284	37,284
TEUR						fixed	3.72%	96,250	96,250
TEUR						fixed	4.01%	78,750	78,750
TEUR	2014-2019	fixed	4.32%	168,000	168,000	fixed	4.32%	168,000	168,000
TEUR	2014	variable	0.76%	75,000	75,000	variable	0.99%	75,000	75,000
TEUR	2015	fixed	3.51%	200,000	200,000	fixed	3.51%	200,000	200,000
TEUR	2016	fixed	5.41%	50,000	50,000	fixed	5.41%	50,000	50,000
TEUR	2013-2017	fixed	4.22%	23,843	23,843	fixed	4.22%	26,425	26,425
TEUR	2018	fixed	3.44%	200,000	200,000	fixed	3.44%	200,000	200,000
TEUR	2014-2020	variable	1.05%	100,000	100,000	variable	1.24%	100,000	100,000
Total bank debt				**848,801**	**848,801**			**1,031,710**	**1,031,710**
Leases (Note (26))				**0**	**0**			**45**	**45**
Financial debt				3,898,801	3,874,253			3,781,755	3,771,055
Current portion of long-term debt				-136,551	-136,551			-939,072	-939,072
Long-term debt				**3,762,250**	**3,737,702**			**2,842,683**	**2,831,983**

Bonds

In 2003, Telekom Austria Group initiated a Euro Medium Term Note ("EMTN") Program. The Eurobond amounting to TEUR 750,000 which was issued in July 2003 under this program was redeemed in 2013. In January 2005, a further Eurobond with a face value of TEUR 500,000, a maturity of twelve years and a coupon of 4.25% was issued. The discount of TEUR 7,693 is amortised over the related terms. The EMTN Program ended on 31 December 2008, and was not extended.

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

In March 2012, Telekom Austria Group initiated a Euro Medium Term Note ("EMTN") Program with a maximum volume of TEUR 2,500,000. On 2 April 2012, Telekom Austria Group issued a bond under the EMTN Program with a face value of TEUR 750,000, a maturity of ten years and a coupon of 4.0%. The discount and the issue costs of TEUR 11,575 are amortised over the related term.

On 4 July 2013, Telekom Austria Group issued a bond under the EMTN Program with a face value of TEUR 300,000, a maturity of ten years and a coupon of 3.5%. Discount and issue costs of TEUR 2,574 are amortised over the related term.

On 3 December 2013, Telekom Austria Group issued a bond under the EMTN Program with a face value of TEUR 750,000, a maturity of eight years and a coupon of 3.125%. Discount and issue costs of TEUR 8,336 are amortised over the related term.

(26) Leases

Lessee

Telekom Austria Group leases equipment used in its operations. The leases are classified either as operating or finance leases. The operating lease contracts will expire on various dates through 2025 and mainly comprise leases of property and vehicles. As of 31 December 2013, there are no finance lease contracts.

Future minimum lease payments for non-cancellable operating lease contracts as of 31 December 2013 are:

	Operating leases
2014	47,393
2015	33,702
2016	24,081
2017	10,670
2018	8,465
after 2018	20,352
Total minimum lease payments	**144,664**

Lessor

Telekom Austria Group receives minimum lease payments for non-cancellable operating lease contracts that mainly relate to private automatic branch exchange equipment (PABX) and set-top boxes. These payments are recognised as revenue on a straight-line basis over the terms of the contracts. As of 31 December 2013 and 2012, the cost of this equipment amounted to TEUR 41,204 and TEUR 51,002, and the carrying amount to TEUR 11,470 and TEUR 9,541, respectively. The future minimum lease payments as of 31 December 2013 are as follows:

	Operating leases
2014	5,690
2015	3,483
2016	2,247
2017	1,550
2018	1,034
after 2018	561
Total minimum lease payments	**14,565**

In Bulgaria, Telekom Austria Group leases mobile handsets to customers under finance lease contracts. Furthermore, indefeasible rights of use in dark fibre are leased under finance lease contracts, which have a term until 2033. As of 31 December 2013, the future minimum lease payments for these transactions amount to:

	Finance lease
2014	19,898
2015	7,275
2016	321
2017	311
2018	302
after 2018	3,214
Total minimum lease payments	**31,320**
Less amount representing interest	-2,342
Present value of finance lease receivables	**28,978**
Less current portion	-19,215
Non-current finance lease receivables	**9,763**

The allowance for doubtful finance lease receivables (see Notes (14) and (20)) is as follows:

***in TEUR*, at 31 December**	**2013**	**2012**
Allowance finance lease receivables, long-term	333	195
Allowance finance lease receivables, short-term	939	501
Allowance at the end of the year	**1,272**	**697**

(27) Employee Benefit Obligations

***in TEUR*, at 31 December**	**2013**	**2012**
Service awards	64,373	66,128
Severance	92,934	88,935
Pensions	6,138	6,559
Other	887	20
Long-term employee benefit obligations	**164,332**	**161,642**

Actuarial assumptions

The actuarial assumptions used to measure the obligations for service awards, severance payments and pensions are as follows:

	2013	**2012**
Discount rate	3.5%	3.5%
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%	5.0%
Rate of increase of pensions	1.6%	1.6%
Employee turnover rate*	0.0%-5.1%	0.0%-3.3%

* Depending on years of service.

As last year, the determination of the discount rate is based on the Mercer Yield Curve Approach taking into account the respective maturities.

Life expectancy in Austria is based on "AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler". The obligation relating to the international subsidiaries was measured by applying the Austrian life expectancy due to their insignificant amount.

Service awards

Civil servants and certain employees (together "employees") 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 the employee turnover rate.

The following table provides the components and a reconciliation of the changes in the provisions for service awards:

in TEUR	2013	2012
At 1 January	**71,825**	**66,351**
Service cost	2,731	2,329
Interest cost	2,444	2,903
Actuarial gain/loss based on experience adjustment	-1,159	17
Actuarial gain/loss from changes in demographic assumptions	93	-121
Actuarial gain/loss from changes in financial assumptions	0	4,792
Recognised in profit or loss	**4,109**	**9,921**
Benefits paid	-5,280	-4,447
Foreign currency adjustments	-2	0
Other	**-5,282**	**-4,447**
Obligation at 31 December	**70,652**	**71,825**
Less short-term portion	-6,280	-5,698
Non-current obligation	**64,373**	**66,128**

Of the defined benefit obligations for service awards, less than 1% relate to foreign subsidiaries as of 31 December 2013 and 2012, respectively.

As of 31 December 2013 and 2012, the weighted average duration of the obligation for service awards amounted to 7.1 and 7.5 years, respectively.

Severance

Obligations for employees starting to work for Telekom Austria Group in Austria on or after 1 January 2003 are covered by a defined contribution plan. Telekom Austria Group paid TEUR 1,776 and TEUR 1,661 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2013 and 2012, respectively.

Severance benefit obligations for employees hired before 1 January 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 instalments 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 a detailed reconciliation of the changes in severance benefit obligations:

in TEUR	2013	2012
At 1 January	**90,740**	**69,521**
Service cost	5,230	4,233
Interest cost	3,138	3,079
Curtailment loss/settlement	0	-113
Recognised in profit or loss	**8,368**	**7,199**
Actuarial gain/loss based on experience adjustment	-533	510
Actuarial gain/loss from changes in demographic assumptions	-1,263	108
Actuarial gain/loss from changes in financial assumptions	415	14,516
Recognised in other comprehensive income	**-1,381**	**15,134**
Benefits paid	-3,561	-1,105
Change in reporting entities	7	-4
Foreign currency adjustments	-3	-5
Other	**-3,557**	**-1,113**
Obligation at 31 December	**94,170**	**90,740**
Less short-term portion	-1,236	-1,804
Non-current obligation	**92,934**	**88,935**

Approximately 3% of the defined benefit obligations for severance relate to foreign subsidiaries as of 31 December 2013 and 2012.

As of 31 December 2013 and 2012, the weighted average duration of the severance benefit obligations was 16.3 and 17.3 years, respectively.

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 2013 and 2012, 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 TEUR 43,221 and TEUR 39,358 in 2013 and 2012, 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 TEUR 12,911 and TEUR 13,211 in 2013 and 2012, 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 1 January 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 following table provides a detailed reconciliation of the changes in pension benefit obligations:

in TEUR	**2013**	**2012**
At 1 January	**7,296**	**7,120**
Interest cost	242	302
Recognised in profit or loss	**242**	**302**
Actuarial gain/loss based on experience adjustment	15	84
Actuarial gain/loss from changes in financial assumptions	0	557
Recognised in other comprehensive income	**15**	**641**
Benefits paid	-717	-767
Obligation at 31 December	**6,836**	**7,296**
Less short-term portion	-697	-737
Non-current obligation	**6,138**	**6,559**

As of 31 December 2013 and 2012, the weighted average duration of the pension benefit obligations was 8.1 and 8.0 years, respectively.

Sensitivity analysis

The following table summarises the provisions recorded:

***in TEUR* at 31 December**	**2013**
Service awards	70,652
Severance	94,170
Pensions	6,836

A change in the discount rate of half a percentage point would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR at 31 December	0.5 percentage points decrease	0.5 percentage points increase
Service awards	2,677	-2,404
Severance	8,125	-7,321
Pensions	294	-272

A change in the rate of compensation of one percentage point would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR at 31 December	1 percentage point decrease	1 percentage point increase
Service awards	-4,681	5,255
Severance	-14,109	16,998
Pensions	-509	586

A change in the employee turnover rate of half a percentage point would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR at 31 December	0.5 percentage points decrease	0.5 percentage points increase
Service awards	149	-2,542
Severance	944	-3,857

No employee turnover rate is applied to the calculation of the provision for pensions as all eligible employees are already retired.

(28) Other Non-current Liabilities and Deferred Income

in TEUR, at 31 December	2013	2012
Cash flow hedges	0	64,612
Other liabilities	942	1,394
Other non-current financial liabilities	**942**	**66,006**
Long-term incentive program	1,083	1,643
Deferred income, other	14,416	16,366
Other non-current non-financial liabilities	**15,499**	**18,008**
Other non-current liabilities and deferred income	**16,441**	**84,014**

The cash flow hedges as of 31 December 2012 related to three forward-starting-interest rate-swap contracts (pre-hedges) which were settled in 2013 (see Note (33)). As of 31 December 2013, other non-current financial liabilities consist mainly of cash deposits received.

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, hybrid capital, retained earnings, available-for-sale reserve, hedging reserve and translation reserve.

Telekom Austria Group actively manages its capital structure to ensure going concern of all its subsidiaries while maximising the return to shareholders through the optimisation of the equity and liability structures of its entities. To the extent feasible, appropriate measures are taken to reduce exchange rate risks arising from subsidiaries outside the Euro zone

Maintaining its investment grade rating is the number one priority of Telekom Austria Group's finance strategy. Following the downgrade from Baa1 (outlook negative) to Baa2 (outlook stable) by Moody's and from BBB (outlook stable) to BBB-(outlook stable) by S&P in October 2013, Telekom Austria Group aims to regain its BBB rating by S&P via deleveraging in the medium-term. This will allow Telekom Austria Group to obtain the financial flexibility required for strategically important projects. A transparent dividend policy ensures the balance between shareholder remuneration and the utilisation of cash to redeem outstanding debt.

Safeguarding its strong capital base is key to Telekom Austria Group in order to maintain investor, creditor and market confidence as well as to provide sustainable support to the future operational 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.

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 31 December 2013 and 2012, the common stock of Telekom Austria AG amounts to TEUR 966,183, and is divided into 443 million bearer shares with no par value. As of 31 December 2013, ÖIAG holds a stake of 28.42%, América Móvil S.A.B. de C.V., Mexico ("América Móvil") directly and indirectly holds 23.67%, 0.1% of the shares are held as treasury shares and the remaining shares are free floated. As of 31 December 2012, ÖIAG held a stake of 28.42%, América Móvil S.A.B. de C.V., Mexico ("América Móvil") directly and indirectly held 22.76%, 0.1% of the shares were held as treasury shares and the remaining shares were free floated.

The numbers of authorised, issued and outstanding shares and shares in treasury are presented below:

At 31 December	**2013**	**2012**
Shares authorised..	443,000,000	443,000,000
Shares issued	443,000,000	443,000,000
Shares in treasury	-415,159	-436,031
Shares outstanding..	442,584,841	442,563,969

In 2013, the transfer of 20,872 treasury shares to a board member led to an increase in shares outstanding. In 2012, 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 29 May 2013, the shareholders approved a dividend distribution of Euro 0.05 per share. The overall payment on 5 June 2013 amounted to TEUR 22,128. At the Annual General Meeting held on 23 May 2012, the shareholders approved a dividend distribution of Euro 0.38 per share. The overall payment on 30 May 2012 amounted to TEUR 168,174.

In 2013, net income of Telekom Austria AG according to Austrian GAAP amounts to TEUR 64,618, while in 2012 the net loss amounted to TEUR 134,591. In accordance with section 104 paragraph 4 of the Austrian Stock Corporation Act, the Supervisory Board and the Management Board decided to allocate an amount of TEUR 42,500 to reserves reported in retained earnings for the years ended 31 December 2013, as of 31 December 2012, an amount of TEUR 156,000 was released from reserves reported in retained earnings. These transfers resulted in unappropriated retained earnings of TEUR 22,247 and TEUR 22,257 as of 31 December 2013 and 2012, respectively. The Management Board and Supervisory Board plan to propose to the shareholders at the Annual General Meeting to distribute a dividend of Euro 0.05 per share from unappropriated retained earnings.

Treasury shares

At the Annual General Meeting of Telekom Austria AG held on 29 May 2013, the Management Board was authorised to acquire treasury shares for a period of 18 months until November 2014 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 to:

(a) use these treasury shares to settle obligations under the share-based compensation plans described in Note (31) and/or to transfer them for or without a consideration to employees, managers and members of the Management Board/management of Telekom Austria AG and of its affiliated companies;

(b) use them as consideration for acquisitions, or

(c) sell treasury shares at any time via the stock exchange or by public offer for a period of five years from the day of the resolution in any manner permitted by law, also other than via the stock exchange, whereby the Management Board is entitled to exclude the general purchase opportunity.

Shares held in treasury as of 31 December	**2013**	**2012**
Number of treasury shares	415,159	436,031
Average price per share in Euro	18.80	18.80
Deduction in equity (in TEUR)	7,803	8,196

Additional paid-in capital

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

Hybrid capital

On 24 January 2013, Telekom Austria Group issued a hybrid bond with a volume of TEUR 600,000. The hybrid bond is a subordinated bond with indefinite maturity which is, based on its conditions, classified as stockholders' equity according to IFRS. Accordingly, related discount and issue cost in the amount of TEUR 11,752 were recorded net of a tax benefit of TEUR 2,938 in stockholders' equity. Therefore stockholders' equity was increased by TEUR 591,186. The bond can be redeemed at the earliest after a period of five years. Additionally, Telekom Austria AG has an early termination right subject to certain conditions. The annual coupon amounts to 5.625% until the first reset date, 1 February 2018. Subsequently there will be a reset date every five years. The coupon is established two days prior to the respective reset dates. Coupon payments will be recognised as dividend payments in stockholders' equity.

In the local financial statements, coupon payments are recognised as interest expense in profit or loss according to Austrian GAAP. While the tax benefit resulting from the accrued interest is recognised in profit or loss according to local GAAP, it is recognised in stockholders' equity as "distribution of dividend" in the consolidated financial statements according to IAS 12. The net result attributable to hybrid capital holders is presented in the consolidated statements of profit or loss and equals accrued interest according to local GAAP amounting to TEUR 30,971, net of the relating tax benefit of TEUR 7,698, which is recognised in stockholders' equity.

