We are prepared for anything.

TELEKOM AUSTRIA GROUP

Annual Report 2009

Key Figures of the Telekom Austria Group

Key Operational Data

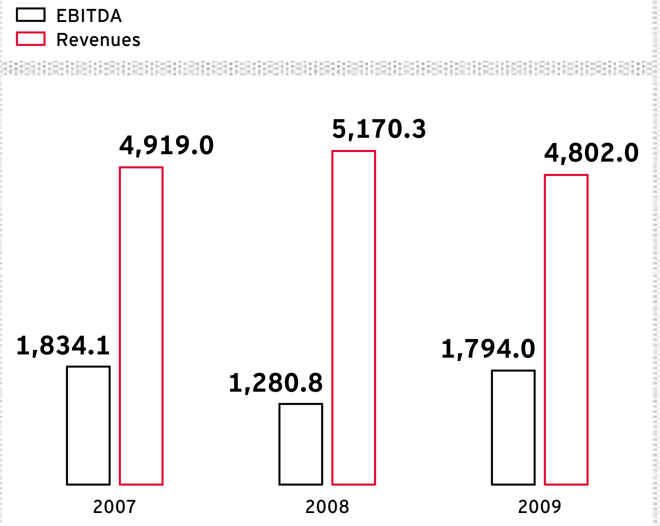
	Dec. 31, 2009	Change in %	Dec. 31, 2008	Dec. 31, 2007
Fixed Net				
Fixed access lines (in '000)	2,313.5	-1.0	2,336.8	2,434.4
of which wholesale broadband lines	967.2	18.1	818.9	665.2
of which retail broadband lines	55.4	-17.1	66.8	85.5
Total Fixed Net broadband lines	**1,022.6**	**15.5**	**885.7**	**750.7**
Mobile Communication				
Customers (in '000)				
in Austria	4,834.2	7.5	4,496.3	3,959.3
in Bulgaria	5,352.5	-0.8	5,396.2	5,098.6
in Belarus	4,102.4	10.9	3,697.9	3,058.7
in Croatia	2,603.0	4.7	2,486.6	2,179.6
in Slovenia	589.4	3.3	570.6	497.3
in the Republic of Serbia	1,153.9	27.1	907.9	508.9
in the Republic of Macedonia	303.7	25.5	242.0	141.2
in Liechtenstein	6.3	6.8	5.9	5.4
Total	**18,945.4**	**6.4**	**17,803.4**	**15,449.0**
Employees – at year-end[1]	16,573.0	-2.2	16,954	17,628

Key Financial Data (in EUR million)

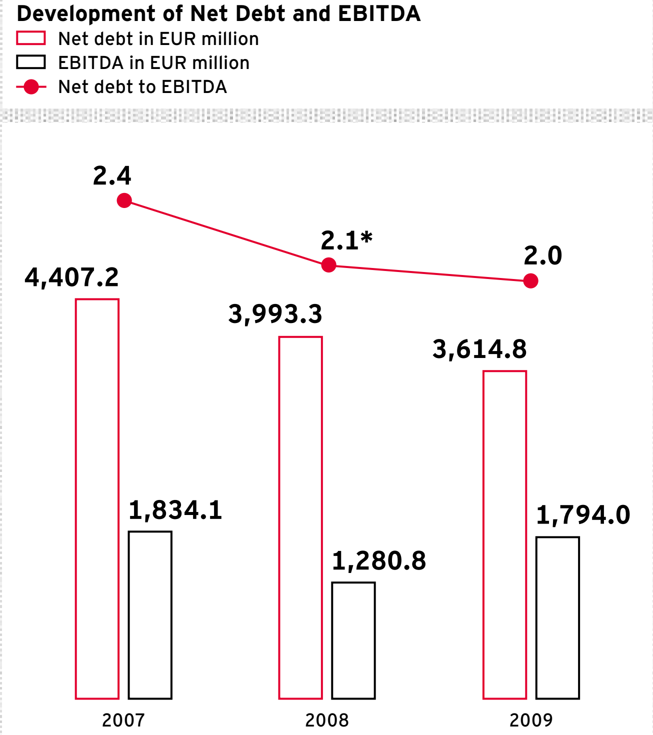
	Dec. 31, 2009	Change in %	Dec. 31, 2008	Dec. 31, 2007
Telekom Austria Group[2] [3] [4]				
Operating revenues	4,802.0	-7.1	5,170.3	4,919.0
of which generated abroad in %	44.9	–	44.6	35.9
EBITDA[5]	1,794.0	40.1	1,280.8	1,834.1
of which generated abroad in %	36.5	–	57.2	31.3
Operating income[5]	343.9	184.9	120.7	740.6
Net income	94.9	–	-48.8	492.5
Free cash flow[6]	674.0	10.9	756.2	975.8
Cash flow generated from operations	1,385.4	-11.4	1,563.8	1,742.0
Capital expenditures[7]	711.4	-11.9	807.6	851.3
Net debt[7]	3,614.8	-9.5	3,993.3	4,407.2
Equity	1,614.1	-25.1	2,155.6	2,565.3
Equity ratio in %	19.0	–	24.0	28.5
EBITDA margin in %	37.4	–	24.8	37.3
Net debt to EBITDA[7]	2.0x	–	3.1x[8]	2.4x
Return on Invested Capital – ROIC[7] in %	4.8	–	1.2	8.6
Return on Equity – ROE[7] in %	5.0	–	-2.1	18.3
Key Stock Exchange Data				
Earnings per share in EUR	0.22	–	-0.11	1.09
Cash flow per share in EUR	1.52	-10.9	1.71	2.16
Market capitalization as of Dec. 31, in EUR billion	4.4	-7.0	4.7	8.8
Stock price as of Dec. 31 in EUR	9.95	-3.4	10.30	19.03
Stock price – high in EUR	12.87	-34.0	19.50	21.55
Stock price – low in EUR	9.23	14.0	8.10	16.90
Dividend per dividend-bearing share[9] in EUR	0.75	0.0	0.75	0.75

1) Full-time employees
2) The consolidated financial results for 2008 include restructuring costs in the amount of EUR 632.1 million.
3) The consolidated financial results for 2008 and 2009 include the financial results of Velcom. The consolidated financial results for 2007 include the financial results of Velcom for the period of October 3, 2007 to December 31, 2007.
4) The consolidated financial statements for 2009 include impairment charges of EUR 352.0 million.
5) The figure for 2007 and 2008 has been adjusted to reflect the changed reporting of foreign exchange gains.
6) Defined as cash flow after interest, tax, changes in working capital and capital expenditures.
7) For definitions see glossary.
8) Net debt to EBITDA excluding restructuring costs amounts to 2.1x.
9) According to the proposal to the Annual General Meeting.