Earnings per share

Basic and diluted earnings per share for the years ended 31 December 2013 and 2012 are calculated as follows:

	2013	**2012**
Net result attributable to owners of the parent (in TEUR)	86,547	103,869
Weighted average number of common shares outstanding	442,570,851	442,563,969
Basic and diluted earnings per share (in Euro)	**0.20**	**0.23**

According to IAS 33.12, the after-tax dividend on the hybrid capital is deducted from the net result attributable to owners of the parent, since the hybrid capital represents equity but does not constitute net result attributable to owners of the parent.

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred in 2013 and 2012.

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 statements of comprehensive income and consolidated statements 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 31 December 2013 and 2012 relating to the consolidation of Vip mobile amounts to TEUR 132,739 and TEUR 130,389, 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 TEUR 302,063 as of 1 January 2011 remains unchanged.

(30) Income Taxes

Income tax expense (benefit) attributable to income before income taxes consists of the following:

in TEUR	2013	2012
Current income tax	50,604	43,504
Deferred income tax	29,817	96,813
Income taxes	**80,421**	**140,316**

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

in TEUR	2013	2012
Continuing operations	80,421	140,394
Other comprehensive income	1,343	-10,580
Tax benefit relating to hybrid capital*	-10,636	0
Total income taxes	**71,128**	**129,814**

* see Note (29)

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

in TEUR	2013	2012
Income tax expense (benefit) at statutory rate	47,530	61,024
Foreign tax rate differential	-19,492	-13,879
Tax-non-deductible expenses	6,192	6,358
Tax incentives and tax-exempted income	-4,803	-19,682
Tax-free income (loss) from investments	-444	-222
Change in tax rate	-2	-3,094
Tax expense previous years	6,322	5,896
Deferred tax assets not recognised	21,123	78,575
Result from changes in reporting entities	-1,141	0
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	26,791	26,039
Other	-1,654	-698
Income taxes	**80,421**	**140,316**
Effective income tax rate	42.30%	57.48%

In 2013 and 2012, non-deductible expenses mainly consist of withholding taxes on dividends and representation expenses. Tax incentives and tax-exempted income in 2013 and 2012 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 2013, the effect of the change in tax rates resulted from the reduction in the corporate income tax rate in Slovakia. The aggregated corporate income tax rate will be reduced from 23% to 22% at the beginning of 2014. 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.

The tax expense for prior periods recognised in 2013 and 2012 results mainly from the application of financial reporting in hyperinflationary economies in accordance with IAS 29 in Belarus.

The result of changes in reporting entities relates to the gain resulting from a bargain purchases and to the loss from the sale of a subsidiary as described in Note (2).

Impairments (reversals of impairments) of investments relate to write-downs and reversals of write-downs of investments in associates in Austria, which are recognised 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 31 December are set out below:

***in TEUR* at 31 December**	**2013**	**2012**
Deferred tax assets		
Deferred deduction for impairments of investments in subsidiaries ..	75,801	135,129
Loss carry-forwards...	47,567	9,006
Accounts receivable – trade	8,962	11,560
Deferred income and other liabilities	665	16,837
Other current assets and prepaid expenses	1,378	1,798
Provisions, long-term	57,887	56,021
Employee benefit obligations..	19,808	19,761
Property, plant and equipment...	1,708	1,876
Other..	8,931	2,797
Deferred tax assets	**222,707**	**254,785**
Deferred tax liabilities..		
Goodwill..	-9,689	-9,689
Property, plant and equipment...	-25,969	-27,872
Other intangible assets...	-160,871	-157,486
Provisions..	-3,838	-2,305
Write down of treasury shares for tax purposes	-1,380	-1,423
Other..	-3,218	-4,103
Deferred tax liabilities..	**-204,964**	**-202,879**

***in TEUR* at 31 December**	**2013**	**2012**
Deferred tax assets	123,006	167,083
Deferred tax liabilities...	-105,264	-115,176
Deferred taxes, net..	**17,743**	**51,907**

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 the tax group is a taxable entity.

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 31 December 2013 and 2012, Telekom Austria Group did not recognise deferred tax assets amounting to TEUR 507,123 and TEUR 525,734, respectively. In 2013 and 2012, the unrecognised deferred tax assets relate to net operating loss carry-forwards of TEUR 393,163 and TEUR 365,625 and to temporary differences related to impairments of investments in consolidated subsidiaries of TEUR 113,960 and TEUR 160,109, respectively, because realisation 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 realised. The realisation 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 realise the benefits of the deferred tax assets recognised in the statements of financial position.

At 31 December 2013, Telekom Austria Group had TEUR 2,073,114 of operating loss carry-forwards. The following loss carry-forwards mainly relating to Serbia will expire in the following years:

Year	**in TEUR**
2014	429
2015	86,291
2016	2,051
2017	78,718
2018	100,715
2019	91,957
Total	**360,161**

The remaining net operating loss carry-forwards mainly relate 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 31 December 2013 and 2012, Telekom Austria Group did not recognise a deferred tax liability for temporary differences related to investments in associates in the amount of TEUR 1,578 and TEUR 159, respectively.

Income tax receivable relates to tax returns not yet assessed. As of 31 December 2013 and 2012, income tax receivable mainly relates to Austrian and Croatian subsidiaries. As of 31 December 2013 and 2012, income tax payable mainly relates to foreign subsidiaries.

(31) Share-based Compensation

Long Term Incentive (LTI) Program

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

On 1 September 2010 the first tranche (LTI 2010), on 1 June 2011 the second tranche (LTI 2011) and on 1 August 2012 the third tranche (LTI 2012) were granted. Free cash flow, total shareholder return and EBITDA were defined as key performance indicators. The target values for these key indicators were determined by the Supervisory Board at the beginning of each tranche. 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. For LTI 2010, the actual performance and the bonus shares allocated are summarised in the subsequent table.

On 1 September 2013, the fourth tranche (LTI 2013) was granted. Net income, relative total shareholder return and EBITDA were defined as key performance indicators. The relative total shareholder return is determined based on a balanced peer group of nine European telecommunications providers. The target values for these key indicators were determined by the Supervisory Board. 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 double 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.

The following table summarises the significant terms and conditions for each tranche

	LTI 2013	**LTI 2012**	**LTI 2011**	**LTI 2010**
Start of the programme	1 January 2013	1 January 2012	1 January 2011	1 January 2010
Grant date	1 September 2013	1 August 2012	1 June 2011	1 September 2010
End of vesting period	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Vesting date	1 September 2016	1 August 2015	1 June 2014	1 September 2013
Personal investment (at grant date)	343,738	510,986	527,094	472,770
Thereof Management Board	73,977	59,674	51,348	51,348
Personal investment (at reporting date)*	333,203	460,400	443,786	433,726
Expected performance**	72.60%	17.80%	25.60%	41.10%
Expected bonus shares***	454,154	78,038	113,609	0
Maximum bonus shares***	1,166,209	805,701	776,625	0
Fair value of programme (in TEUR)	2,400	421	682	0
Allocated bonus shares	0	0	0	178,262
Average stock price at end of vesting period (in EUR)	0	0	0	5.25
Share-based compensation (in TEUR)	0	0	0	936

* for LTI 2010 personal investment at the end of the vesting period
** for LTI 2010 actual performance at the end of the vesting period
*** taking into account the allocation of bonus shares equal to the double personal investment for LTI 2013

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 recognised. 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 recognised over the vesting period (see Note (28)). The following personnel expense is recognised in the consolidated statements of profit or loss (negative values indicate income):

in TEUR	**2013**	**2012**
LTI 2010	-549	-689
LTI 2011	-370	134
LTI 2012	-260	569
LTI 2013	801	0

Sensitivity analysis

A change of one Euro in the average stock price expected at the end of the vesting period would result in the following changes in fair values (negative values indicate a reduction):

in TEUR at 31 December	1 EUR increase	1 EUR decrease
Fair value of LTI 2013	454	-454
Fair value of LTI 2012	78	-78

A change of five percentage points in the EBITDA applied would result in the following changes of fair values (negative values indicate a reduction):

in TEUR at 31 December	5 percentage points increase	5 percentage points decrease
Fair value of LTI 2013	331	-212
Fair value of LTI 2012	73	-36

(32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

in TEUR	2013	2012
Cash paid for		
Interest	227,745	164,303
Income taxes	46,093	31,612
Cash received for		
Interest	8,178	12,458

Cash flows relating to interest and income taxes are reported in the cash flow from operating activities. The dividends received in 2013 and 2012 (see Note (7)) had already been settled in cash as of 31 December.

In 2013 and 2012, the item "Other", which is part of the reconciliation of net result to gross cash flow, amounted to TEUR 14,615 and TEUR 7,286 respectively. In 2013, it mainly consists of bad debt expenses for other receivables (see Notes (14) and (20)) and interest resulting from the settlement of the pre-hedge (see Note (33)). In 2012, it mainly consisted of non-cash changes in provisions (see Note (22)).

In 2013, cash and cash equivalents acquired totalled TEUR 14,855, and cash and cash equivalents of TEUR 110 were disposed of due to the sale of subsidiaries (see Note (2)). 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.

(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. Potential risks relating to interest rate and foreign exchange rate fluctuations can be limited by entering into derivative financial instruments. These policies are laid down in the Treasury Guidelines. Telekom Austria Group neither holds nor issues 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.

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

Liquidity risk

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

The analysis of the dynamic liquidity risk is conducted by means of liquidity planning. The given monthly liquidity requirement based on the forecasted liquidity planning is compared 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.

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. 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 recognised 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, realising 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 bonds issued on Austrian and international debt capital markets as well as 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 programme (multi-currency notes) with a maximum volume of TEUR 300,000 in 2007. The programme was concluded for an indefinite period. As of 31 December 2013 and 2012, no multi-currency notes were issued, thus no relating current liabilities were recognised.

In August 2012, Telekom Austria Group entered into a revolving period securitisation of trade receivables with a maximum amount of TEUR 225,000 ("Asset Backed Securitisation (ABS) Program"). As of 31 December 2013 and 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 programme see Note (9). In accordance with IFRS 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 2013 and 2012, liquidity fees amounting to TEUR 1,679 and TEUR 606, respectively, were recognised in interest expense.

As of 31 December 2013 and 2012, Telekom Austria Group had total credit lines (including ABS) of TEUR 1,060,000 and TEUR 1,060,000, respectively. These credit lines were not utilised. The credit line commitments will expire between August 2014 and July 2018.

Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of the non-derivative financial liabilities and the derivative financial instruments with positive and negative fair value. The variable interest payments related to the financial instruments were calculated based on interest rates effective as of 31 December 2013 and 2012. 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 31 December 2013						
Financial liabilities						
Bonds	3,840,807	99,063	34,002	133,304	1,531,691	2,042,748
Bank debt	940,821	60,444	103,466	294,009	402,654	80,247
Accounts payable – trade	573,836	573,050	7	63	191	525
Other financial liabilities	69,198	49,704	9,242	5,612	3,443	1,198
At 31 December 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

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 remained unchanged to prior years.

Interest rate risk

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

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

Exposure to interest rate risk

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

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

The risks related to current liabilities are set out below:

***in TEUR* at 31 December**	**2013**	**2012**
Variable rate carrying amount	14	6,840
Average interest rate in %*	n.a.	20.49%

* 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 one percentage point 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) is set forth in the following table (negative amounts represent decreases in financial liabilities):

		Change in financial portfolio	
***in TEUR* at 31 December**	**Capital amounts**	**Increase**	**Decrease**
2013			
Fixed rate financial liabilities	3,723,801		
Sensitivity at 4.969%...		-185,036	185,036
2012			
Fixed rate financial liabilities	3,606,710		
Sensitivity at 4.217%...		-152,095	152,095

Cash flow sensitivity analysis for variable-rate financial instruments

A change of one percentage point 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 amounts presented refer to the variable portion of the total debt portfolio (negative amounts represent positive effects on the consolidated statements of profit or loss):

in TEUR **at 31 December**	**Capital amounts**	**1 percentage point increase**	**1 percentage point decrease**
2013			
Variable rate financial liabilities	175,014		
Sensitivity		**1,750**	**-1,750**
2012			
Variable rate financial liabilities	181,840		
EMTN bond with interest rate swap (variable leg)	300,000		
Sensitivity		**4,818**	**-4,818**

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.

As of 31 December 2013, there are no interest rate swap contracts. The following table indicates the types of swaps in use at 31 December 2012, and their weighted average interest rates and the weighted average maturity of the interest rate swap contracts. The "average pay rate" represents the weighted average interest rate at 31 December 2012. 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 31 December 2012. 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:

	2013	**2012**
Fixed-to-variable swaps in EUR (fair value hedge)		
Notional amount in TEUR	0	300,000
Average receive rate	0	5.00%
Average pay rate	0	2.02%
Average maturity in years	0	0.59
Variable-to-fixed swaps in EUR (cash flow hedge)		
Notional amount in TEUR	0	300,000
Average pay rate	0	3.97%
Average maturity in years	0	11.02

In 2012, the interest rate swap transactions resulted in a change in effective interest rates for hedged transactions of 2.98 percentage points.

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 had entered into interest rate swaps.

The key conditions of the interest rate swaps and the bonds were identical. Changes in the fair value of the derivative hedging instrument had 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 assumed that all other variables remain constant. The values presented refer to the hedged items and hedging instruments.

Hedge Effectiveness Test Fair Value Hedges

***in TEUR* at 31 December**	**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

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.

The three forward-starting interest rate swap contracts (pre-hedges) with a face value of TEUR 100,000 each, which were concluded to hedge the interest rate risk of future interest payments, were settled on 28 May 2013 as agreed upon. An amount of TEUR 65,142 was paid to the contractual partners. Settlement cost of TEUR 978 was recorded in interest expense when incurred (see Note (7)). In 2012 and 2013, no ineffectiveness was recognised.

On 28 May 2013, the fair value of these pre-hedges, which was reported in stockholders' equity, amounted to TEUR 64,164. The relating hedging reserve will be released in profit or loss in accordance with the recognition of interest expense on the bond, which was issued on 4 July 2013, as the interest rate risk on that bond was hedged. In 2013, the release of the hedging reserve resulted in interest expense amounting to TEUR 3,208 and tax benefit amounting to TEUR 802. At 31 December 2012, the negative fair value of the hedge amounted to TEUR 64,612. In 2012, the change in fair value of the hedging instrument resulted in a loss of TEUR 23,112, in 2013, in a gain of TEUR 336 which was recognised in other comprehensive income (OCI).

Exchange rate risk

As of 31 December 2012, the remaining purchase price liability from the acquisition of SBT in 2007 (see Note (2)) amounted to TUSD 38,211. 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 31 December 2013 and 2012, 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 (for foreign exchange rates, see Note (1)):

	2013			**2012**		
***in TEUR*, at 31 December**	**EUR**	**USD**	**Other**	**EUR**	**USD**	**Other**
Accounts receivable – trade	24,428	1,081	20,311	14,580	4,369	16,384
Accounts payable – trade	41,199	8,310	9,988	33,335	12,521	6,710

A change of 5% in the exchange rate of EUR to HRK would have increased (decreased) foreign exchange rate differences by TEUR 1,628 and EUR 2,510 in 2013 and 2012, respectively. A change of 10% in the exchange rate of EUR to RSD would have increased (decreased) foreign exchange rate differences by TEUR 796 and TEUR 11 in 2013 and 2012, 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

As of 31 December 2013 and 2012, hedge accounting was not applied to foreign exchange agreements.

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 remained 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 analysed 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.

Financial 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 and qualitative parameters. As Telekom Austria Group's investments are generally of a short-term nature, it does not expect any counterparties to fail to meet their obligations. Therefore, the exposure to any significant credit risk is low.

Guarantees

As of 31 December 2013 and 2012, 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 was:

***in TEUR,* at 31 December**	**2013**	**2012**
Available-for-sale financial assets	14,571	92,440
Financial investments valued at cost	558	554
Loans and receivables	60,743	61,218
Cash and cash equivalents	201,334	600,763
Hedging instruments (fair value hedges)	0	11,003
Carrying amount of financial assets	**277,206**	**765,978**

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

***in TEUR,* at 31 December**	**2013**	**2012**
Domestic	755,873	884,035
Foreign	108,899	66,272
Allowances	-180,929	-203,451
Accounts receivable – trade	**683,843**	**746,856**

Accounts receivable – trade from Telekom Austria Group's most significant customer amount to TEUR 2,979 and TEUR 2,011 as of 31 December 2013 and 2012, 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).

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:

	2013		**2012**	
***in TEUR,* at 31 December**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents	**201,334**	**201,334**	**600,763**	**600,763**
Accounts receivable – trade	683,843	683,843	751,102	751,102
Receivables due from related parties	58	58	7	7
Other current financial assets	42,578	42,578	42,747	42,747
Other non-current financial assets	18,106	18,106	14,219	14,219
Loans and receivables	**744,585**	**744,585**	**808,075**	**808,075**
Long-term investments	4,690	4,690	7,317	7,317
Short-term investments	9,882	9,882	85,123	85,123
Available-for-sale investments	**14,571**	**14,571**	**92,440**	**92,440**
Investments at cost	558	558	554	554
Hedging instruments (fair value hedges)	0	0	11,003	11,003
Financial assets carried at fair value	**0**	**0**	**11,003**	**11,003**

Cash and cash equivalents, accounts receivable – trade and other current financial assets have maturities lower than one year. As their carrying amounts reported approximate their fair values, no further information on the classification in the fair value hierarchy is provided.

The fair values of other non-current financial assets with a maturity of 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 and are thus classified as Level 2 of the fair value hierarchy.

The fair values of held-to-maturity investments and of available-for-sale investments are based on quoted market prices.

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. For information on the stake in CEESEG AG, see Note (16).

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

	2013		2012	
***in TEUR*, at 31 December**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Current liabilities to financial institutions	14	14	6,840	6,840
Bonds	3,025,452	3,206,764	2,432,820	2,679,937
Other current financial liabilities	68,233	68,233	109,698	109,698
Non-current liabilities to financial institutions	848,801	911,356	1,031,710	1,127,312
Lease obligations	0	0	45	45
Other non-current financial liabilities	942	942	1,394	1,394
Accounts payable – trade	573,836	573,836	590,783	590,783
Payables due from related parties	5,891	5,891	7,775	7,775
Accrued interest	93,720	93,720	103,511	103,511
Financial liabilities at amortised cost	**4,616,890**	**4,860,757**	**4,284,577**	**4,627,295**
Bonds – hedged item	**0**	**0**	**306,480**	**307,097**
Hedging instruments (cash flow hedges)	0	0	64,612	64,612
Financial liabilities carried at fair value	**0**	**0**	**64,612**	**64,612**

Accounts payable – trade and other payables, as well as other liabilities, have maturities lower than one year. As their carrying amounts approximate their fair values, no further information on the classification in the fair value hierarchy is provided.

The fair values of the quoted bonds (EMTN bonds and Eurobonds) equal the face value multiplied by the price quotations at the reporting date and are thus classified as Level 1 of the fair value hierarchy.

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 and are thus classified as Level 2 of the fair value hierarchy.

Fair value hierarchy of financial instruments

The following table shows the fair value hierarchy (per class of financial instrument) of financial instruments measured at fair value that reflects the significance of the inputs in such fair value measurements:

	Level 1	Level 2	Level 3	Total
At 31 December 2013				
Available-for-sale & other investments	6,429	8,143	0	14,571
Financial assets measured at fair value	**6,429**	**8,143**	**0**	**14,571**
At 31 December 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**

Bonds representing hedged items are reported in Level 2 as the market value adjustment in connection with the hedged risk (interest rate) was determined by applying discounted cash flows based on market data (interest curve). As the carrying amount only takes into account the market value adjustment in connection with the interest rate risk it differs from the fair value based on stock exchange quotations.

(34) Commitments and Contingent Assets and Liabilities

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

In 2011, Si.mobil filed a law suit against Telekom Slovenia for the abuse of its monopoly position. Internationally recognised experts in the field of competition regulation estimated that the damage in case up to the reporting date amounts to approximately TEUR 248,485.

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 31 December 2013. These matters could materially affect the operating results or cash flows of any quarter when resolved in future periods. However, Management believes that after final settlement, any monetary liability or financial impact on Telekom Austria Group, beyond such provided for at year-end, would not be material to its consolidated financial statements.

(35) Remuneration paid to the Management and Supervisory Board

The following table summarises the remuneration of members of the Management Board and Supervisory Board:

in TEUR	**2013**	**2012**
Basic remuneration (fixed salary incl. remuneration in kind)	1,118	959
Variable remuneration	1,349	780
Share-based compensation (Long Term Incentive Program)*	111	0
Total	**2,578**	**1,739**
Remuneration Supervisory Board	220	192

* For LTI 2010, see Note (31).

The increase in the salaries of the Management Board members is due to the extension of the Management Board by the new Chief Technology Officer since 1 September 2013.

As of 31 December 2013 and 2012, the Management Board of Telekom Austria Group is composed of Hannes Ametsreiter as Chief Executive Officer (CEO), Hans Tschuden as Chief Financial Officer (CFO) and additionally, since 1 September 2013, Günther Ottendorfer as Chief Technology Officer (CTO).

(36) Employees

The average number of employees during the years 2013 and 2012 was 16,347 and 16,863, respectively. As of 31 December 2013 and 2012, Telekom Austria Group employed 16,045 and 16,446 employees (full-time equivalents).

(37) Subsequent Events

On 16 January 2014, América Móvil, S.A.B. de C.V. concluded a conditional contract with Inmobiliaria Carso, S.A. de C.V. and Control Empresarial de Capitales, S.A. de C.V. for the acquisition of 13,901,000 shares of Telekom Austria TA AG, which represent 3.14% of share capital.

(38) Affiliated Companies

Name and company domicile	Share in capital as of 31 December 2013 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
mk Logistik GmbH, Vienna	100.00	FC
JetStream Hungary Kft, Budapest	100.00	FC
JetStream Slovakia s.r.o., Bratislava	100.00	FC
JetStream RO s.r.l., Bucharest	100.00	FC
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00	FC
JetStream Switzerland GmbH, Zurich	100.00	FC
JetStream Poland Spolka Z Ograniczona Odpowiedzialnoscia, 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
JetStream BH d.o.o.drustvo za telekomunikacije, Sarajevo	100.00	FC
Homer Receivables Purchasing Company Limited, Dublin (Special Purpose Entity)		FC
media.at GmbH, Vienna	25.3228	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
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

Name and company domicile	Share in capital as of 31 December 2013 in %	Method of consolidation*
mobilkom liechtenstein AG, Vaduz	100.00	FC
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00	FC
TA Mreža d.o.o., 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
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 31 December 2013, all affiliated companies in which Telekom Austria Group holds more than a 20% interest are included in the consolidated financial statements.

All affiliated companies have 31 December as their reporting date except for media.at-Group which has 30 June as its reporting date.

(39) Release for Publication

On 13 February 2014, 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.

Vienna, 13 February 2014

Hannes Ametsreiter   Hans Tschuden   Günther Ottendorfer

Auditor's Report on Consolidated Financial Statements (Translation)

We have audited the accompanying consolidated financial statements of Telekom Austria AG, Vienna, for the fiscal year from January 1, 2013 to December 31, 2013. These consolidated financial statements comprise the consolidated statements of profit or loss the consolidated statements of comprehensive income, the consolidated statements of financial position as of December 31, 2013, the consolidated statements of cash flows, the consolidated statements of changes in stockholders equity for the fiscal year ended December 31, 2013, 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 the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 245a UGB. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; 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 Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) 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 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 reasonable 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 December 31, 2013 and of its financial performance and its cash flows for the fiscal year from January 1, 2013 to December 31, 2013 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Telekom Austria Group Annual Financial Report 2013

Comments 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, February 13, 2014

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Nikolaus Schaffer	Mag. Maximilian Schreyvogl
Wirtschaftsprüfer	Wirtschaftsprüfer

The report is a translation from the original auditor's report in German, which is solely valid. The consolidated financial statements may only be published or duplicated together with our auditors' report in the version audited by us. This auditors' report only relates to the complete consolidated financial statements in German, including the consolidated management report. Section 281(2) of the Austrian Commercial Code (UGB) applies to versions differing from the version audited by us.

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.

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

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

Notes		December 31, 2012	December 31, 2011
(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.

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**

Notes		2012	2011
	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.

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

	Common stock Par value	Treasury shares at cost	Additional paid-in capital	Retained earnings	Available-for-sale reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
Balance at January 1, 2011	**966,183**	**-8,196**	**582,896**	**346,341**	**-335**	**-7,363**	**-405,146**	**1,474,379**	**2,546**	**1,476,925**
Net result	**0**	**0**	**0**	**-251,972**	**0**	**0**	**0**	**-251,972**	**-834**	**-252,806**
Other comprehensive income (loss)										
Net unrealized result on securities	0	0	0	0	-483	0	0	-483	0	-483
Net realized result on securities	0	0	0	0	14	0	0	14	0	14
Net unrealized result on hedging activities	0	0	0	0	0	-20,524	0	-20,524	0	-20,524
Foreign currency translation adjustment	0	0	0	0	0	0	-5,096	-5,096	0	-5,096
Other comprehensive income (loss)	**0**	**0**	**0**	**0**	**-470**	**-20,524**	**-5,096**	**-26,090**	**0**	**-26,090**
Total comprehensive income	**0**	**0**	**0**	**-251,972**	**-470**	**-20,524**	**-5,096**	**-278,062**	**-834**	**-278,896**
Distribution of dividends	0	0	0	-331,923	0	0	0	-331,923	0	-331,923
Hyperinflation adjustment	0	0	0	17,783	0	0	0	17,783	0	17,783
Acquisition of non-controlling interests	0	0	0	0	0	0	0	0	-777	-777
Balance at December 31, 2011	**966,183**	**-8,196**	**582,896**	**-219,772**	**-805**	**-27,887**	**-410,243**	**882,177**	**934**	**883,111**
Net result	**0**	**0**	**0**	**103,637**	**0**	**0**	**0**	**103,637**	**142**	**103,779**
Other comprehensive income (loss)										
Net unrealized result on securities	0	0	0	0	240	0	0	240	0	240
Net realized result on securities	0	0	0	0	373	0	0	373	0	373
Net unrealized result on hedging activities	0	0	0	0	0	-20,572	0	-20,572	0	-20,572
Foreign currency translation adjustment	0	0	0	0	0	0	-27,819	-27,819	0	-27,819
Other comprehensive income (loss)	**0**	**0**	**0**	**0**	**613**	**-20,572**	**-27,819**	**-47,778**	**0**	**-47,778**
Total comprehensive income	**0**	**0**	**0**	**103,637**	**613**	**-20,572**	**-27,819**	**55,858**	**142**	**56,001**
Distribution of dividends	0	0	0	-168,174	0	0	0	-168,174	-24	-168,198
Hyperinflation adjustment	0	0	0	65,233	0	0	0	65,233	0	65,233
Balance at December 31, 2012	**966,183**	**-8,196**	**582,896**	**-219,076**	**-191**	**-48,459**	**-438,062**	**835,094**	**1,052**	**836,146**

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

TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements

Consolidated Segment Reporting

2012	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
External revenues	2,763,741	448,316	405,380	301,174	411,093	0	0	4,329,703
Intersegmental revenues	23,394	20,752	15,005	61	15,510	0	-74,721	0
Total revenues	**2,787,134**	**469,068**	**420,385**	**301,235**	**426,603**	**0**	**-74,721**	**4,329,703**
Other operating income	90,067	7,181	1,997	4,339	7,766	23,512	-52,776	82,086
Segment expenses	-1,974,343	-268,828	-285,784	-181,203	-317,087	-56,717	127,611	-2,956,350
EBITDA comparable	**902,859**	**207,421**	**136,598**	**124,370**	**117,282**	**-33,205**	**114**	**1,455,439**
Restructuring	-34,685	0	0	0	0	0	0	-34,685
Impairment and reversal of impairment	0	0	0	0	0	0	0	0
EBITDA incl. effects from restructuring and impairment tests	**868,174**	**207,421**	**136,598**	**124,370**	**117,282**	**-33,205**	**114**	**1,420,754**
Depreciation and amortization	-554,526	-152,200	-67,167	-94,905	-100,278	0	5,104	-963,972
Operating income	**313,648**	**55,221**	**69,431**	**29,465**	**17,004**	**-33,205**	**5,217**	**456,783**
Interest income	4,554	1,172	1,846	3,801	630	34,810	-29,876	16,937
Interest expense	-61,692	-6,358	-6,922	-2,264	-1,039	-184,370	29,972	-232,674
Equity in earnings of affiliates	981	0	0	0	0	0	0	981
Other financial income	-938	-110	-1,207	5,055	-271	376,093	-376,553	2,069
Earnings before income taxes	**256,552**	**49,925**	**63,148**	**36,056**	**16,325**	**193,328**	**-371,240**	**244,095**
Income taxes								-140,316
Net result								**103,779**
Segment assets	3,915,941	1,326,843	532,911	598,204	805,513	7,221,944	-7,149,815	7,251,541
Segment liabilities	-2,161,119	-197,529	-331,851	-52,909	-179,440	-4,660,879	1,168,333	-6,415,394
Capex other intangible assets	94,634	20,514	27,758	15,544	19,329	0	-241	177,537
Capex property, plant and equipment	353,605	48,335	51,061	28,189	69,495	0	0	550,686
Total capital expenditures	448,238	68,849	78,819	43,733	88,824	0	-241	728,223
Cost to acquire property, plant, equipment and intangible assets	510,184	70,557	79,288	43,962	91,298	0	-241	795,048
Other non-cash items	109,365	7,703	5,284	-3,801	5,804	1,834	0	126,189

2011	**Austria**	**Bulgaria**	**Croatia**	**Belarus**	**Additional Markets**	**Corporate & Other**	**Eliminations**	**Consolidated**
External revenues	2,919,434	500,021	403,046	260,774	371,351	0	0	4,454,626
Intersegmental revenues	22,630	27,670	17,685	99	25,004	0	-93,089	0
Total revenues	**2,942,064**	**527,692**	**420,731**	**260,873**	**396,355**	**0**	**-93,089**	**4,454,626**
Other operating income	95,825	19,069	2,770	5,252	6,219	20,790	-49,545	100,379
Segment expenses	-2,065,304	-284,865	-288,982	-159,546	-312,171	-59,172	142,379	-3,027,662
EBITDA comparable	**972,584**	**261,896**	**134,519**	**106,580**	**90,403**	**-38,383**	**-255**	**1,527,343**
Restructuring	-233,703	0	0	0	0	0	0	-233,703
Impairment and reversal of impairment	0	-19,300	0	-278,985	49,379	0	0	-248,906
EBITDA incl. effects from restructuring and impairment tests	**738,881**	**242,596**	**134,519**	**-172,405**	**139,782**	**-38,383**	**-255**	**1,044,735**
Depreciation and amortization	-609,175	-200,343	-66,576	-82,782	-96,351	0	2,851	-1,052,376
Operating income	**129,706**	**42,253**	**67,943**	**-255,188**	**43,431**	**-38,383**	**2,596**	**-7,641**
Interest income	10,661	2,465	1,242	4,129	2,004	30,678	-34,237	16,942
Interest expense	-57,056	-7,515	-4,063	-3,024	-987	-178,832	34,703	-216,773
Equity in earnings of affiliates	1,089	0	0	0	0	0	0	1,089
Other financial income	-5,195	-46	-1,909	-7,886	93	481,709	-514,842	-48,077
Earnings before income taxes	**79,205**	**37,157**	**63,212**	**-261,968**	**44,541**	**295,173**	**-511,779**	**-254,460**
Income taxes								1,654
Net result								**-252,806**
Segment assets	4,308,424	1,513,857	516,776	560,105	834,065	7,693,395	-7,977,817	7,448,804
Segment liabilities	-2,737,458	-270,628	-264,837	-88,855	-165,517	-5,147,829	2,109,430	-6,565,693
Capex other intangible assets	101,701	19,723	5,030	3,347	16,365	0	0	146,166
Capex property, plant and equipment	383,371	50,788	45,506	41,603	71,545	0	0	592,813
Total capital expenditures	485,073	70,511	50,536	44,950	87,910	0	0	738,979
Cost to acquire property, plant, equipment and intangible assets	489,439	71,111	51,171	48,268	88,805	0	0	748,794
Other non-cash items	260,049	48,300	7,283	276,402	-44,335	33,144	0	580,843

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

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".