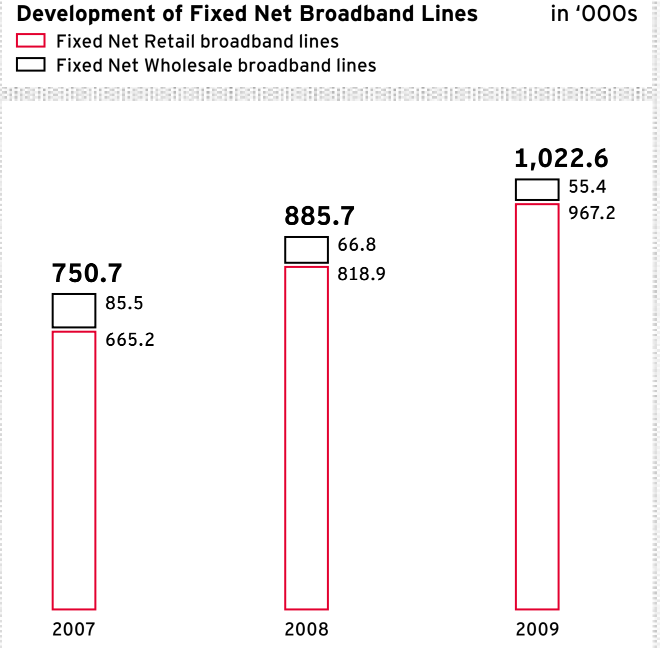
Development of Revenues and EBITDA in EUR million



Development of Net Debt and EBITDA

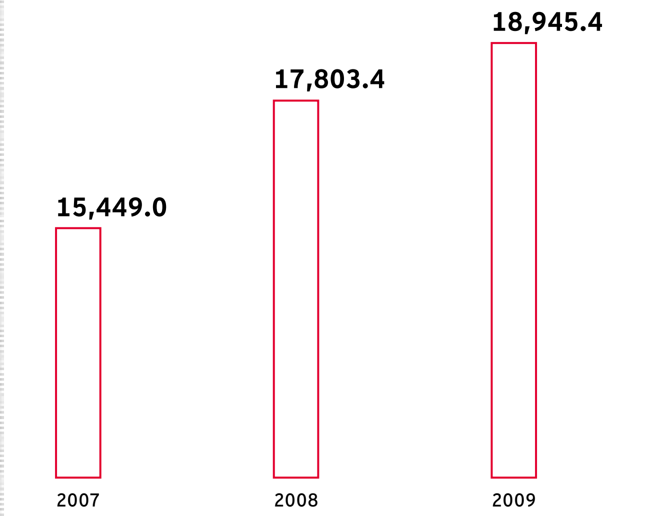


Development of Fixed Net Broadband Lines in '000s



Customer Numbers Mobile Communication Segment in '000s

as of Dec. 31



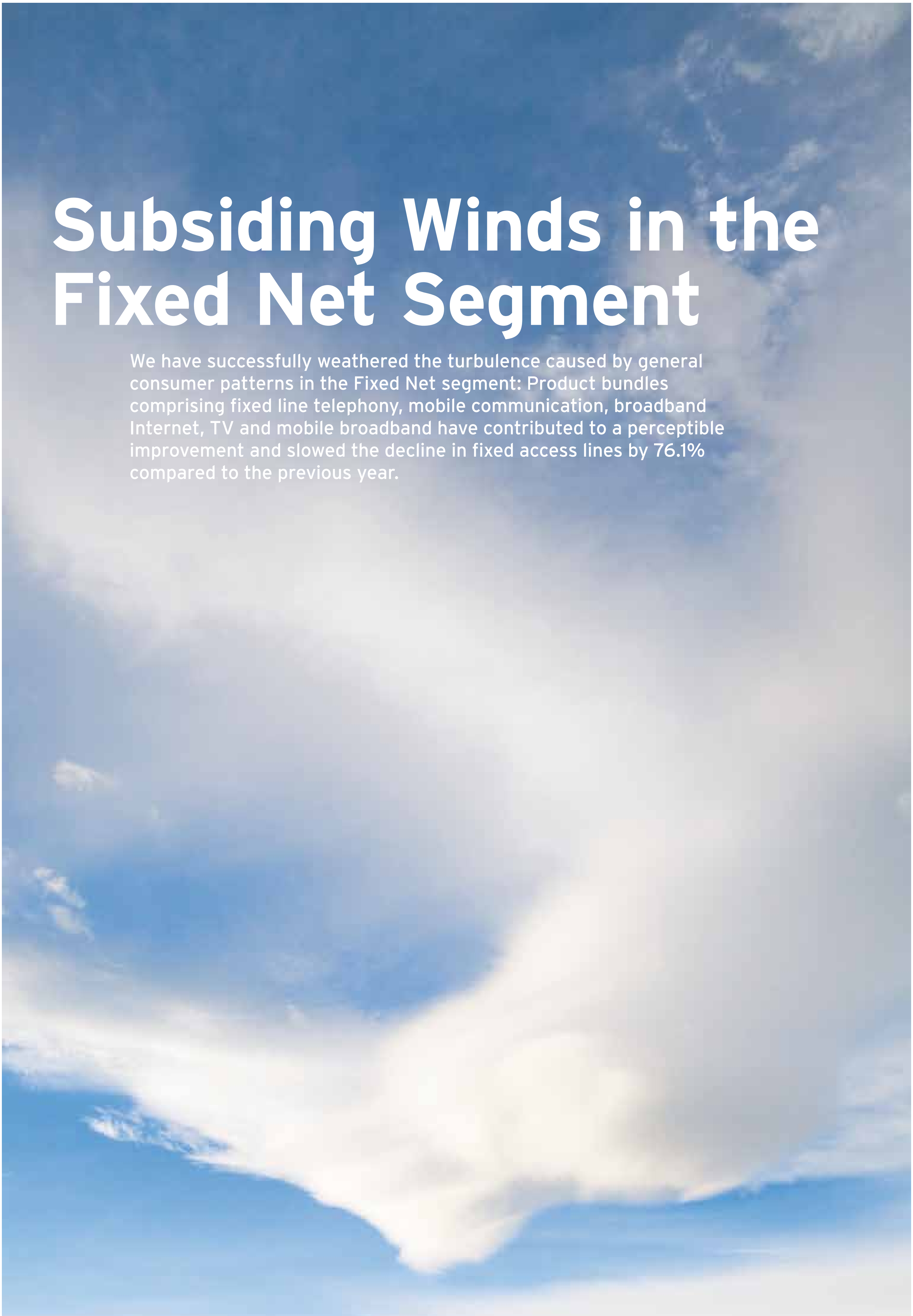
* Excluding restructuring expenses. Including restructuring expenses the net debt to EBITDA ratio amounted to 3.1x.

There's no such thing as bad weather. Only the wrong equipment.

It's hard to keep your feet dry in today's global economic environment. The only way to keep your footing when you encounter strong headwinds or difficult terrain is to adapt your equipment to the changing scenarios. If you can do this, you'll be even more light-footed once a long spell of sunny weather sets in again.