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.

(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.

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).

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.

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.

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:

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)).

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).

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).

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)).

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)).

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**

(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**

(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**

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)).

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.

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.

(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.

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**

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).

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.

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).

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 totalled 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.

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**

(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
dditions	55,982	39,369	38,245	2,815	3,323	5,669	24,004	169,407
hanges in estimate	61,440	0	0	55,680	0	0	0	117,120
Jsed	-88,197	-38,905	-30,448	-1,769	-1,521	-3,996	-7,192	-172,028
eleased	-90,195	-9,284	-4,695	-285	-4,169	-15,253	-3,910	-127,792
ccretion expense	36,271	0	0	8,357	0	0	0	44,628
eclassifications*	-12,839	8,239	0	0	0	0	0	-4,600
ranslation 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**
hereof long-term								
ecember 31, 2012	732,986	0	0	190,160	0	0	0	923,146
ecember 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

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)).

(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

		At December 31, 2012				At December 31, 2011			
Currency	Maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
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**

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.

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.

(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.

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

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

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.

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.

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%

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

At December 31,	**2012**	**2011**
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**

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.

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

	LTI 2012	LTI 2011	LTI 2010
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 totalled 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).

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

	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 years
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.

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

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.

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.

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

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).

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:

	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
At December 31,	**2012**		**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.

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 2012	Fair value 2012	Carrying amount 2011	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.

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.

(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 early termination 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.

(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

Name and company domicile	Share in capital as of December 31, 2012 in %	Method of consolidation*
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
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

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)

CONSOLIDATED FINANCIAL STATEMENTS 2011

TELEKOM AUSTRIA AG – Consolidated Statements of Operations

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

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

TELEKOM AUSTRIA AG – Consolidated Statement of Comprehensive Income

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

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

TELEKOM AUSTRIA AG – Consolidated Statement of Financial Position

Notes		December 31, 2011	December 31, 2010
	ASSETS		
	Current assets		
	Cash and cash equivalents	459,952	120,196
(8)	Short-term investments	165,972	127,555
(9)	Accounts receivable – trade, net of allowances	708,297	772,236
(10)	Receivables due from related parties	85	82
(11)	Inventories	157,706	150,238
(12)	Prepaid expenses	130,334	128,358
(30)	Income tax receivable	40,633	40,718
(13)	Non-current assets held for sale	134	0
(14)	Other current assets	88,333	98,324
	TOTAL CURRENT ASSETS	**1,751,446**	**1,437,707**
	Non-current assets		
(15)	Investments in associates	3,699	4,298
(16)	Financial assets long-term	13,897	90,374
(17)	Goodwill	1,289,714	1,489,219
(18)	Other intangible assets, net	1,619,339	1,718,085
(19)	Property, plant and equipment, net	2,462,174	2,548,970
(20)	Other non-current assets	34,521	31,199
(30)	Deferred tax assets	273,908	235,841
(10)	Receivables due from related parties, long-term finance	106	127
	TOTAL NON-CURRENT ASSETS	**5,697,359**	**6,118,113**
	TOTAL ASSETS	**7,448,804**	**7,555,820**
	LIABILITIES AND STOCKHOLDERS' EQUITY		
	Current liabilities		
(21)	Short-term borrowings	-1,014,185	-506,653
	Accounts payable – trade	-642,177	-678,705
(22)	Current provisions and accrued liabilities	-311,573	-258,014
(10)	Payables due to related parties	-9,816	-13,057
(30)	Income tax payable	-41,259	-41,720
(23)	Other current liabilities	-226,490	-221,851
(24)	Deferred income	-166,517	-162,966
	TOTAL CURRENT LIABILITIES	**-2,412,018**	**-1,882,965**
	Non-current liabilities		
(25)	Long-term debt	-2,934,929	-3,077,240
(26)	Lease obligations and Cross Border Lease	-124	-13,879
(27)	Employee benefit obligations	-128,976	-131,576
(22)	Non-current provisions	-888,208	-761,771
(30)	Deferred tax liabilities	-127,260	-125,402
(28)	Other non-current liabilities and deferred income	-74,178	-86,063
	TOTAL NON-CURRENT LIABILITIES	**-4,153,675**	**-4,195,929**
	Stockholders' equity		
(29)	Common stock	-966,183	-966,183
(29)	Treasury shares	8,196	8,196
(29)	Additional paid-in capital	-582,896	-582,896
(29)	Retained earnings	219,772	-346,341
(29)	Available-for-sale reserve	805	335
(29)	Hedging reserve	27,887	7,363
(29)	Translation adjustments	410,243	405,146

Notes		December 31, 2011	December 31, 2010
	Equity attributable to equity holders of the parent	**-882,177**	**-1,474,379**
	Non-controlling interests	-934	-2,546
	TOTAL STOCKHOLDERS' EQUITY	**-883,111**	**-1,476,925**
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**-7,448,804**	**-7,555,820**

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

TELEKOM AUSTRIA AG – Consolidated Statement of Cash Flows

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

Notes		2011	2010
	Change in cash and cash equivalents	**339,756**	**-609,858**
	Cash and cash equivalents at beginning of the year............	120,196	730,054
	Cash and cash equivalents at end of the year......................	459,952	120,196

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

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

	Common stock Par value	Treasury shares at cost	Additional paid-in capital	Retained earnings	Available-for-sale reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
Balance at January 1, 2010	**966,183**	**-8,196**	**582,896**	**482,913**	**-637**	**-14,883**	**-396,854**	**1,611,423**	**2,723**	**1,614,146**
Net result	**0**	**0**	**0**	**195,350**	**0**	**0**	**0**	**195,350**	**-177**	**195,173**
Other comprehensive income (loss)										
Net unrealized result on securities	0	0	0	0	272	0	0	272	0	272
Net realized result on securities	0	0	0	0	29	0	0	29	0	29
Net unrealized result on hedging activities	0	0	0	0	0	7,520	0	7,520	0	7,520
Foreign currency translation adjustment	0	0	0	0	0	0	-8,293	-8,293	0	-8,293
Other comprehensive income (loss)	**0**	**0**	**0**	**0**	**302**	**7,520**	**-8,293**	**-471**	**0**	**-471**
Total comprehensive income	**0**	**0**	**0**	**195,350**	**302**	**7,520**	**-8,293**	**194,879**	**-177**	**194,702**
Distribution of dividends	0	0	0	-331,923	0	0	0	-331,923	0	-331,923
Balance at December 31, 2010	**966,183**	**-8,196**	**582,896**	**346,341**	**-335**	**-7,363**	**-405,146**	**1,474,379**	**2,546**	**1,476,925**
Net result	0	0	0	-251,972	0	0	0	-251,972	-834	-252,806
Other comprehensive income (loss)										
Net unrealized result on securities	0	0	0	0	-483	0	0	-483	0	-483
Net realized result on securities	0	0	0	0	14	0	0	14	0	14
Net unrealized result on hedging activities	0	0	0	0	0	-20,524	0	-20,524	0	-20,524
Foreign currency translation adjustment	0	0	0	0	0	0	-5,096	-5,096	0	-5,096
Other comprehensive income (loss)	**0**	**0**	**0**	**0**	**-470**	**-20,524**	**-5,096**	**-26,090**	**0**	**-26,090**
Total comprehensive income	**0**	**0**	**0**	**-251,972**	**-470**	**-20,524**	**-5,096**	**-278,062**	**-834**	**-278,896**
Distribution of dividends	0	0	0	-331,923	0	0	0	-331,923	0	-331,923
Hyperinflation adjustment	0	0	0	17,783	0	0	0	17,783	0	17,783
Acquisition of minority interests	0	0	0	0	0	0	0	0	-777	-777
Balance at December 31, 2011	**966,183**	**-8,196**	**582,896**	**-219,772**	**-805**	**-27,887**	**-410,243**	**882,177**	**934**	**883,111**

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

TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements

Consolidated Segment Reporting

2011	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
External revenues	2,919,434	500,021	403,046	260,774	371,351	0	0	4,454,626
Intersegmental revenues	22,630	27,670	17,685	99	25,004	0	-93,089	0
Total revenues	**2,942,064**	**527,692**	**420,731**	**260,873**	**396,355**	**0**	**-93,089**	**4,454,626**
Other operating income	95,825	19,069	2,770	5,252	6,219	20,790	-49,545	100,379
Segment expenses	-2,065,304	-284,865	-288,982	-159,546	-312,171	-59,172	142,379	-3,027,662
EBITDA comparable	**972,584**	**261,896**	**134,519**	**106,580**	**90,403**	**-38,383**	**-255**	**1,527,343**
Restructuring	-233,703	0	0	0	0	0	0	-233,703
Impairment and reversal of impairment	0	-19,300	0	-278,985	49,379	0	0	-248,906
EBITDA incl. effects from restructuring and impairment tests	**738,881**	**242,596**	**134,519**	**-172,405**	**139,782**	**-38,383**	**-255**	**1,044,735**
Depreciation and amortization	-609,175	-200,343	-66,576	-82,782	-96,351	0	2,851	-1,052,376
Operating income	**129,706**	**42,253**	**67,943**	**-255,188**	**43,431**	**-38,383**	**2,596**	**-7,641**
Interest income	10,661	2,465	1,242	4,129	2,004	30,678	-34,237	16,942
Interest expense	-57,056	-7,515	-4,063	-3,024	-987	-178,832	34,703	-216,773
Equity in earnings of affiliates	1,089	0	0	0	0	0	0	1,089
Other financial income	-5,195	-46	-1,909	-7,886	93	481,709	-514,842	-48,077
Earnings before income taxes	**79,205**	**37,157**	**63,212**	**-261,968**	**44,541**	**295,173**	**-511,779**	**-254,460**
Income taxes								1,654
Net result								-252,806
Segment assets	4,308,424	1,513,857	516,776	560,105	834,065	7,693,395	-7,977,817	7,448,804
Segment liabilities	-2,737,458	-270,628	-264,837	-88,855	-165,517	-5,147,829	2,109,430	-6,565,693
Capex other intangible assets	101,701	19,723	5,030	3,347	16,365	0	0	146,166
Capex property, plant and equipment	383,371	50,788	45,506	41,603	71,545	0	0	592,813
Total capital expenditures	485,073	70,511	50,536	44,950	87,910	0	0	738,979
Cost to acquire property, plant and	489,439	71,111	51,171	48,268	88,805	0	0	748,794

2011	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
equipment and intangible assets								
Other non-cash items..........................	260,049	48,300	7,283	276,402	-44,335	33,144	0	580,843

2010	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
External revenues	3,036,976	534,570	432,053	343,460	303,783	0	0	4,650,843
Intersegmental revenues	27,183	29,905	19,870	129	17,273	0	-94,359	0
Total revenues..................................	**3,064,160**	**564,475**	**451,923**	**343,589**	**321,055**	**0**	**-94,359**	**4,650,843**
Other operating income	105,756	5,691	2,144	5,339	4,800	34,895	-69,466	89,161
Segment expenses	-2,137,556	-271,562	-303,565	-193,343	-284,761	-51,908	148,582	-3,094,112
EBITDA comparable	**1,032,360**	**298,604**	**150,503**	**155,585**	**41,094**	**-17,013**	**-15,242**	**1,645,892**
Restructuring	-124,061	0	0	0	0	0	0	-124,061
Impairment and reversal of impairment	-18,342	0	0	0	0	0	0	-18,342
EBITDA incl. effects from restructuring and impairment tests	**889,957**	**298,604**	**150,503**	**155,585**	**41,094**	**-17,013**	**-15,242**	**1,503,489**
Depreciation and amortization	-664,976	-174,497	-67,636	-82,216	-77,191	0	931	-1,065,585
Operating income	**224,981**	**124,107**	**82,867**	**73,369**	**-36,097**	**-17,013**	**-14,311**	**437,903**
Interest income	9,289	1,618	826	907	1,233	31,293	-32,089	13,078
Interest expense	-64,113	-428	-698	-852	-774	-172,317	32,089	-207,093
Equity in earnings of affiliates	-790	0	0	0	0	0	0	-790
Other financial income	107,452	-33	1,201	173	-1,886	979,703	-1,088,069	-1,460
Earnings before income taxes...........	**276,819**	**125,264**	**84,196**	**73,596**	**-37,524**	**821,666**	**-1,102,379**	**241,638**
Income taxes								-46,465
Net result								195,173
Segment assets....................................	4,376,238	1,576,930	486,029	881,162	728,817	7,105,619	-7,598,975	7,555,820
Segment liabilities	-2,653,947	-110,297	-146,802	-107,259	-130,528	-4,494,260	1,564,198	-6,078,895
Capex other intangible assets	133,341	24,119	6,900	8,783	17,441	0	0	190,585
Capex property, plant and equipment..	382,410	42,162	41,430	54,105	52,880	0	0	572,988
Total capital expenditures	515,752	66,281	48,331	62,888	70,321	0	0	763,572

2010	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
Cost to acquire property, plant and equipment and intangible assets	525,579	75,982	48,736	66,609	72,299	0	0	789,207
Other non-cash items	195,143	12,005	9,744	1,958	5,181	17,022	0	241,053

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

Table of Other Intangible Assets

	Licenses	Brand names	Software	Customer base	Advances/ construction in progress	Other	Total
Cost							
Balance at January 1, 2010........	1,048,301	522,215	971,686	1,023,119	86,273	219,929	3,871,523
Additions	13,290	0	93,318	0	70,811	13,166	190,585
Disposals..................................	-13,671	0	-57,199	0	-1,555	-2,649	-75,075
Transfers	3,337	0	80,070	0	-88,978	7,072	1,501
Translation adjustment.............	-23,410	2,468	-894	8,918	-46	-4,792	-17,756
Changes in reporting entities.....	0	496	1,100	1,146	8	0	2,750
Balance at December 31, 2010	**1,027,847**	**525,179**	**1,088,080**	**1,033,183**	**66,512**	**232,726**	**3,973,527**
Hyperinflation adjustment.........	1,860	4,170	46	14,850	-1,865	103	19,164
Additions	9	0	78,198	1,025	58,547	8,388	146,166
Disposals..................................	-131	0	-151,772	-30,277	0	-7,361	-189,541
Transfers	2,892	0	73,294	51	-68,303	5,507	13,441
Translation adjustment.............	1,523	-533	-1,281	-813	23	-23	-1,105
Changes in reporting entities.....	269	9,244	-6,010	64,056	0	-3,261	64,297
Balance at December 31, 2011	**1,034,268**	**538,060**	**1,080,556**	**1,082,075**	**54,914**	**236,077**	**4,025,949**
Accumulated amortization							
Balance at January 1, 2010........	-575,643	-4,800	-621,652	-625,055	0	-144,079	-1,971,229
Additions	-63,411	0	-169,948	-107,282	0	-21,846	-362,488
Impairment...............................	0	0	-3,961	0	0	-2,005	-5,966
Disposals..................................	13,671	0	57,007	0	0	2,467	73,145
Transfers	0	0	-11	0	0	0	-12
Translation adjustment.............	8,643	0	637	-1,822	0	4,491	11,949
Changes in reporting entities.....	0	0	-842	0	0	0	-842
Balance at December 31, 2010	**-616,740**	**-4,800**	**-738,771**	**-734,159**	**0**	**-160,972**	**-2,255,442**
Hyperinflation adjustment.........	-695	0	-1,112	-5,362	0	-143	-7,313
Additions	-51,555	-1,037	-177,247	-113,859	0	-19,529	-363,228
Impairment...............................	0	-19,300	0	0	0	0	-19,300
Reversal of impairment............	49,379	0	0	0	0	0	49,379
Disposals..................................	131	0	151,751	30,277	0	7,134	189,294
Transfers	0	0	-5,643	0	0	-61	-5,704
Translation adjustment.............	-1,605	6	1,223	627	0	31	282
Changes in reporting entities.....	-139	-1,612	7,623	-5,431	0	4,979	5,421
Balance at December 31, 2011	**-621,223**	**-26,744**	**-762,175**	**-827,907**	**0**	**-168,562**	**-2,406,610**
Carrying amount at							
December 31, 2011	413,046	511,316	318,381	254,168	54,914	67,516	1,619,339
December 31, 2010	411,107	520,379	349,309	299,024	66,512	71,754	1,718,085

See accompanying notes to the consolidated financial statements, Note (18).
The use of automated calculation systems may give rise to rounding differences.
Impairments charges and their reversals are disclosed in the consolidated statement of operations in the line "Impairment and reversal of impairment".

Table of Property, Plant and Equipment

	Land, buildings & leasehold improvements	Communications network and other equipment	Finance leases	Advances/construction in progress	Total
Cost					
Balance at January 1, 2010	817,547	10,985,780	1,432	197,187	12,001,946
Additions	10,287	392,429	0	195,906	598,622
Disposals	-5,640	-433,247	0	-2,483	-441,370
Transfers	10,825	156,155	0	-168,481	-1,501
Translation adjustment	-801	-6,464	0	-554	-7,819
Changes in reporting entities	0	28	0	0	28
Balance at December 31, 2010	**832,218**	**11,094,682**	**1,432**	**221,575**	**12,149,906**
Hyperinflation adjustment	-245	1,319	0	-6,343	-5,269
Additions	11,725	414,774	0	176,128	602,628
Disposals	-5,130	-596,522	-1,042	-2,649	-605,343
Transfers	31,433	150,796	0	-195,817	-13,588
Translation adjustment	-1,069	-10,823	0	-309	-12,201
Changes in reporting entities	627	66,666	0	1,424	68,717
Balance at December 31, 2011	**869,559**	**11,120,892**	**390**	**194,008**	**12,184,850**
Accumulated depreciation					
Balance at January 1, 2010	-485,745	-8,840,003	-1,042	0	-9,326,790
Additions	-40,553	-662,397	-147	0	-703,097
Impairment	0	-653	0	0	-653
Disposals	4,648	422,899	0	0	427,547
Transfers	-66	78	0	0	12
Translation adjustment	293	1,772	0	0	2,065
Changes in reporting entities	0	-20	0	0	-20
Balance at December 31, 2010	**-521,423**	**-9,078,325**	**-1,189**	**0**	**-9,600,937**
Hyperinflation adjustment	-10	-8,708	0	0	-8,719
Additions	-38,068	-651,023	-57	0	-689,148
Disposals	4,758	584,723	1,042	0	590,523
Transfers	-40	5,744	0	0	5,704
Translation adjustment	411	10,419	0	0	10,830
Changes in reporting entities	-416	-30,515	0	0	-30,930
Balance at December 31, 2011	**-554,788**	**-9,167,684**	**-204**	**0**	**-9,722,676**
Carrying amount at					
December 31, 2011	314,771	1,953,208	186	194,008	2,462,174
December 31, 2010	310,795	2,016,357	243	221,575	2,548,970

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

(1) The Company and Significant Accounting Policies

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

Telekom Austria AG is incorporated as a joint stock corporation ("Aktiengesellschaft") under the laws of the Republic of Austria and is located in Austria, Lassallestrasse 9, 1020 Vienna. Telekom Austria AG and its subsidiaries ("Telekom Austria Group") are engaged as full service telecommunications providers of long distance, local and wireless services, corporate data communications services as well as internet services and television broadcasting. Telekom Austria Group also supplies telephones and technical equipment for telephone communications. These activities are conducted primarily in Austria, Croatia, Slovenia, Bulgaria, Serbia, Macedonia and Belarus.

The Federal Republic of Austria, through Österreichische Industrieholding AG ("ÖIAG"), is a significant shareholder of Telekom Austria Group. ÖIAG's stake in Telekom Austria Group is disclosed in Note (29).

In addition to the related party transactions described in Note (10), the Federal Republic of Austria authorizes and supervises the Rundfunk und Telekom Regulierungs – GmbH ("RTR"), which regulates certain activities of Telekom Austria Group. In addition, the government holds the taxing authority for the Austrian operations of Telekom Austria Group and imposes taxes such as corporate income tax and value-added taxes on Telekom Austria Group.

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

Basis of presentation

Telekom Austria Group prepared the accompanying consolidated financial statements as of December 31, 2011 in compliance with the provisions of the International Financial Reporting Standards ("IFRS/IAS"), issued by the International Accounting Standards Board ("IASB"), the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") and the interpretation of the Standards Interpretation Committee ("SIC"), effective as of December 31, 2011 and as endorsed by the European Union.

The IASB issued the following amendments to and revisions of existing IFRS as well as new IFRS and IFRIC which have been endorsed by the European Union and therefore, are effective as of January 1, 2011.

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

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

The following standards and interpretations were issued by the IASB, but were not effective for the financial year 2011. Telekom Austria Group has not early adopted these standards and interpretations and is currently evaluating their impact on its consolidated financial statements and disclosures.

		Effective*	**Effective****
IAS 1	Presentation of Financial Statements (amended)	July 1, 2012	not endorsed
IAS 19	Employee Benefits (amended)	January 1, 2013	not endorsed
IAS 27	Separate Financial Statements (amended)	January 1, 2013	not endorsed
IFRS 7	Financial Instruments: Disclosures (amended)	July 1, 2011	July 1, 2011
IFRS 9	Financial Instruments	January 1, 2015	not endorsed
IAS 28	Investments in Associates and Joint Ventures (amended)	January 1, 2013	not endorsed
IAS 32	Financial instruments: Disclosures (amended	January 1, 2014	not endorsed

		Effective*	Effective**
	December 2011)		
IAS 12	Income Taxes (amended)	January 1, 2012	not endorsed
IFRS 1	Regulations for Hyperinflationary Economies	July 1, 2011	not endorsed
IFRS 10	Consolidation	January 1, 2013	not endorsed
IFRS 11	Joint Arrangements	January 1, 2013	not endorsed
IFRS 12	Disclosures of Interests in Other Entities	January 1, 2013	not endorsed
IFRS 13	Fair Value Measurement	January 1, 2013	not endorsed
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013	not endorsed

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

Principles of consolidation

The consolidated financial statements of Telekom Austria Group include 26 (2010: 25) subsidiaries in Austria and 37 (2010: 31) subsidiaries abroad in which Telekom Austria Group, either directly or indirectly, holds the majority of the voting rights or has the power to govern the subsidiaries' financial and operating policies.

According to IFRS 3, business combinations are accounted for using the acquisition method at the acquisition date, which is the date, on which the Group obtains control over the acquiree. Goodwill is measured as the difference between the aggregate of the fair value of the consideration transferred as of the acquisition date, the amount of any non-controlling interest, and in a business combination achieved in stages, the fair value of the acquirer's previously-held equity interest in the acquiree less the fair value of the identifiable assets acquired and the liabilities assumed. Non-controlling interest may be measured at fair value (full-goodwill method). Goodwill is not adjusted for subsequent changes in the estimated purchase price. If the fair value of the assets acquired exceeds the consideration transferred, the resulting gain is recognized in profit and loss. Transaction costs are expensed as incurred. In case of an acquisition achieved in stages, the previously held interest is restated at fair value and any resulting difference is recognized in profit or loss. All transactions with non-controlling interests holders are directly recognized in shareholder's equity.

Investments in companies in which Telekom Austria Group has significant influence, but less than a controlling financial interest, are accounted for using the equity method. In both years reported, the consolidated financial statements include three investments accounted for using the equity method. Under the equity method, only Telekom Austria Group's investments in as well as receivables due from and liabilities due to theses equity investees are included in the consolidated statement of financial position. Telekom Austria Group's share of the investee's earnings is included in the consolidated statements of operations. In the consolidated statement of cash flows only dividends, loans or cash received from or paid to the investee are included.

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

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

Foreign currency translation

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

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

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

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

	Exchange rates at December 31,		Average exchange rates for the period ended December 31,	
	2011	2010	2011	2010
Bulgarian Lev (BGN)..............	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK).............	7.5370	7.3830	7.4387	7.2889
Hungarian Forint (HUF)	314.5800	277.9500	279.3587	275.4534
Serbian Dinar (CSD)...............	104.6409	105.4982	101.9674	103.0016
Swiss Franc (CHF)..................	1.2156	1.2504	1.2330	1.3799
Rumanian Leu (RON).............	4.3233	4.2620	4.2381	4.2121
Turkish Lira (TRY).................	2.4432	2.0694	2.3374	1.9965
Macedonian Denar (MKD)......	61.5050	61.5085	61.5292	61.5181
Belarusian Ruble (BYR)*........	10,800.0000	3,972.6000	10,800.0000	3,951.7641
US Dollar (USD).....................	1.2939	1.3362	1.3921	1.3257

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

Financial reporting in hyperinflationary economies

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

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

Years	Inflation %
2008	13.4
2009	9.8
2010	10.1
2011	108.7

2011 – monthly	Inflation %
January	1.4
February	2.7
March	1.9
April	4.5
May	13.1
June	8.6
July	3.5
August	8.9
September	13.6

2011 – monthly	Inflation %
October	8.2
November	8.1
December	2.3

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

Format of the consolidated statements of operations

In 2010, the format of the consolidated statement of operations was changed. Telekom Austria Group defines EBITDA as net income excluding financial result, income taxes and depreciation and amortization. EBITDA comparable and EBITDA incl. effects from restructuring and impairment tests are used to better evaluate trends in the Company's underlying operations. EBITDA comparable comprises EBITDA adjusted for effects from the restructuring program described in Note (22) and from impairment testing, if any. The restructuring program includes social plans for employees whose employment will be terminated in a socially responsible way, and expenses for the future compensation of civil servants, who will no longer provide services for Telekom Austria Group but who cannot be laid off due to their status as civil servants. Furthermore, expenses for the transfer of civil servants to the Austrian government are adjusted for the purpose of determining EBITDA comparable.

Revenue recognition

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

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

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

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

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

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

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

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

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

Telekom Austria Group has entered into a limited number of agreements with other telecommunication operators outside of Austria whereby Telekom Austria Group has granted contractually agreed access to existing capacity within its physical network in return for similar access to the physical network of the counterparty. Telekom Austria Group does not recognize revenue or liabilities to the counterparty under such agreements apart from the trade revenue arising from subscriber transactions under normal tariff plans as the services transacted under such agreements are equivalent. The benefits and costs of such swap agreements are reflected in Telekom Austria Group's results of operations in the periods in which they are realized through reduced interconnection revenues and expenses, respectively.

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

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

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

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

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

Research and development costs

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

Research and development costs are expensed as incurred and totaled EUR 36,756 and EUR 38,400 for the years ended December 31, 2011 and 2010, respectively, and are classified based on their origination as employee expenses, depreciation and amortization or operating expenses in the consolidated statements of operations.

Interest, royalties and dividends

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

Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income or loss by the weighted average number of common shares outstanding for the year. The Management Board determined to settle all employee stock options granted in the course of the Stock Option Plan 2004, as well as shares granted in the course of the long-term incentive program, in cash. Thus no related dilutive effect has been considered in 2011 and 2010 for current stock option plans.

Cash and cash equivalents

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

Marketable securities and other long-term investments

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

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

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

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

Receivables

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

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

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

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

Inventories

Inventories consist of merchandise sold in retail shops or by retailers and material and spare parts used for the construction and maintenance of networks, mainly for Telekom Austria Group's own use. Inventories are measured at the lower of cost or net realizable value, with cost being determined on the basis of weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling expense. Telekom Austria Group assumes that replacement costs are the best measure of the net realizable value for spare parts and material used for construction and maintenance.

Assets held for sale

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

Goodwill and other intangible assets

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

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

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

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated shall: (a) represent the lowest level within the entity at which goodwill is monitored for internal management purposes; and (b) not be larger than an operating segment. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Telekom Austria Group performs these impairment tests by calculating the value in use. Value in use is determined by estimating the future cash flows of the cash-generating unit based on the business plans, which are prepared for periods of four years and which are based on past performance and management's best estimates about future developments. Significant assumptions to determine the value in use comprise EBITDA, capital expenditure, growth rate and discount rate. The growth rates in the business plans reflect the weighted average growth rates based on market estimates. Estimated cash flows for the subsequent five to nine years are determined taking into consideration the expected market conditions and the individual market positioning of the cash-generating unit. The present value of the perpetual annuity is calculated based on a constant growth rate, which does not exceed the long-term average growth rate for the industries and the countries in which the cash-generating unit operates.

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

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

	Years
Mobile communications and fixed net licenses	1–30
Patents and proprietary rights	1–30
Subscriber base	3–13
Software	1–10
Other	2–30

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

Brand names are classified as intangible assets with indefinite useful life based on an analysis of product life cycles, contractual and legal control of the asset and other pertinent factors. If management intends to discontinue the use of a brand name in the foreseeable future, an impairment test is performed and the excess of the carrying amount over the recoverable amount is recognized as an impairment charge.

The remaining carrying amount is amortized over the remaining estimated useful life.

Internally developed software

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

Property, plant and equipment

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

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

The useful lives are:

	Years
Transmission equipment	5–10
Cables and wires	15–20
Communications equipment	3–10
Furniture, fixtures and other	1–20
Buildings and leasehold improvements	1–50

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

Borrowing costs

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

Government grants

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

Impairment of property, plant and equipment and intangible assets

In the event that facts and circumstances indicate that Telekom Austria Group's property, plant and equipment or intangible assets having an definite useful life, regardless of whether they are to be held and used or to be disposed of, may be impaired, an evaluation of recoverability is performed. In accordance with IAS 36, an impairment loss is recognized when an asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. Fair value is the amount obtainable from the sale of the asset in an arm's length transaction. Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Impairment charges are recorded separately in the consolidated statement of operations.

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

Financial liabilities

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

Other liabilities

Other liabilities are carried at amortized cost.

Provisions

A provision is recorded when an obligation to a third party exists, the payment is probable and the amount can be reasonably estimated.

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

Leases

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

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

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

Employee benefit obligations

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

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

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

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

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

Changes in existing decommissioning, restoration and similar liabilities

In accordance with IAS 16 "Property, Plant and Equipment", the cost of an item of property, plant and equipment includes the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located. The resulting liability is measured in accordance with IAS 37. The effects of changes in the measurement of existing decommission, restoration and similar liabilities is accounted for in accordance with the provisions of IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The provisions require that an increase of the liability that reflects the passage of time shall be recognized in profit and loss. Changes in the measurement of these liabilities resulting from changes in the estimated timing or amount of the outflow of resources or changes in the discount rate shall be added or deducted from the cost of the assets in the current period. The amount deducted from the asset shall not exceed its carrying amount. A possible exceeding amount is reported in the consolidated statement of operations. If the adjustment results in an addition to the asset, it shall be considered whether there is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset shall be tested for impairment and any impairment losses shall be recorded.