Subsiding Winds in the Fixed Net Segment

We have successfully weathered the turbulence caused by general consumer patterns in the Fixed Net segment: Product bundles comprising fixed line telephony, mobile communication, broadband Internet, TV and mobile broadband have contributed to a perceptible improvement and slowed the decline in fixed access lines by 76.1% compared to the previous year.



Changeable Conditions in Mobile Communication

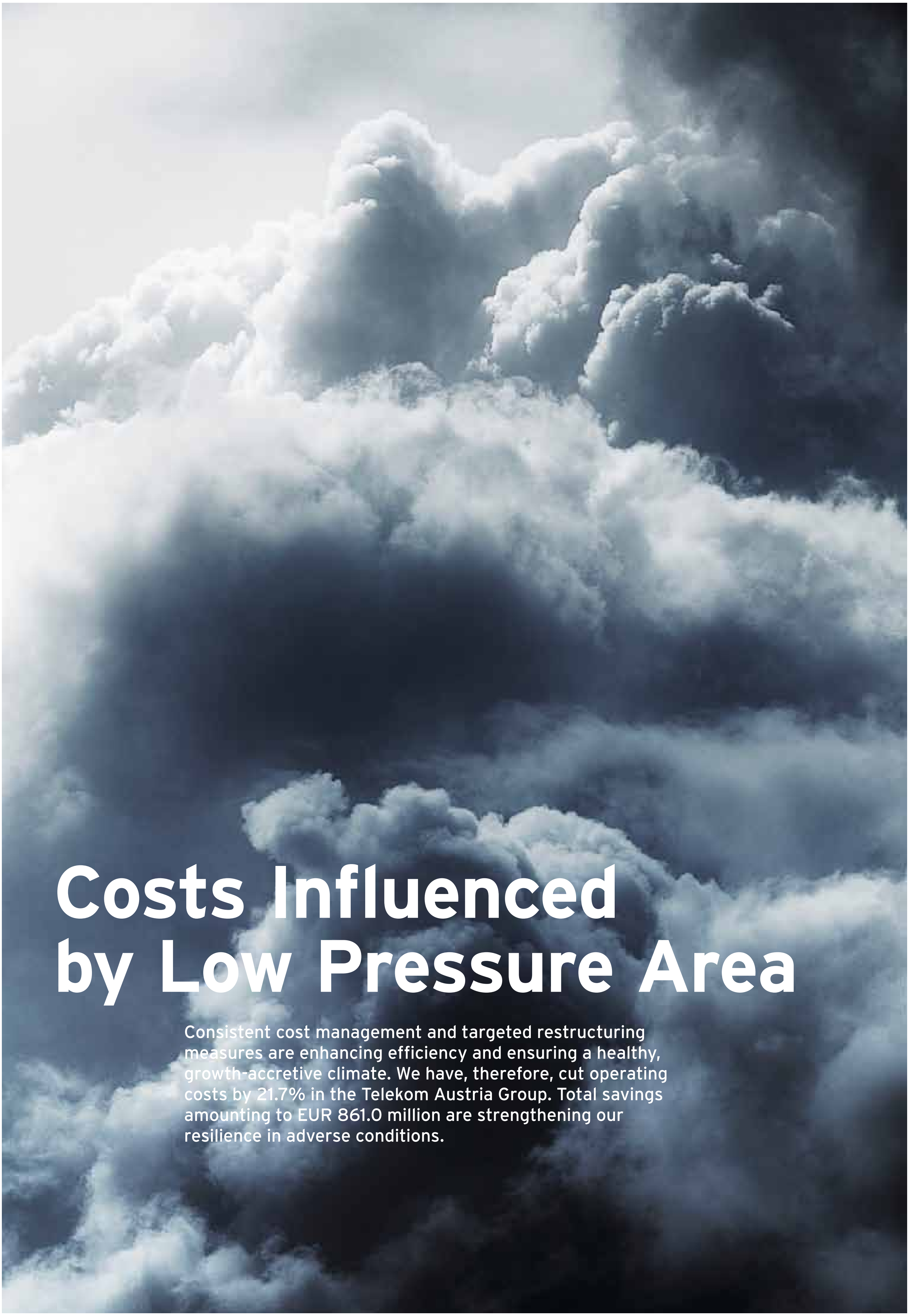
No one has escaped the effects of the severe downturn. But even under these adverse conditions the Mobile Communication segment has continued to show relatively stable development with several sunny aspects: Innovative products increased data revenues as a share of traffic-related revenues to almost 30% and the number of customers grew by 6.4% to 18.9 million.

A Cloudy Spell on Foreign Markets, Brightening Up Later

A stormy spell means the seeds we planted in the mobile communication markets of Eastern and Southeastern Europe have not yet produced a bumper harvest. However, we are still convinced of the considerable potential of these markets with their differing degrees of maturity and expect this fertile ground with approximately 14.1 million subscribers to bear fruit in more sunny periods.

Friendly Investment Climate

EUR 1.5 billion has been earmarked for the period up to 2013 for the further expansion of infrastructure and the ALLmediaNet in Austria. A warm shower of investments to cultivate our position as the innovation leader and meet growing demand for higher bandwidths in today's information society. We are well prepared for the future flood of data.



Costs Influenced by Low Pressure Area

Consistent cost management and targeted restructuring measures are enhancing efficiency and ensuring a healthy, growth-accretive climate. We have, therefore, cut operating costs by 21.7% in the Telekom Austria Group. Total savings amounting to EUR 861.0 million are strengthening our resilience in adverse conditions.

Cash Flow Looking Bright

In the end, to be able to pay for what you need is what really counts. With an operating free cash flow of approximately EUR 1.1 billion in 2009 we are on the sunny side of investment and solid financing. And our shareholder remuneration will not leave anyone standing in the rain either.

What is the bottom line for your investment?


75 cents
dividend per share.
At least.
Every year until 2012.*
You can count on it –
no matter what the
weather.
*This corresponds to an annual dividend yield of 7.5% based on a share price of EUR 9.95 as of year-end 2009.

Overview of Contents

- Hannes Ametsreiter appointed as Chairman of the Management Board of the Telekom Austria Group as of April 1, 2009
- High frequency of meetings of the Supervisory Board and its Committees
- With three female members on the Supervisory Board, women account for 25% of total board members, which is leading edge within the ATX Prime Market
- Disclosure of the remuneration of the Management and Supervisory Board members

Telekom Austria Group

- Revenue decline of 7.1% to EUR 4,802.0 million
- EBITDA of EUR 1,794.0 million, restructuring expenses of EUR 632.1 million in 2008
- Outlook 2010: Revenues of EUR 4.7 billion, EBITDA of EUR 1.6 billion, capital expenditures of EUR 800 million

Fixed Net Segment

- Decline in access lines limited to 1.0%, increase in broadband access lines of 15.5% to 1.0 million lines
- Fixed-to-mobile substitution continues, fixed line voice traffic declines by 12.0%
- Revenues of EUR 1,860.1 million (-8.8%), EBITDA of EUR 575.7 million

Mobile Communication Segment

- Increase in subscriber numbers of roughly 1.1 million customers or 6.4% to 18.9 million
- Negative currency translation effects in Belarus and in the Republic of Serbia
- Decline in revenues of 5.5% to EUR 3,205.5 million and in EBITDA of 6.0% to EUR 1,246.3 million

Hannes Ametsreiter and Hans Tschuden

Introduction by the Management Board

Dear Shareholders,

Changeable, with storms and plenty of clouds in some markets, sums up the economic conditions in the financial year 2009. However, Telekom Austria Group was well-prepared to actively pursue its financial and operating goals in 2009, despite the adverse conditions. This is what we want to highlight with the information and illustrations presented in this annual report, demonstrating that we deserve your trust as shareholders "in all kinds of weather".