Income taxes

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

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

Share-based payments

In accordance with IFRS 2, share-based payments are measured at fair value at the grant date. The expense is recognized over the vesting period. Depending on the settlement of share-based payment transactions either in equity instruments or cash, Telekom Austria Group records an increase in equity or a liability. Due to the Management Board's decision to settle share-based payments granted in the Stock Option Plan 2004 and bonus shares granted in the course of the long-term incentive program in cash, the share-based payments granted are recorded as a liability. Until their settlement in cash, the liabilities are re-measured at their fair value at each reporting date as well as at the settlement date. Changes in the fair value are recorded in profit or loss.

Financial instruments

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

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

For financial liabilities carried at amortized cost, gains or losses are recognized in the consolidated statement of operations when the financial liability is derecognized.

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

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

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

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

Derivative financial instruments

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

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

Fair value of financial instruments

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

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

Concentration of risks

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

As of December 31, 2011 and 2010, Telekom Austria Group does not have any significant concentration of business transacted with a particular supplier or creditor or customers. Furthermore, Telekom Austria

Group does not have any concentration with respect to contractors, other services, franchises or other rights which could, if suddenly eliminated, severely impact operations. Telekom Austria Group invests its cash with various institutions with appropriate credit standings.

Through its expansion into the Central Eastern European (CEE) region, Telekom Austria Group operates in markets that have been experiencing political and economic change. This has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the CEE region involve uncertainties, including transfer, currency and tax uncertainties, which typically do not exist in other markets. The accompanying consolidated financial statements reflect Management's assessment of the impact of the CEE business environment on the operations and the financial position of Telekom Austria Group. The actual development of the future business environment may differ from Management's assessment.

Use of estimates

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

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

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

b) Impairments: The impairment test for goodwill, other intangible assets and property, plant and equipment (PPE) is generally based upon discounted estimated future net cash flows from the continuing use and ultimate disposal of the assets. Factors such as lower than anticipated revenues and the resulting decreased net cash flows as well as changes in the discount rates used could lead to impairments or, to the extent permitted, to reversals of impairments. For more information on the carrying amounts of goodwill, other intangible assets and property, plant and equipment, see Notes (17), (18) and (19).

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

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

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

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

(2) Business Combinations

On August 8, 2011, Telekom Austria Group purchased 100% of the shares of B.net Hrvatska d.o.o. ("B.net"), the largest cable operator in Croatia, through its Croatian subsidiary Vipnet d.o.o. ("Vipnet"). B.net was the sole shareholder of the Croatian companies NA KVADRAT d.o.o., VOLJAGLAS d.o.o. and NA KUB d.o.o., which were merged into B.net in the fourth quarter, but which had no impact on the consolidated financial statements. The acquisition of the cable operator allows Vipnet to participate in the anticipated strong growth of fixed broadband, TV services and convergent products and to position itself as a fully integrated operator. The entities are reported in the Segment Croatia. The table "Acquisition of B.net" summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date. The fair values of the assets acquired and liabilities assumed were determined based on the provisional allocation of the consideration transferred. Acquisition-related costs recognized as expense amounted to EUR 71. The factors contributing to goodwill are essentially highly qualified employees and expectations about the future development of the acquiree's profitability. Since the acquisition B.net has contributed EUR 17,474 to consolidated revenues and a loss of EUR 1,640 to the consolidated net result.

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

On January 25, 2011, Telekom Austria Group purchased 100% of the shares of the Bulgarian fixed line provider Spectrum Net AD ("Spectrum") and its 100% subsidiary Orbitel EAD ("Orbitel") through its Bulgarian subsidiary Mobiltel EAD ("Mobiltel"). On February 3, 2011, Telekom Austria Group purchased 80% of another Bulgarian fixed line operator, Megalan Network AD ("Megalan"), and committed to acquire the remaining 20% by March 31, 2012. Therefore, Telekom Austria Group consolidates 100% of Megalan, without recognizing a non-controlling interest. The purchase price due for the remaining 20% of the shares has already been deposited in an escrow bank account. Both companies are reported in the segment Bulgaria. The acquisition will allow Mobiltel to position itself as a fully integrated operator. The table "Acquisition of Megalan and Spectrum" summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date. The fair values of the assets acquired and liabilities assumed were determined based on the provisional allocation of the consideration transferred. Acquisition-related costs recognized as expense amounted to EUR 1,037. The factors contributing to goodwill are essentially highly qualified employees and expectations about the future development of the acquirees' profitability. The unpaid contingent purchase prices depend on the fulfillment of certain performance criteria by the acquired companies and are recognized as financial liabilities at fair value. In the third quarter 2011, a portion of EUR 2,000 of the outstanding contingent purchase price was paid. Since the acquisition, Megalan and Spectrum have contributed EUR 20,258 to consolidated revenue and a net loss of EUR 5,295 to the consolidated net result.

Acquisition of Megalan and Spectrum	**Fair values on acquisition**
Property, plant and equipment	15,284
Intangible assets	35,351
Other assets and receivables	5,601
Cash and cash equivalents	2,247

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

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

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

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

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

(3) Operating Segments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(4) Revenues

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

(5) Other Operating Income

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

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

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

(6) Other Operating Expenses

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

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

At the Annual General Meeting on May 19, 2011, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Wien ("KPMG Austria") was appointed as group auditor for Telekom Austria Group. Expenses related to the group auditor amount to:

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

(7) Financial Result

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

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

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

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

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

Foreign exchange differences

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

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

Other financial result

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

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

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

(8) Short-term Investments

Short-term investments consist of the following items:

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

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

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

(9) Accounts Receivable – Trade

At December 31,	**2011**	**2010**
Accounts receivable – trade, gross	905,450	937,581
Allowances	-197,153	-165,345
Accounts receivable – trade, net	**708,297**	**772,236**

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

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

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

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

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

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

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

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

(10) Related Party Transactions

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

Telekom Austria Group is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis. The contract with the government concluded in July 2011 specifies the reimbursement for customers having a valid official notice issued before July 1, 2011 of Euro 13.81 per customer per month. The reimbursement for customers having a valid official notice issued after July 1, 2011 amounts to Euro 10.00 per month. The total reimbursement recorded as revenue in the service period was EUR 32,765 and EUR 35,725 in 2011 and 2010, respectively.

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

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

On June 28, 2001, a partner in a law firm which provides legal services to Telekom Austria Group was elected to the Supervisory Board. In 2011 and 2010, respectively, Telekom Austria Group was charged EUR 753 and EUR 627 for legal services by this law firm.

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

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

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

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

The following table sets out compensation of executives:

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

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

(11) Inventories

Inventories consist of:

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

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

(12) Prepaid Expenses

Prepaid expenses include the following items:

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

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

(13) Non-current Assets Held for Sale

At December 31,	**2011**	**2010**
Land and buildings	134	0
Non-current assets held for sale	**134**	**0**

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

(14) Other Current Assets

Other current assets consist of the following items:

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

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

As of December 31, 2011 and 2010, other current financial assets mainly consist of roaming credits.

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

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

The following table sets forth the aging of derivative financial instruments, finance lease receivables and other current financial assets as of December 31, 2011 and 2010:

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

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

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

(15) Investments in Associates

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

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

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

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

The reporting date of Omnimedia and netdoktor.at is June 30. Telekom Austria Group's share of income from both companies was based on interim financial statements as of December 31, 2011 and 2010.

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

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

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

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

Financial information for paybox is no longer included in 2010.

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

(16) Financial Assets Long-term

Long-term financial assets consist of the following:

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

Other investments carried at cost include investments in unquoted equity instruments (investments) and unconsolidated affiliated companies (see Note (38)). These equity instruments are not carried at fair value because their fair value cannot be reliably measured due to the absence of an active market for such investments. As of December 31, 2011, Telekom Austria Group has no intentions to dispose of any of the investments it holds.

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

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

(17) Goodwill

The following table illustrates the changes in the carrying amounts of goodwill by segment in 2011 and 2010:

	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
Balance at January 1, 2010	427,823	605,443	67,025	256,510	136,260	1,493,062
Impairment	-11,723	0	0	0	0	-11,723
Translation adjustment	0	0	-741	8,621	-0	7,880
Balance at December 31, 2010	416,101	605,443	66,284	265,131	136,260	1,489,219
Acquisitions	0	37,204	30,139	0	0	67,343
Impairment	0	0	0	-278,985	0	-278,985
Translation adjustment	0	0	-1,717	-0	0	-1,717
Hyperinflation adjustment	0	0	0	13,854	0	13,854
Balance at December 31, 2011	416,101	642,646	94,706	0	136,260	1,289,714

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

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

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

As of December 31, 2011 and 2010, the accumulated impairment charges on goodwill totaled EUR 581,779 and EUR 302,794, respectively.

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

At December 31,	**2011**	**2010**
A1 Telekom Austria	414,862	414,862
World-Direct	1,239	1,239
Total Austria	**416,101**	**416,101**
Mobiltel	642,646	605,443
Total Bulgaria	**642,646**	**605,443**
Vipnet	94,706	66,284
Total Croatia	**94,706**	**66,284**
velcom	0	265,131
Total Belarus	**0**	**265,131**
Si.mobil	136,260	136,260
Total Additional Markets	**136,260**	**136,260**
Total Goodwill	**1,289,714**	**1,489,219**

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

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

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

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

A sensitivity analysis reflecting a change of one percentage point in the discount rate and the growth rate did not result in the carrying amounts exceeding the values in use.

(18) Other Intangible Assets

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

As of December 31, 2011 and 2010, the line item software comprises internally developed software with a carrying amount of EUR 43,912 and EUR 27,880, respectively, acquisition cost of EUR 114,534 and EUR 119,142 and the related accumulated amortization of EUR 100,622 and EUR 91,263, respectively. Additions in 2011 and 2010 amounted to EUR 17,740 and EUR 14,204, respectively.

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

In 2011 and 2010, interest capitalized totaled EUR 474 and EUR 514, respectively. For details on the interest rate applied, see Note (19).

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

	GSM licenses	UMTS licenses	LTE licenses
License cost	744,736	269,060	13,290
End of the term	2013–2024	2017–2025	2026

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

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

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

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

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

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

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

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

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

Brand names classified as intangible assets with indefinite useful lives are tested for impairment in the fourth quarter of each year in accordance with IAS 36, as described in Note (1). If an event or circumstance indicates that an asset may be impaired, impairment tests are also carried out on an interim basis. The impairment test performed for the brand name Mobiltel in Bulgaria resulted in an impairment charge of EUR 19,300. The brand names acquired in the segment Bulgaria and Croatia in 2011(see Note (2)) will not be used any further and are therefore amortized over their useful life of six years in Bulgaria and five years in Croatia.

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

At December 31,	**2011**	**2010**
A1 Telekom Austria	144,910	144,910
Mass Response Service	0	1,501
Cable Runner	491	491
Paybox Bank	496	496
Total Austria	**145,897**	**147,398**
Mobiltel	243,704	263,004
Megalan	1,410	0
Spectrum Net	1,099	0
Orbitel	827	0
Total Bulgaria	**247,040**	**263,004**
Vipnet	25,377	25,907
B.net	4,730	0
Total Croatia	**30,107**	**25,907**
velcom	83,974	79,804

At December 31,	2011	2010
Total Belarus	**83,974**	**79,804**
mobilkom liechtenstein	1,149	1,117
Si.mobil	3,148	3,148
Total Additional Markets	**4,297**	**4,266**
Total brand names	**511,316**	**520,379**

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

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

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

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

(19) Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

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

(20) Other Non-current Assets

Other non-current assets include the following items:

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

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

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

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

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

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

(21) Short-term Borrowings

Telekom Austria Group's short-term borrowings include:

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

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

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

(22) Provisions and Accrued Liabilities

Provisions and accrued liabilities consist of the following:

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

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

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

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

Restructuring

In 2008, a comprehensive restructuring program was initiated in the Segment Austria. As of December 31, 2011 and 2010, the provision for restructuring amounts to EUR 820,888 and EUR 672,957, respectively, and comprises 1,571 and 1,062 employees. The program includes social plans for employees whose employment will be terminated in a socially responsible way, and provisions for the future compensation of civil servants, who will no longer provide services for Telekom Austria Group but who cannot be laid off due to their status as civil servants. On January 19, 2011, new social plans were initiated in the segment Austria which provide for early retirement, special severance packages and golden handshake options. For both years reported, the calculation of the provision is based on a discount rate of 4.5% and an estimated salary increase of 3.1% for employees and 5.0% for civil servants. The expense recognized related to the increase in the provision is reported in the line item restructuring expenses, while the accretion expense is reported in the financial result. A part of the provision was reversed, since a number of employees returned to regular operations or were transferred to the government and also since employees opted for schemes such as golden handshake, maternity leave and early retirement to an extent not foreseeable at the time of the measurement of the provision in 2010.

In November 2009, Telekom Austria Group signed an agreement with the Austrian government relating to voluntary transfer of civil servants with tenure, whose positions are eliminated due to technological progress, to employment with the government. According to this agreement, civil servants of the segment Austria can voluntarily transfer to administrative employment with the government. After a period of six to twelve months of public service and subject to a positive performance evaluation, the civil servants have the option to apply for a permanent transfer, in which case the right to return to Telekom Austria Group is forfeited. Telekom Austria Group bears the salary expense for these civil servants up to June 30, 2014 and December 31, 2014, respectively, and will compensate the civil servants for any shortfall in salary or pension payments. As of December 31, 2011 and 2010, the provision amounts to EUR 54,395 and EUR 38,151 and comprises 264 and 158 employees. In addition, Telekom Austria Group recognized a liability amounting to EUR 13,477 and EUR 10,802 (see Note (23)). In 2011 and 2010, the measurement of the provision was based on the same parameters as explained above.

EBITDA was adjusted for restructuring expenses which comprises expenses of the restructuring program in 2011 and 2010 amounting to EUR 196,550 and EUR 69,429 and for EUR 37,153 and EUR 54.632 resulting from the change of employment of civil servants to the government.

Any changes to the major underlying parameters used in the calculation could have a material effect on the amount of the provision. A reduction in the interest rate of one percentage point would lead to an increase in the provision of EUR 56,012 an increase in the interest rate of one percentage point would lead to a reduction in the provision of EUR 50,192.

Employees

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

Customer rebates

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

Asset retirement obligation

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

Telekom Austria Group has an obligation to operate a sufficient number of booths to assure that the Austrian population has sufficient access to telecommunications services. As long as Telekom Austria Group stays in business and technology does not materially change, the number of booths operated will be reduced but not eliminated completely in the foreseeable future. Telekom Austria Group has estimated the number and timing of booths to be retired from service and estimated the asset retirement obligation based on probability-weighted cash flow estimates.

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

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

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

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

In 2011, the discount rate applied to the calculation of asset retirement obligations was changed from 5.0% to 6.0% to reflect current market conditions in the individual countries. The anticipated inflation rate was increased from 2.0% to 3.0%. The change of these parameters resulted in an increase of the asset retirement obligation and a corresponding increase in related tangible assets.

Legal

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

Other provisions

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

(23) Other Current Liabilities

Other current liabilities consist of the following items:

At December 31,	2011	2010
Fiscal authorities	52,647	55,385
Social security	8,447	8,603
Employees	14,819	15,008
Employees – transferred to Government	13,477	10,802
Prepayments from customers	4,760	8,198
Government	209	254
Other non-financial liabilities	3,316	2,848
Other current non-financial liabilities	**97,675**	**101,097**
Other current financial liabilities	128,815	120,754
Other current liabilities	**226,490**	**221,851**

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

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

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

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

(24) Deferred Income

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

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

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

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

(25) Long-term Debt

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

		At December 31, 2011				At December 31, 2010			
Currency	Maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds									
EUR	2013	fixed	5.00%	750,000	759,834	fixed	5.00%	750,000	765,415
EUR	2017	fixed	4.25%	500,000	496,747	fixed	4.25%	500,000	496,106
EUR	2016	fixed	6.375%	750,000	745,358	fixed	6.375%	750,000	744,222
				2,000,000	2,001,940			2,000,000	2,005,743
Promissory Notes									
EUR	2012	fixed	6.08%	100,000	99,971	fixed	6.08%	100,000	99,921
EUR	2012	variable	2.86%	200,000	199,942	variable	2.20%	200,000	199,842
				300,000	299,913			300,000	299,763
Bank debt guaranteed by federal government									
EUR	2011			0	0	variable	2.63%	4,360	4,360
EUR	2011			0	0	variable	2.39%	363	363
				0	0			4,724	4,724
Bank debt without guarantee by federal government									
EUR	2011			0	0	fixed	2.40%	210,000	210,000
EUR	2012	variable	3.13%	142,000	142,000			0	0
EUR	2012 – 2019	fixed	4.88%	42,611	42,611			0	0
EUR	2012	fixed	3.59%	224,000	224,000	fixed	3.59%	224,000	224,000
EUR	2012	variable	1.95%	125,000	125,000	variable	1.51%	125,000	125,000
EUR	2012	fixed	5.27%	70,000	70,000	fixed	5.27%	70,000	70,000
EUR	2012	fixed	4.84%	50,000	50,000	fixed	4.84%	50,000	50,000
EUR	2013	fixed	3.72%	96,250	96,250	fixed	3.72%	96,250	96,250
EUR	2013	fixed	4.01%	78,750	78,750	fixed	4.01%	78,750	78,750
EUR	2014 – 2019	fixed	4.32%	168,000	168,000			0	0
EUR	2014	variable	2.11%	75,000	75,000	variable	1.53%	75,000	75,000
EUR	2015	fixed	3.51%	200,000	200,000			0	0
EUR	2016	fixed	5.41%	50,000	50,000	fixed	5.41%	50,000	50,000
EUR	2012 – 2017	fixed	4.22%	29,008	29,008			0	0
EUR	2018	fixed	3.44%	200,000	200,000			0	0
				1,550,618	1,550,618			979,000	979,000
Total interest-bearing debt				**3,850,618**	**3,852,471**			**3,283,724**	**3,289,229**
Accrued interest				80,336	80,336			80,800	80,800
Financial debt				**3,930,954**	**3,932,806**			**3,364,524**	**3,370,029**
Current portion of long-term debt				-997,877	-997,877			-292,789	-292,789
Long-term debt				**2,933,077**	**2,934,929**			**3,071,734**	**3,077,240**

Bonds

In 2003, Telekom Austria Group initiated a Euro Medium Term Note ("EMTN") Program. Under this program, Telekom Austria Group launched a Eurobond with a face value of EUR 750,000, a coupon of 5.00% and 10-year maturity in July 2003. Telekom Austria Group entered into fixed to floating interest rate swap agreements for a face value of EUR 300,000 of this Eurobond. In January 2005, one further Eurobond with a face value of EUR 500,000, a maturity of twelve years, and a coupon of 4.25% was launched. The discount of EUR 7,693 is amortized over the related terms. The EMTN program ended on December 31, 2008, and was not extended.

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

Promissory notes

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

Bank debt guaranteed by the Federal Republic of Austria

Bank debt guaranteed by the Federal Republic of Austria was entered into before Telekom Austria Group's privatization in 1996. In 2011 the last outstanding guaranteed debt was repaid.

Bank debt not guaranteed by the Federal Republic of Austria

Bank debt incurred by Telekom Austria Group after its privatization is not guaranteed by the Federal Republic of Austria. Under the terms of individual agreements for bank debt Telekom Austria Group is required to observe certain financial ratios which are met at December 31, 2011 and 2010.

(26) Leases and Cross Border Leases

Lessee

Telekom Austria Group leases equipment used in its operations. The leases are classified either as operating or finance leases. The lease contracts will expire on various dates through 2021 and mainly comprise leases of property.

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

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

Lessor

Telekom Austria Group receives minimum lease payments for non-cancelable operating lease contracts that mainly relate to private automatic branch exchange equipment (PABX) and set-top boxes. These payments are recognized as revenue on a straight-line basis over the terms of the contracts. As of December 31, 2011 and 2010, the cost of this equipment amounted to EUR 44,305 and EUR 36,845, and the carrying amount to EUR 12,233 and EUR 12,819, respectively. The following table sets forth the future minimum lease payments to be received as of December 31, 2011:

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

In Bulgaria, Telekom Austria Group leases mobile handsets to customers under finance leases. Furthermore, indefeasible rights of use in dark fiber are leased under finance leases, which have a term of 15 years. As of December 31, 2011, the future minimum lease payments for these transactions amount to:

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

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

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

Cross-border lease transactions

In December 2001, Telekom Austria Group entered into a CBL with a US investor which was terminated prematurely in April 2011. Telekom Austria Group recognized an expense of EUR 2,095 but also released the deferred net present value of EUR 2,648 relating to this transaction.

As a result, Telekom Austria Group recognized interest income of EUR 553 (see Note (7)). The early termination was effected on legally and economically advantageous terms.

This transaction has been concluded in the form of a lease-in lease-out transaction ("LILO"). With the proceeds from these sales of equipment, Telekom Austria Group funded deposits and other investments. The principal and accrued interest on those investments were sufficient to provide a cash flow stream to cover the periodic leaseback rentals as well as the fixed price purchase option.

The major part of the deposits in investment accounts and the lease payment obligations for the 2001 transaction was recognized on the face of the statement of financial position, as Telekom Austria Group was able to control the investment account and withhold payments. The cash deposits in connection with the PUA ("payment undertaking agreements") and the upfront payments received for the master lease as well as the lease obligations were recognized separately on the face of the statement of financial position. Accordingly, interest income and expenses in the same amount totaling EUR 238 and EUR 1,598 were recognized in 2011 and 2010, respectively.

According to SIC 27, the transactions described, in substance, did not represent a lease in accordance with IAS 17. Therefore, Telekom Austria Group maintained the assets on its statement of financial position and did not recognize any gain or loss from the sales transaction. The difference between the cash proceeds from the sale and the present value of the future minimum lease payments represented a gain on the sale of a tax benefit for Telekom Austria Group. The net cash effect resulting from these transactions in connection with the sale of the tax benefit amounted to EUR 14,547 in 2001 and was amortized over the term of the lease (see Note (7)).

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

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

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

(27) Employee Benefit Obligations

Long-term employee benefit obligations consist of the following:

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

Actuarial assumptions

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

At December 31,	2011	2010
Discount rate	4.5%	4.5%
Rate of compensation increase – civil servants	5.5%	5.5%
Rate of compensation increase – other employees	3.1%	3.1%
Rate of increase of pensions	1.6%	1.6%
Employee turnover rate*	0.0%–4.5%	0.0%–4.1%

* depending on years of service

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

Service awards

Civil servants and certain employees (together "employees") in Austria are eligible to receive service awards. Under these plans, eligible employees receive a cash bonus of two months' salary after 25 years of service and four months' salary after 40 years of service. Employees with at least 35 years of service when retiring (at the age of 65) or who are retiring based on a specific legal regulation are eligible to receive four monthly salaries. The compensation is accrued as earned over the period of service, taking into account estimates of employees whose employment will be terminated or who will retire prior to completion of the required service period. All actuarial gains and losses are recognized in profit or loss in the period they are realized or incurred.

The following table provides the components and a reconciliation of the changes in the provision for service awards for the years ended December 31, 2011 and 2010:

	2011	2010
Obligation at the beginning of the year	67,119	60,178
Service cost	2,482	2,283
Interest cost	2,949	3,234
Actuarial losses (gains)	-3,082	4,351
Benefits paid	-3,118	-2,941

	2011	2010
Past service cost	1	14
Obligation at the end of the year	**66,351**	**67,119**
Less short-term portion	-4,657	-3,694
Non-current obligation	**61,694**	**63,425**

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

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

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

Severance

Obligations for employees starting to work for Telekom Austria Group in Austria on or after January 1, 2003 are covered by a defined contribution plan. Telekom Austria Group paid EUR 1,474 and EUR 1,316 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2011 and 2010, respectively.

Severance benefit obligations for employees hired before January 1, 2003 are covered by defined benefit plans. Upon termination by Telekom Austria Group or retirement, eligible employees receive severance payments equal to a multiple of their monthly compensation which comprises fixed compensation plus variable elements such as overtime or bonuses. Maximum severance is equal to a multiple of twelve times the eligible monthly compensation. Up to three months of benefits are paid upon termination, with any benefit in excess of that amount being paid in monthly installments over a period not exceeding ten months. In case of death, the heirs of an eligible employee receive 50% of the severance benefits.

The following table provides the components of the net periodic benefit cost for the years ended December 31, 2011 and 2010:

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

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

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

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

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

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

Pensions

Defined contribution pension plans

In Austria, pension benefits generally are provided by the social security system for employees and by the government for civil servants. Telekom Austria Group is required to assist in funding the Austrian government's pension and health care obligations to Telekom Austria Group's current and former civil servants and their surviving dependents. In 2011 and 2010, the rate of contribution for active civil servants amounted to a maximum of 28.3% depending on the age of the civil servant. 15.75% are borne by Telekom Austria Group and the remaining portion is contributed by the civil servants. Contributions to the government, net of the share contributed by civil servants, amounted to EUR 40,037 and EUR 40,816 in 2011 and 2010, respectively.

Additionally, Telekom Austria Group sponsors a defined contribution plan for employees of some of its Austrian subsidiaries. Telekom Austria Group's contributions to this plan are based on a percentage of the compensation not exceeding 5%. The annual cost of this plan amounted to EUR 12,658 and EUR 13,006 in 2011 and 2010, respectively.

Defined benefit pension plans

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

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

The pension cost for 2011 and 2010 is set out in the following table:

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

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

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

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

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

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

At December 31, 2011	3.5%	4.5%	5.5%
Service awards..	71,785	66,351	61,522
Severance	82,955	69,521	58,698
Pensions..	7,720	7,120	6,686

(28) Other Non-current Liabilities and Deferred Income

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

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

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

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

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

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

Regarding the long term incentive program see Note (31)

(29) Stockholders' Equity

Capital management

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

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

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

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

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

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

Share capital

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

Authorized capital 2006

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

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

At December 31,	**2011**	**2010**
Shares authorized	443,000,000	453,000,000
Shares issued	443,000,000	443,000,000
Shares in treasury	-436,031	-436,031
Shares outstanding	442,563,969	442,563,969

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

Dividend payment

At the Annual General Meeting on May 19, 2011, the shareholders approved a dividend distribution of Euro 0.75 per share. The overall payment on May 26, 2011 amounted to EUR 331,923. At the Annual General Meeting held on May 27, 2010, the shareholders approved a dividend distribution of Euro 0.75 per share. The overall payment on June 4, 2010 amounted to EUR 331,923.

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

Treasury shares

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

Shares held in treasury as of December 31,	**2011**	**2010**
Number of treasury shares	436,031	436,031
Average price per share in Euro	18.80	18.80
Deduction in equity	8,196	8,196

Additional paid-in capital

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

Earnings per share

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

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

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

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

The development of the reserve for available-for-sale marketable securities and the hedging reserve as well as the translation adjustment are presented in the consolidated statement of comprehensive income and consolidated statement of changes in stockholder's equity. The foreign currency translation adjustment mainly relates to the consolidation of velcom in Belarus and Vip mobile in Serbia. The currency appreciation of the Serbian Dinar in 2011 resulted in a positive adjustment of EUR 1,351, the translation adjustment as of December 31, 2011 amounts to EUR 102,826. Due to the application of IAS 29 "Financial Reporting in Hyperinflationary Economies" to the subsidiaries in Belarus in 2011, the relating translation adjustment of EUR 302,063 as of December 31, 2011 remains unchanged compared to December 31, 2010.

(30) Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

At December 31,	2011	2010
Deferred taxes, net	146,649	110,439
Deferred tax assets	273,908	235,841
Deferred tax liabilities	**-127,260**	**-125,402**

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

Impairments for tax purposes according to Section 9/7 of the Austrian Corporate Tax Act are treated as temporary differences related to investments in subsidiaries. According to IAS 12.39, no deferred tax liabilities are recorded in that case. Impairments of investments in subsidiaries relate to impairments for which the recognition of expense is deferred over seven years according to Austrian tax law.

As of December 31, 2011 and 2010, Telekom Austria Group did not recognize deferred tax assets amounting to EUR 491,764 and EUR 377,644.

In 2011 and 2010, the unrecognized deferred tax assets relate to net operating loss carry-forwards of EUR 285,506 and EUR 201,036 and to temporary differences related to impairments of investments in consolidated subsidiaries of EUR 206,258 and EUR 176,608, respectively, because realization in the near future is not probable according to tax planning.

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

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

At December 31, 2011, Telekom Austria Group had approximately EUR 1,850,040 of operating loss carry-forwards. The following loss carry-forwards mainly relating to Macedonia and Serbia will expire in the following years:

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

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

As of December 31, 2011 and 2010, Telekom Austria Group did not recognize a deferred tax liability for temporary differences related to investments in associates in the amount of EUR 111 and EUR 611, respectively.

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

(31) Share-based Compensation

Long Term Incentive (LTI) Program

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

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

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

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

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

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

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

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

Expected dividend yield	**-1%**	**+1%**
Fair value of LTI 2010 (in EUR '000s)	3,186	3,048
Fair value of LTI 2011 (in EUR '000s)	2,935	2,661

Stock Option Plan 2004 Extension

In 2004, Telekom Austria Group introduced a Stock Option Plan (Stock Option Plan 2004), based on the approval of the stockholders at the Annual General Meeting. In 2006, the Stock Option Plan 2004 (Stock Option Plan 2004 Extension) was extended for another three tranches in the years 2007, 2008 and 2009. Each tranche required separate approval of the Supervisory Board and has a vesting period of twelve months or longer and an exercise period of approximately three years. Each option entitles the holder to receive, at Telekom Austria Group's discretion, either shares at the exercise price or cash equal to the difference between the quoted market price of Telekom Austria AG's shares on the date of the option's exercise and the exercise price. The exercise price is defined as the average quoted closing price of Telekom Austria AG's shares during a period of twenty trading days ending two days before the granting of options. One option is convertible into one share. For every 30 (25) options awarded, an eligible employee (Member of the Management Board) must hold one ordinary share until the options are exercised. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects.

Following the approval by the Supervisory Board on January 14, 2009, the sixth tranche (ESOP 2009+) of "Stock Option Plan 2004 Extension" was granted to the eligible employees. The fair value of the options as of grant date amounted to EUR 4,923. The options granted in 2009 might be exercised in the event that the performance conditions for 2010 or 2011 are met, provided these are not lower than the performance condition for 2009 (retesting). The performance condition (earnings per share) set for the sixth tranche was not met as of December 31, 2010 and 2009. The vesting period was extended by twelve months in 2009 and by another twelve months in 2010. As of December 31, 2011, the hurdle was not met and the options therefore did not become exercisable. Thus no liability was recorded for this tranche.

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

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

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

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

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

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

Expected volatility	**22%**	**32%**
Fair value per option sixth tranche in Euro	0.26	0.52

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

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

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

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

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

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

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

(32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

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

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

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

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

(33) Financial Instruments

Financial risk management

Overview

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

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

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

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

Liquidity risk

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

The analysis of the dynamic liquidity risk is conducted by means of liquidity planning. The given monthly liquidity requirement based on the forecasted liquidity planning is juxtaposed against the existing financing or available lines of credit and liquid financial assets. The difference between the two will result in either a liquidity gap, which will be financed, or excess liquidity, which, if necessary, will be invested. On the basis of the existing business plan, a rolling monthly liquidity plan is drawn up for Telekom Austria Group. In the liquidity plan, all known incoming and outgoing payments are processed and a worst-case scenario is calculated. The liquidity plan is discussed periodically within the risk committee. The risk committee is the primary organizational unit of Telekom Austria Group to plan, coordinate and make decisions on active risk management.