The Telekom Austria Group was unable to escape the effects of the global economic crisis that also affected the European telecommunications industry in 2009. The Mobile Communication segment in particular, reported subdued consumption among both residential and business customers in the Eastern- and South-Eastern European markets. At the same time, however, the Fixed Net segment was able to stabilize its business after many years of decline. The prime goal of significantly reducing line loss was achieved and in the fourth quarter, we even reported net additions for the first time in ten years. This favorable development is mainly attributable to the success of our product bundles, which combine fixed net, mobile telephony, broadband Internet and TV as well as stronger usage of attractive broadband services, which rose by 50% compared to the previous year. At the same time, the number of fixed net broadband access lines increased by 15.5% to more than 1.0 million.

These developments and trends in the two operating segments led to a 7.1% decline in Telekom Austria Group's revenues to EUR 4.8 billion. After restructuring expenses in the previous year, EBITDA improved from EUR 1.3 billion to EUR 1.8 billion. Weaker economic conditions led to impairment charges relating to the goodwill of Velcom in Belarus and the mobile license in Serbia totaling EUR 352.0 million, which had a negative impact on operating results. In the year under review, the Telekom Austria Group reported operating income of EUR 343.9 million and net income of EUR 94.9 million after a net loss of EUR 48.8 million in 2008. As a result, earnings per share improved from a loss of EUR 0.11 to a profit of EUR 0.22. Following a reduction in capital expenditures, the 2009 operating free cash flow target of EUR 1.1 billion (EBITDA less capital expenditures) was achieved in the year under review.

The markets of the Mobile Communication segment were exposed to difficult conditions in 2009. However, a further increase in subscriber numbers was recorded in Austria despite continuing intensive competition. Telekom Austria Group's growth markets in Eastern and South-Eastern Europe were also able to expand or at least stabilize their customer base against the backdrop of a challenging economic environment, with the Mobile Communication segment recording total customer growth of 6.4% to 18.9 million subscribers. The development of revenues and earnings in 2009 was influenced by regulatory interventions that led to lower termination charges and roaming tariffs. This negative trend was further exacerbated by the introduction of levies on certain mobile communication revenues in Croatia and the Republic of Serbia. The Mobile Communication segment reported a total decline in revenues of 5.5% to EUR 3.2 billion, while EBITDA decreased by 6.0% to EUR 1,246.3 million.

In the Fixed Net segment, fixed-to-mobile substitution continued also in the year under review. At present, fixed net telephony accounts for only one in five voice minutes in Austria, and in 2009 Telekom Austria Group saw total voice minutes in the Fixed Net segment decline by 12.0%. This downward trend was largely responsible for the 8.8% decline in Fixed Net revenues to EUR 1.9 billion. However, based on strict cost management the Group succeeded in improving EBITDA margin and limiting EBITDA decline to 5.8% or EUR 575.7 million, excluding restructuring expenses of EUR 632.1 million in 2008.

Due to the economic downturn and negative external factors we expect this difficult market environment to prevail also in 2010. Continuing fixed-to-mobile substitution in Austria, undiminished price pressure in all of Telekom Austria Group's major markets and the effects of regulatory-induced lower roaming tariffs and termination charges are anticipated to have a negative impact on the business performance. Revenues for the financial year 2010 are expected to amount approximately EUR 4.7 billion excluding the effects from the merger of the Fixed Net and Mobile Communication operations in Austria. Following strict cost management aimed at reducing personnel and material expenses in both segments, we anticipate an EBITDA of EUR 1.6 billion. Depending on the extent of investments for the migration to an All-IP-based network infrastructure in the Fixed Net segment, capital expenditures of Telekom Austria Group are expected to reach up to EUR 800 million.

Due to our stable cash flow we are confident that we can offer you as shareholders of Telekom Austria AG a reliable return on the capital employed despite the turbulent global economic situation. We, therefore, remain committed to our dividend policy and reiterate our intention to distribute dividends amounting to 65% of annual net income or at least EUR 0.75 per share until 2012.

The convergence of Fixed Net and Mobile Communication is central to safeguarding competitiveness in Austria and is also reflected in the success of our product bundles. We are committed to meeting stronger customer demand for one-stop-shop communication and information solutions going forward. In February 2010, following in-depth discussion and analysis of all potential options, the Supervisory Board approved the merger of the domestic Fixed Net and Mobile Communication operations. With a joint market approach, the Telekom Austria Group will achieve significant revenue effects and accelerate the development and launch of convergent products on the basis of harmonized internal processes.

This step is the logical continuation of our strategy aimed at leveraging the potential of both market segments. At the same time, we are still confident of the long-term growth potential of our international activities and will continue to do our utmost in the future to reap the benefits arising from these emerging markets. We would like to thank you, our shareholders, for the trust you have placed in us as we continue along this path and, finally, we should like to express our deepest gratitude to our employees who are willing to "brave any weather" in the interests of the Telekom Austria Group.

Sincerely,

Hannes Ametsreiter, Chairman of the Management Board (since April 1, 2009)
Hans Tschuden, Vice Chairman of the Management Board

Business Model and Markets

From Austria to Eastern and South-Eastern Europe

Present in eight countries, Fixed Net and Mobile Communication

With revenues of EUR 4,802.0 and 16,573 employees, the Telekom Austria Group ranks among the largest companies in Austria. The Fixed Net segment serves 2.3 million access lines and is the leading provider in Austria, acting as the country's telecommunications backbone in most regions. The Mobile Communication segment serves approximately 18.9 million customers in eight markets. Besides Austria, the Telekom Austria Group operates in Bulgaria, Belarus, Croatia, Slovenia, Liechtenstein, the Republic of Serbia and the Republic of Macedonia.

Both segments operate under the umbrella of the listed company Telekom Austria AG, which defines the Telekom Austria Group's strategic and financial goals.

Changing Customer Demands

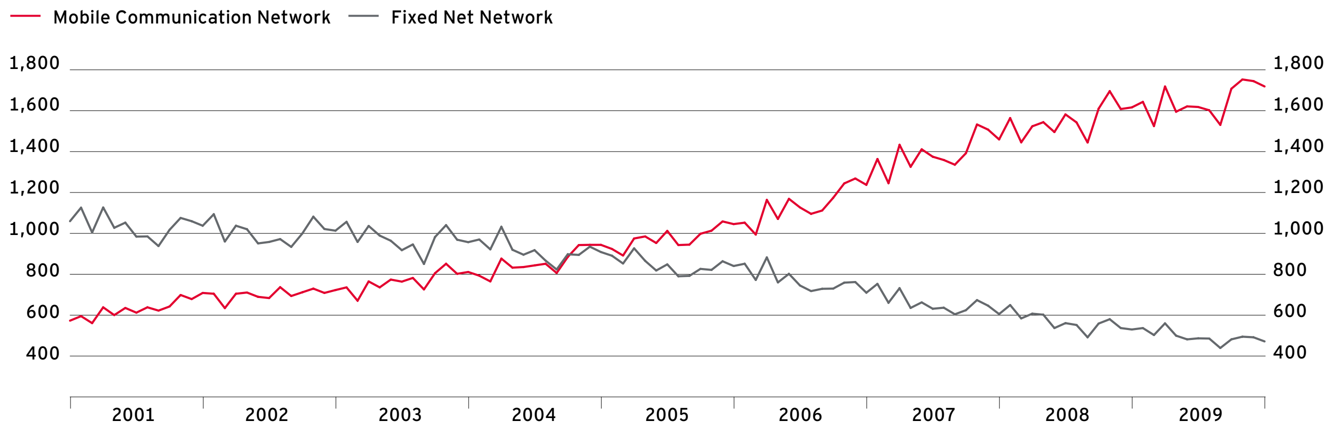
Fixed-to-mobile substitution continues

Fixed-to-mobile substitution continued throughout 2009. While in 2001 approximately two thirds of total voice minutes were carried over the fixed net, by 2009 this ratio had been reversed against the backdrop of a growing global market. Approximately 80% of voice minutes are now carried over mobile communication networks. In the same period, the number of households in Austria with Internet access has doubled.

Successful product portfolio

The Telekom Austria Group has responded to these developments by realigning its product range and since 2007 has offered product bundles that cut across segments. The product portfolio has been successively expanded and now includes fixed net telephony, mobile communications, broadband Internet , mobile broadband and television as well as other attractive broadband services. The prime objective of this strategy is to safeguard the attractiveness of fixed access lines and stem the persistent trend toward declining fixed line numbers witnessed in recent years. In 2008 and 2009 this decline was reduced, and Q4 2009 saw fixed line net additions for the first time in ten years. This success demonstrates that customer expectations have changed as comprehensive communications and information solutions from a single source spark rapid user uptake. The number of customers subscribing to Telekom Austria Group's product bundles rose by over 50% in the year under review.

Development of Traffic Volumes in Austria
in millions of minutes per month



The Telekom Austria Group's International Presence

For several years Telekom Austria Group has been operating in selected Eastern and South-Eastern European markets in addition to Austria. In 2009, these international operations generated 44.9% of total revenues, down slightly from 45.0% in the previous year.

mobilkom austria
Austria

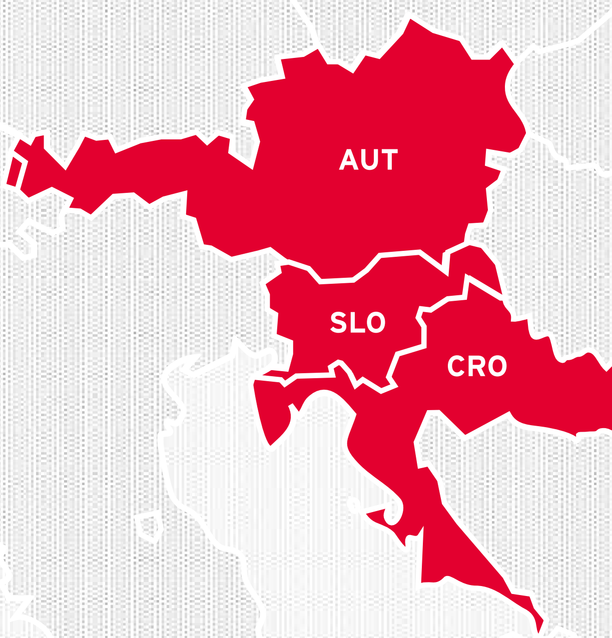
	2009	Change compared to 2008
Population in millions	8.4	
Per capita GDP in EUR (nominal)	31,250	
Revenues in EUR million	1,574.4	-5.6%
EBITDA in EUR million	585.7	-2.5%
Operating income in EUR million	354.9	+0.7%
Mobile penetration in %	135.7	-
Number of customers in '000s	4,834.2	+7.5%
Share of contract customers in %	72.8	-
Market share in %	42.6	-
ARPU in EUR	24.7	-12.7%
Share of revenues from data services in %	37.0	-
Employees as of Dec. 31	2,143	0.0%

Telekom Austria
Austria

	2009	Change compared to 2008
Revenues in EUR million	1,860.1	-8.8%
EBITDA in EUR million	575.7	-
Operating income in EUR million	116.1	-
Voice telephony in million minutes	3,380	-12.0%
Market share voice telephony in %	60.4	-
Monthly revenues per fixed access line in EUR	35.0	-5.1%
Fixed net access lines in '000s	2,313.5	-1.0%
Fixed net broadband access lines in '000s	1,022.6	+15.5%
Unbundled lines in '000s	286.6	-4.1%
Employees as of Dec. 31	7,893	-7.9%

mobilkom liechtenstein
Liechtenstein

	2009	Change compared to 2008
Population	35,500	
Per capita GDP in EUR (nominal)	73,611	
Revenues in EUR million	15.6	-23.2%
EBITDA in EUR million	3.4	-15.0%
Operating income in EUR million	2.6	-18.8%
Mobile penetration in %	90.1	-
Number of customers in '000s	6.3	+6.8%
Market share in %	20.1	-
ARPU in EUR	57.3	-18.3%
Share of revenues from data services in %	9.5	-
Employees as of Dec. 31	15	+15.4%

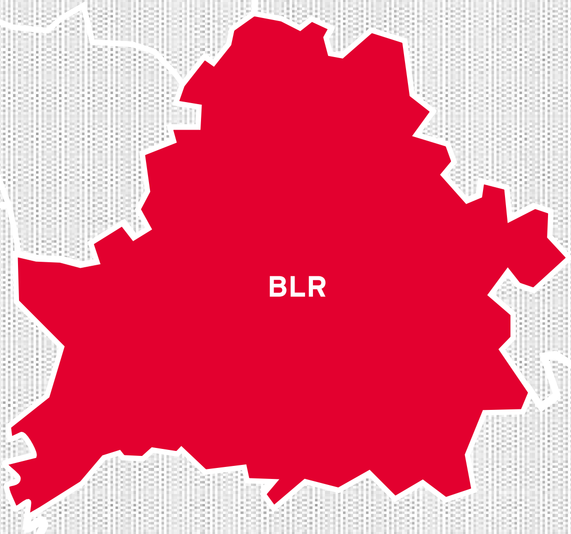


Si.mobil
Slovenia

	2009	Change compared to 2008
Population in millions	2.0	
Per capita GDP in EUR (nominal)	17,083	
Revenues in EUR million	180.3	-4.9%
EBITDA in EUR million	48.2	-18.0%
Operating income in EUR million	25.5	-31.8%
Mobile penetration in %	102.9	-
Number of customers in '000s	589.4	+3.3%
Share of contract customers in %	69.2	-
Market share in %	28.2	-
ARPU in EUR	21.7	-9.6%
Share of revenues from data services in %	22.1	-
Employees as of Dec. 31	329	+0.9%