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

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

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

Funding sources

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

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

Other funding sources

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

As of December 31, 2011 and 2010, Telekom Austria Group had total credit lines of EUR 1,013,000 and EUR 1,015,600 respectively. These credit lines were not utilized. The credit line commitments will expire between January 2012 and July 2016.

Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of the non-derivative financial liabilities and the fair values of the derivative financial instruments. The variable interest payments related to the financial instruments were calculated based on interest rates effective as of December 31, 2011 and 2010. Foreign currencies were translated at the rates valid on the reporting date (inflows of cash are shown as negative figures).

	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 years
At December 31, 2011						
Financial liabilities						
Bonds and Multi-Currency Note Program	2,441,171	106,301	0	856,563	957,057	521,250
Bank debt without guarantee................	2,044,514	365,905	626,952	217,279	505,934	328,444
Accounts payable – trade	642,855	639,110	2,547	731	233	234
Lease obligations	779	375	270	90	31	13
Other financial liabilities......................	200,354	142,335	6,070	45,517	5,004	1,428
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	-14,308	-7,009	0	-7,299	0	0
Variable to fixed IRS	46,914	-2,894	8,601	-257	18,487	22,977
Forward exchange contracts						
Notional amount in EUR......................	8,682	8,682	0	0	0	0
Notional amount in USD......................	-11,495	-11,495	0	0	0	0
At December 31, 2010						
Financial liabilities						
Bonds and Multi-Currency Note Program	2,638,245	159,574	37,500	106,301	994,688	1,340,182
Bank debt without guarantee................	1,479,969	327,866	23,906	806,316	269,145	52,736
Bank debt guaranteed...........................	4,871	4,871	0	0	0	0
Accounts payable – trade	682,104	670,525	5,017	6,155	102	304
Lease obligations	643	168	225	250	0	0
Other financial liabilities......................	232,398	143,788	8,257	79,426	0	928
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	-22,208	3,060	-11,864	-7,148	-6,256	0
Variable to fixed IRS	12,804	-2,260	9,153	5,911	0	0
Forward exchange contracts						
Notional amount in EUR......................	-1,000	0	-1,000	0	0	0
Notional amount in BYR	4,095,510	0	4,095,510	0	0	0

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

Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect Telekom Austria Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. All financial transactions are carried out within the Treasury Guideline. For derivative financial instruments used for risk management purposes, Telekom Austria Group generally applies hedge accounting in accordance with IAS 39.

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

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

Interest rate risk

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

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

Exposure to interest rate risk

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

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

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

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

Fair value sensitivity analysis for financial instruments

One measure used to express the potential change in the value of a portfolio of financial liabilities in response to a change in interest rates is the modified duration. Modified duration (sensitivity measure) follows the concept that interest rates and the price of fixed rate financial instruments move in opposite directions. The modified duration on the total portfolio was 2.929% in 2011 and 2.785% in 2010. The sensitivity is based on the assumption of a 100 basis points parallel shift in market interest rates for all terms occurring at the reporting date. The methods and assumptions used remained unchanged to those used in prior years.

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

At December 31,	Capital amounts	Change in financial portfolio 100 bps increase	100 bps decrease
2011			
Fixed rate financial liabilities.................	3,324,291		
Sensitivity at 2.929%		-97,368	97,368
2010			
Fixed rate financial liabilities.................	3,080,658		
Sensitivity at 2.785%		-85,796	85,796

Cash flow sensitivity analysis for variable rate financial instruments

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

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

Interest rate swap agreements

Telekom Austria Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. Telekom Austria Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining term of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining term of the hedged item is less than twelve months. Derivative financial instruments which do not qualify for hedge accounting are classified as current financial assets or financial liabilities.

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

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

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

The following table indicates the types of swaps in use at December 31, 2011 and 2010, and their weighted average interest rates and weighted average remaining terms of the interest rate swap contracts. The "average pay rate" represents the weighted average interest rate at December 31, 2011 and 2010. This interest rate is applied to the notional amount under the relevant interest rate swap contract to determine the amount of interest that Telekom Austria Group must pay. The "average receive rate" represents the weighted average interest rate applicable at December 31, 2011 and 2010. This interest rate is applied to the notional amount under the relevant interest rate swap contract to determine the amount of interest that Telekom Austria Group receives. The notional amounts under the relevant contracts only represent the basis for calculating the interest to be paid or received, and do not actually represent the amounts to be received or paid by either party:

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

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

Information with respect to fair value hedges

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

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

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

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

c) The bonds are not prepayable.

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

According to IAS 39, the hedge effectiveness must be between 80 and 125 percent for a hedge to be considered effective. The effectiveness is calculated by dividing the hedged portion of the change of the fair value of the underlying liability by the corresponding change in the fair value of the derivative hedging instrument or vice versa. When calculating the hedge effectiveness according to the above mentioned method, the hedge could show a mathematical ineffectiveness even if an economic effectiveness is given. This could be the case when changes in the values of the underlying liability and the corresponding interest rate swap are rather small. In order not to preclude the hedge effectiveness by mathematical ineffectiveness, Telekom Austria Group has set an absolute limit: The difference between the change in value of the interest rate swap and the change in value of the hedged item shall not exceed a limit of 0.5% of the notional amount. As long as this limit is not exceeded, the hedge is considered effective. The analysis (hedge effectiveness test) assumes that all other variables remain constant. The values presented refer to the hedged items and hedging instruments.

Hedge Effectiveness Test Fair Value Hedges

At December 31,	Notional amount	Fair value at origination	Fair value at reporting date	Fair value change	Effectiveness
2011					
Hedged items	300,000	299,315	311,244	-11,929	
Hedging instrument (interest rate swap)..........	300,000	1,265	-11,010	12,275	
Effectiveness in %..					-97.18%
Ineffectiveness in EUR					346
2010					
Hedged items	300,000	299,315	317,730	-18,415	
Hedging instrument (interest rate swap)..........	300,000	1,265	-17,522	18,787	
Effectiveness in %..					-98.02%
Ineffectiveness in EUR					372

Information with respect to cash flow hedges

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

At December 31, 2011 and 2010, the derivative financial liability (including deferred interest) amounts to EUR 5,657 and EUR 12,660, respectively. The hedged interest payments will become due on February 6 and August 6 of each year until, presumably, August 6, 2012, and will affect the consolidated statement of operations in the respective reporting periods. In 2011 and 2010, an amount of EUR 4,823 and EUR 2,318, respectively, relating to the change in the negative fair value of the hedge item, was recognized in other comprehensive income (OCI). In 2011 and 2010, no ineffectiveness was recognized.

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

Exchange rate risk

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

As of December 31, 2011 and 2010, of all accounts receivable – trade and accounts payable – trade, only the following are denominated in a currency other than the functional currency of the reporting entities or their subsidiaries (for foreign exchange rates, see Note (1)):

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

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

Foreign exchange agreements

Forward exchange contracts entered into by Telekom Austria Group serve as economic hedges of Telekom Austria Group's transactions in foreign currencies. As of December 31, 2011 and 2010, hedge accounting was not applied to foreign exchange agreements.

As of December 31, 2011 and 2010, Telekom Austria Group entered into forward exchange contracts which served as hedges of Telekom Austria Group's operating exposure to fluctuations in foreign currencies, but for which hedge accounting was not applied. Changes in the fair value of these derivative instruments are recognized immediately in the consolidated statement of operations as foreign exchange gains or losses.

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

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

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

Credit risk

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

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

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

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

Accounts receivable – trade and other receivables

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

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

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

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

Investments

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

Guarantees

As of December 31, 2011 and 2010, no guarantees had been provided to third parties.

Exposure to credit risk

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

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

As of December 31, 2010, the available-for-sale financial assets included a EUR 100,000 deposit serving as collateral for guarantees relating to cross-border lease transactions which was repaid in December 2011 (see Notes (16) and (26)).

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

At December 31,	**2011**	**2010**
Domestic	811,542	852,633
Foreign	93,908	84,948
Allowances	-197,153	-165,345
Accounts receivable – trade	**708,297**	**772,236**

Accounts receivable – trade from Telekom Austria Group's most significant customer amount to EUR 1,280 and EUR 8,127 as of December 31, 2011 and 2010, respectively. Thus, no major concentration of credit risk exists. With respect to the aging of accounts receivable – trade and the allowance for doubtful accounts recorded, see Note (5).

Fair value of financial instruments

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

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

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

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

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

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

At December 31,	Carrying amount	Fair value	Carrying amount	Fair value
	2011		2010	
Financial liabilities				
Liabilities to financial institutions	15,673	16,167	111,500	111,500
Bonds	1,691,259	1,790,401	1,688,939	1,834,459
Other current financial liabilities	172,522	172,687	173,590	173,590
Multi-Currency Note Program	0	0	90,158	90,158
Non-current liabilities to financial institutions	1,850,531	1,948,180	1,283,951	1,321,599
Lease obligations and cross-border lease	760	760	26,084	26,084
Other non-current liabilities	26,700	26,700	57,131	57,131
Accounts payable – trade	642,177	642,177	678,705	678,705
Payables due from related parties	9,816	9,816	13,057	13,057
Accrued interest	80,336	80,336	80,336	80,336
Financial liabilities at amortized cost	**4,489,772**	**4,687,222**	**4,203,450**	**4,386,619**

At December 31,	Carrying amount	Fair value	Carrying amount	Fair value
	2011		2010	
Bonds – hedged item	**310,680**	**309,509**	**316,804**	**318,370**
Hedging instruments (cash flow hedges)....................	39,452	39,452	12,660	12,660
Financial liabilities carried at fair value.................	**39,452**	**39,452**	**12,660**	**12,660**

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

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

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

Fair value hierarchy of financial instruments

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

	Level 1	Level 2	Level 3	Total
December 31, 2011				
Available-for-sale & other investments......................	15,412	163,903	0	179,315
Derivatives	0	209	0	209
Fair value hedges...	0	14,080	0	14,080
Financial assets measured at fair value	15,412	178,193	0	193,605
Bonds – hedged item	0	310,680	0	310,680
Cash flow hedges	0	39,452	0	39,452
Financial liabilities measured at fair value	0	350,133	0	350,133
December 31, 2010				
Available-for-sale & other investments......................	16,387	175,482	0	191,870
Derivatives	0	18	0	18
Fair value hedges...	0	21,515	0	21,515
Financial assets measured at fair value	16,387	197,015	0	213,402
Bonds – hedged item	0	316,804	0	316,804
Cash flow hedges	0	12,660	0	12,660
Financial liabilities measured at fair value	0	329,464	0	329,464

The levels of fair value hierarchy are determined as follows:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical instruments.

Level 2: Fair values measured using inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly.

Level 3: Fair values measured using inputs that are not based on observable market data.

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

(34) Commitments and Contingent Assets and Liabilities

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

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

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

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

In the normal course of business, Telekom Austria Group is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to interconnection. Such matters are subject to many uncertainties, and the outcomes are not predictable with certainty. Consequently, Management is unable to ascertain the ultimate aggregate amount of the monetary liability or the impact on the financial position of Telekom Austria Group with respect to these matters at December 31, 2011. These matters could materially affect the operating results or cash flows of any quarter when resolved in future periods. However, Management believes that after final settlement, any monetary liability or financial impact on Telekom Austria Group, beyond such provided for at year-end, would not be material to its consolidated financial statements.

(35) Remuneration paid to the Management and Supervisory Board

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

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

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

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

As of October 1, 2007, Hans Tschuden was appointed as the Chief Financial Officer of Telekom Austria AG for a period of five years until

March 31, 2012 and as of January 1, 2009, Hans Tschuden was also appointed Deputy Chairman of Telekom Austria AG.

(36) Employees

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

(37) Subsequent Events

On February 13, 2012, the Management Board approved the consolidated financial statements for submission to the Supervisory Board. The Supervisory Board will review the consolidated financial statements and report its decision upon approval.

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

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

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

(38) Affiliated Companies

Fully consolidated subsidiaries

Name and company domicile	Share in capital as of December 31, 2011 in %
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00
Telekom Austria Personalmanagement GmbH, Vienna	100.00
Telekom Projektentwicklungs GmbH, Vienna	100.00
Telekom Austria Beteiligungen GmbH, Vienna	100.00
Telekom Finanzmanagement GmbH, Vienna	100.00
Telekom Austria Finance BV, Amsterdam	100.00
CableRunner GmbH, Vienna	76.00
CableRunner Austria GmbH & Co. KG, Vienna	76.00
World-Direct eBusiness solutions Gesellschaft m.b.H., Vienna	100.00
ÖFEG GmbH, Vienna	100.00
paybox Bank AG, Vienna	100.00
paybox Service GmbH, Vienna	100.00
3G Mobile Telecommunications GmbH, Vienna	100.00
Telekom Austria Group M2M GmbH, Vienna	100.00
Airwin Entertainment GmbH, Vienna	100.00
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00
mobilkom Bulgarien BeteiligungsverwaltungsgmbH, Vienna	100.00
mobilkom Bulgarien GeschäftsentwicklungsgmbH, Vienna	100.00
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom liechtenstein AG, Vaduz	100.00
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom Mazedonien Geschäftsentwicklungs GmbH,	100.00

Name and company domicile	Share in capital as of December 31, 2011 in %
Vienna	
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	100.00
mk Logistik GmbH, Vienna	100.00
JetStream Hungary Kft, Budapest	100.00
JetStream Slovakia s.r.o., Bratislava	100.00
TA Mreža d.o.o., Ljubljana	100.00
JetStream RO s.r.l., Bucharest	100.00
JetStream Bulgaria EOOD, Sofia	100.00
JetStream Croatia Ltd., Zagreb	100.00
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00
JetStream Switzerland GmbH, Zürich	100.00
JetStream Poland Spolka Z Ograniczona Odopwiezialnoscia, Warsaw	100.00
Vipnet d.o.o., Zagreb	100.00
Vipnet usluge d.o.o., Zagreb	100.00
B.net Hrvatska d.o.o., Zagreb	100.00
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00
Vip mobile d.o.o., Belgrade	100.00
Vip operator DOOEL, Skopje-Zentar	100.00
Vip operator uslugi DOOEL, Skopje-Zentar	100.00
Vip operator prodazba DOOEL, Skopje-Zentar	100.00
Mobiltel EAD, Sofia	100.00
Alabin 48 EOOD, Sofia	100.00
M repair and service EAD, Sofia	100.00
M Support Services EOOD, Sofia	100.00
M Game EOOD, Sofia	100.00
M-Network EAD, Sofia	100.00
GPS Bulgaria AD, Sofia	90.00
Teleport Bulgaria EAD, Sofia	100.00
Megalan Network AD, Sofia	80.00
Spectrum Net AD, Sofia	100.00
Prolink EOOD, Sofia	100.00
Orbitel EAD, Sofia	100.00
Orbitel UK Ltd, Saint Helier	100.00
Hit bg EOOD, Sofia	100.00
SB Telecom Ltd., Limassol	100.00
FE VELCOM, Minsk	100.00
FE TA-Engineering, Minsk	100.00
FE TA-Installation, Minsk	100.00

Affiliated companies consolidated using the equity method

Name and company domicile	Share in capital as of December 31, 2011 in %
Omnimedia Werbegesellschaft mbH, Vienna	26.00
netdoktor.at GmbH, Vienna	40.00
Marx Media Vienna GmbH, Vienna	25.029

Affiliated company not consolidated

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

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

Vienna, February 13, 2012

Hannes Ametsreiter Hans Tschuden

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Telekom Austria Aktiengesellschaft, Vienna, for the year from 1 January 2011 to 31 December 2011. These consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in stockholders' equity for the year ended 31 December 2011 and a summary of significant accounting policies and other explanatory notes.

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

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

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

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2011 and of its financial performance and its cash flows for the year from 1 January to 31 December 2011 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Management Report for the Group

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

Vienna, 13 February 2012

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

DDr. Martin Wagner	Mag. Rainer Hassler
Wirtschaftsprüfer	Wirtschaftsprüfer

(Austrian Chartered Accountants)

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

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