Vipnet
Croatia

	2009	Change compared to 2008
Population in millions	4.5	
Per capita GDP in EUR (nominal)	9,653	
Revenues in EUR million	476.9	-8.9%
EBITDA in EUR million	170.8	-14.5%
Operating income in EUR million	100.8	-20.2%
Mobile penetration in %	138.4	-
Number of customers in '000s	2,603.0	+4.7%
Share of contract customers in %	24.6	-
Market share in %	42.6	-
ARPU in EUR	12.3	-16.3%
Share of revenues from data services in %	30.0	-
Employees as of Dec. 31	1,064	-0.9%

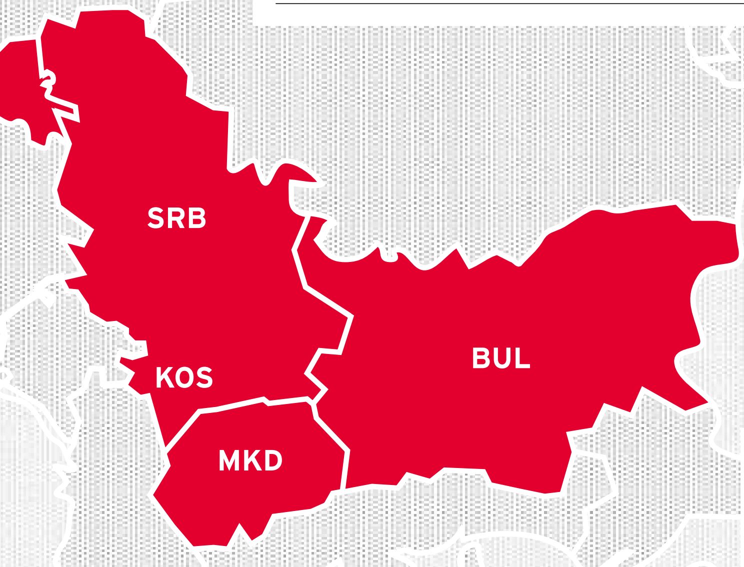


Velcom
Belarus

	2009	Change compared to 2008
Population in millions	9.5	
Per capita GDP in EUR	3,542	
Revenues in EUR million	300.3	-3.2%
EBITDA in EUR million	149.9	-2.3%
Operating income in EUR million	-211.9	-
Mobile penetration in %	99.4	-
Number of customers in '000s	4,102.4	+10.9%
Share of contract customers in %	75.8	-
Market share in %	42.7	-
ARPU in EUR	6.1	-16.4%
Share of revenues from data services in %	16.3	-
Employees as of Dec. 31	1,711	+6.5%

Vip mobile
Republic of Serbia

	2009	Change compared to 2008
Population in millions	7.5	
Per capita GDP in EUR (nominal)	3,958	
Revenues in EUR million	80.7	+36.8%
EBITDA in EUR million	-23.6	-34.6%
Operating income in EUR million	-143.3	63.6%
Mobile penetration in %	128.4	-
Number of customers in '000s	1,153.9	+27.1%
Market share in %	12.0	-
ARPU in EUR	5.5	-6.0%
Employees as of Dec. 31	772	+25.9%



Mobiltel
Bulgaria

	2009	Change compared to 2008
Population in millions	7.6	
Per capita GDP in EUR (nominal)	4,097	
Revenues in EUR million	614.7	-7.9%
EBITDA in EUR million	327.1	-11.8%
Operating income in EUR million	147.9	-25.2%
Mobile penetration in %	142.0	-
Number of customers in '000s	5,352.5	-0.8%
Share of contract customers in %	59.0	-
Market share in %	49.8	-
ARPU in EUR	9.1	-7.1%
Share of revenues from data services in %	16.1	-
Employees as of Dec. 31	2,455	+1.4%

Vip operator
Republic of Macedonia

	2009	Change compared to 2008
Population in millions	2.1	
Per capita GDP in EUR (nominal)	2,986	
Revenues in EUR million	21.7	+82.4%
EBITDA in EUR million	-13.4	-31.3%
Operating income in EUR million	-20.9	-13.6%
Mobile penetration in %	92.7	-
Number of customers in '000s	303.7	+25.5%
Market share in %	15.9	-
ARPU in EUR	6.1	+60.5%
Employees as of Dec. 31	172	+1.2%

"Convergence Creates Customer Convenience"

Hannes Ametsreiter, Chairman of the Management Board (since April 1, 2009)

The success of our product bundles underlines the central role played by the convergence of Fixed Net and Mobile Communication in safeguarding our competitiveness in Austria. They bundle the innovative strength of both our segments and meet customers' increasing demand for state-of-the-art telecommunication services from one single reliable partner. With the integration of our Fixed Net and Mobile Communication operations in Austria, we will adjust our corporate organization to this new market trend, providing the basis for the harmonization and optimization of internal processes for the launch of convergent products, while at the same time generating substantial revenue effects.

I am also confident about the further development of our international mobile communication activities. Although they were unable to escape the general economic trend in 2009 and therefore failed to match the dynamism of the past years, we are still convinced of the considerable potential of these growth markets.

Competition and Evolution

Challenging environment for Fixed Net and Mobile Communication

The Telekom Austria Group operates in highly competitive environments both in the fixed net and mobile communications markets. The resulting negative impact on pricing structures is further aggravated by regulatory measures in both segments. The extent to which these effects influence average revenues per user depends on the maturity of the individual markets. At the same time, increased utilization of network infrastructure goes hand in hand with rising transmission volumes. Continuous improvements to productivity and operating efficiency are therefore as essential for business success as innovative products and services along with high standards of quality.

Steady Growth of Mobile Data Services

Growth potential in Eastern and South-Eastern Europe

Mobile data revenues as a share of traffic-related revenues have been rising steadily, reaching 28.9% in 2009 up from 25.8% in the previous year. However, there are sharp differences within the segment. While in the highly developed Austrian market data services generated 37.0% of traffic-related revenues, the comparative share for Bulgaria was 16.1% and 16.3% for Belarus in the year under review. The Mobile Communication segment will therefore leverage the enormous potential of these markets by gradually introducing innovative applications such as mobile television or mobile broadband. In the medium term, these applications will require an increase in transmission capacities. Such investments can only be made in the view of the profitability of allocated capital if regulatory intervention and market acceptance can be sufficiently calculated.

Fixed Net Segment – The Trends in 2009

The product portfolio of the Fixed Net segment comprises voice telephony, broadband, data, TV and attractive ICT services and solutions for both residential and business customers. In the wholesale business the Fixed Net segment provides technological infrastructure to other operators of fixed net, mobile communications and Internet services both in Austria and abroad. Due to the company's position as the former monopolist, many of its business activities are still subject to regulation by the national regulatory authority, which also intervenes in pricing matters.

Comprehensive product portfolio for residential and business customers

Safeguarding Access Lines

Due to sustained migration to mobile communication, the Fixed Net segment has registered a decline in the number of fixed access lines over the past ten years from 3.3 million to 2.3 million at year-end 2009. While a decline of 4.0% was registered in 2008, this downward trend was reduced to 1.0% in the year under review. This positive development is attributable to the successful introduction of attractive product bundles, which combine fixed net and mobile telephony as well as fixed net and mobile Internet and television. This has also had a positive impact on the broadband business with the number of fixed net broadband access lines (including wholesale) rising by 15.5% to 1,022,600 in a year-on-year comparison.

Reduction of fixed net access lines limited to 1.0%

Successful Product Innovations

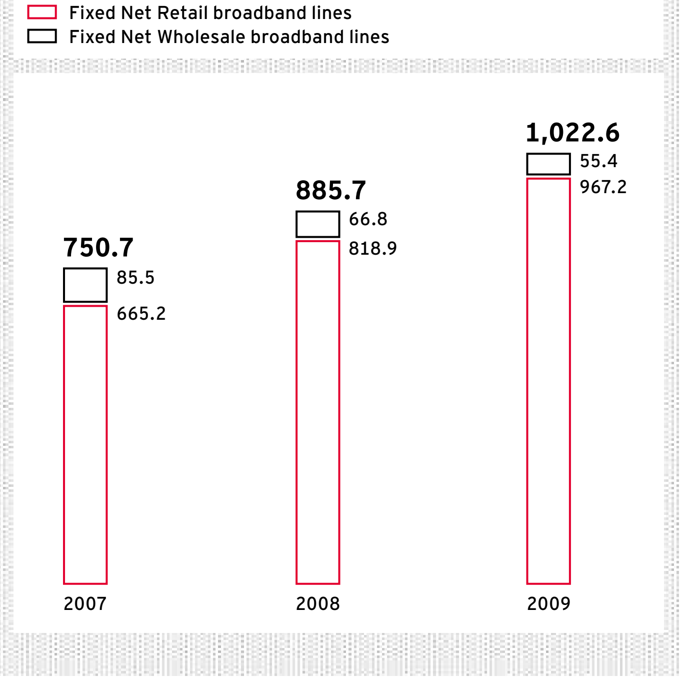
The number of aonTV customers considerably increased in the year under review reaching a total of 101,300 subscribers. The program portfolio was expanded to more than 90 channels and features HDTV, video-on-demand and other IPTV functions, such as an integrated video library with more than 1,000 films and series, an electronic program guide and interactive information services. In 2009 the features were expanded to include "Meine Medien", a media box that allows the customer to retrieve and access images, videos or music files on the TV set, while an online hard disk provides access via mobile phone or Internet browser.

101,300 aonTV customers

The attractive product bundles aonKombi and aonSuperKombi continued to be successful in 2009. This year also saw the introduction of a new package, aonBreitbandDuo, combining a fixed net DSL access line with a mobile broadband connection.

With the introduction of the BusinessKombi package, the success of product bundles was also extended to the business segment. This package encompasses a fixed access line, mobile telephony, unlimited high-speed Internet as well as a domain service, web space, mail boxes, WLAN routers, fixed IP addresses and virus and spam filters. The "BüroKomplett" bundle goes even further, offering customers a fully-equipped office workstation with fixed net and mobile voice telephony, Internet, end-divices as well as service and technical support.

Development of Fixed Net Broadband Lines in '000s



Mobile Communication Segment – The Trends in 2009

Over 1.1 Million Net Additions

Continuing customer growth

In 2009, the Mobile Communication segment continued to successfully expand its subscriber base in Austria and in the Telekom Austria Group's international markets, gaining approximately 1.1 million new customers. At the end of 2009, the number of mobile customers totaled 18.9 million. The strongest growth was recorded in Belarus with over 400,000 new subscribers and in the saturated and highly competitive Austrian market with almost 340,000 net adds. In Serbia the subscriber base was expanded approximately 250,000 new customers. Most of this customer growth of the subsidiaries is attributable to contract customers.

Challenging Environment

Revenue decline, cost-cutting programs

Due to the economic downturn, falling prices caused by fierce competition, regulatory decisions and foreign currency translation effects mobile revenues declined in the 2009 financial year. In the Republic of Serbia and Croatia a levy of 10% and 6% respectively was introduced on selected revenues from mobile communication. Currency devaluations in Belarus and the Republic of Serbia also had a negative impact. However, thanks to a comprehensive and rapidly implemented cost-cutting program, the resulting negative effects on the development of financial results could at least be mitigated.

mobilkom austria – Austria

Market leader with 4.8 million customers

The Austrian mobile communications market is marked by fierce competition. Its mobile penetration rate totals 135.7% and is well above the Western European average of 130.1%. Against this backdrop, mobilkom austria succeeded in growing its subscriber base by 7.5% to 4.8 million customers in 2009, defending its market leadership with a market share of 42.6%. The share of contract customers rose by 3.3 percentage points to 72.8%. With a 14.6% churn rate in 2009 compared to 14.2% in the previous year mobilkom austria was able to keep customer defection at a low level.

Price pressure in mobile voice telephony continued throughout 2009 and was also increasingly felt in the mobile broadband business. Despite the ongoing expansion of the product and service portfolio, which for instance saw the introduction of A1 Music along with attractive netbook offers in 2009, average revenues per user (ARPU) declined by 12.7% to EUR 24.7. However, this decline was also partly attributable to the increased offering of "sim-only" products with lower tariffs and limited features. This trend was fuelled by successful product bundles, which allowed to address new customer groups.

Mobiltel – Bulgaria

5.4 million customers, market leader

The mobile penetration rate in Bulgaria in 2009 remained at a high level of 142.0% despite the cancellation of inactive SIM cards. In a highly competitive environment, Mobiltel successfully defended its market share of approximately 50%, with the subscriber base remaining stable at 5.4 million customers. The percentage of contract customers was significantly increased from 51.4% to 59.0%. At the same time, Mobiltel stepped up efforts to consolidate its innovation leadership, for example launching the M-Tel Navigator, the first mobile navigation solution on the Bulgarian market; Mobiltel also pioneered the introduction of HSPA+. Fixed-to-mobile substitution solutions, such as M-Tel Home or Office Box, were successfully augmented with product bundles for business customers. In the year under review, Mobiltel also won approximately half of those customers who changed their provider following the introduction of fixed line number portability.

Velcom – Belarus

4.1 million customers, second largest market operator

Compared to its neighboring countries, Belarus has a low mobile penetration rate, even though it rose from 85.1% to 99.4% compared to the previous year. Despite a 10.9% increase in the number of subscribers to 4.1 million, Velcom's market share decreased by 2.1 percentage points to 42.7%. However, the company remained the second-largest operator. The share of contract customers stood at 75.8% following a slight decline. Due to the difficult economic situation and a devaluation of the currency, average revenues per user fell by 16.4% to EUR 6.1 despite a tariff adjustment at the start of the year.

Vipnet – Croatia

2.6 million customers, 42.6% market share

The mobile penetration rate in Croatia increased by 4.8 percentage points to 138.4% while Vipnet successfully expanded its subscriber base by 4.7% to 2.6 million customers in 2009. The share of contract customers rose by 1.9 percentage points to 24.6%; market share remained stable at roughly 43%. Vipnet is regarded as one of the most innovative companies on the market and also one of the most successful, especially in the mobile broadband segment, where it holds a market share of almost 60%. Against the backdrop of the current economic crisis, the use of mobile communication in Croatia has fallen by approximately 10%. In 2009 the Croatian government passed a number of special laws, one of which imposed a 6% levy on mobile communications services.

Si.mobil – Slovenia

589,400 customers, 28.2% market share

The fast-growing Slovenian market is characterized by intense competition between the five market participants. Nevertheless, in 2009 Si.mobil registered the highest number of net adds and with 589,400 subscribers had a market share of 28.2%. The mobile penetration rate remained virtually unchanged at 102.9%. Si.mobil's tariff packages target young people, adults up to the age of 45 and small and medium-sized enterprises in particular. In line with the needs of these target groups, the company for example entered into a strategic partnership with Universal Music in order to offer special tariffs that include music downloads.

Vip mobile – Republic of Serbia

1.2 million customers, 12.0% market share

Attractive offers for all customer segments enabled Vip mobile to benefit from the rapid growth of the Serbian market and significantly expand its subscriber base. In a year-on-year comparison the number of customers rose by 27.1% to 1.2 million, bringing market share to 12.0%. Following the cancellation of inactive SIM cards from the customer base, the mobile penetration rate declined to 128.4%. Vip mobile continued to expand its network infrastructure in 2009 and also introduced several product innovations such as the BlackBerry Storm phone. In response to the economic crisis the government introduced a 10% levy on selected revenues from mobile communication. Although further progress was made in the year under review, the Serbian mobile communications market is still not completely deregulated.

Vip operator – Republic of Macedonia

303,700 customers, 15.9% market share

The Republic of Macedonia has a population of 2.1 million and a penetration rate of 92.7%. In a market, which it shares with two other providers, Vip operator increased its market share from 10.7% to approximately 16%. Vip operator's customer structure is dominated by prepaid customers; only 28.2% of the roughly 303,700 subscribers have a contract. Attractive offers enabled both segments to win a large number of new subscribers in the year under review. The new tariff introduced for prepaid customers for example was very well received by the market. Innovations for contract and business customers focused on BlackBerry offers and services such as VPSs. Vip operator was the first provider to bring a VoIP application onto the market in the form of the Vip Communicator.

mobilkom liechtenstein – Principality of Liechtenstein

6,300 customers, 20.1% market share

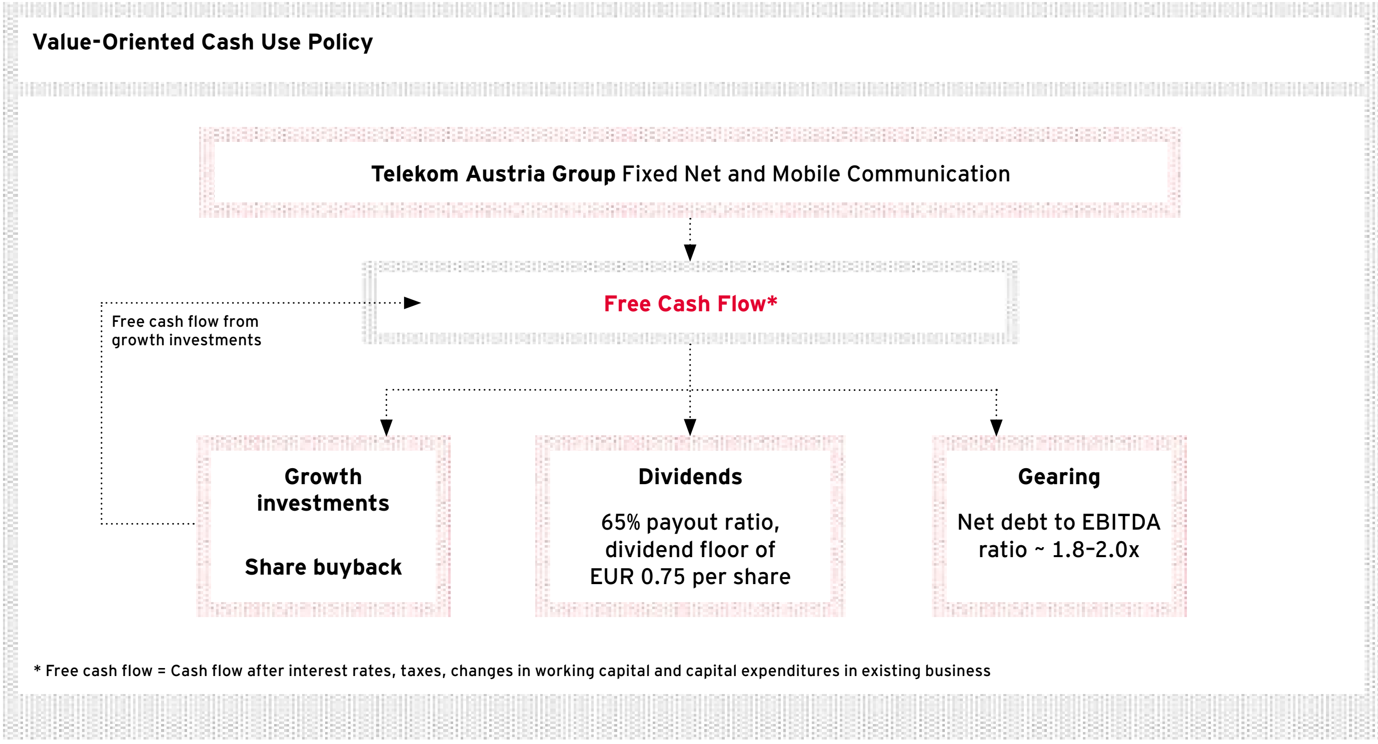
In 2009 the Principality of Liechtenstein registered an increase in the mobile penetration rate to 90.1%. mobilkom liechtenstein had 6,300 customers and a market share of 20.1%. Average revenues per user totaling EUR 57.3 are well above the average in the Mobile Communication segment and among the highest in Europe.

Corporate Strategy

Strategic Focus

The Telekom Austria Group is an integrated, convergent provider of intelligent information and communications services and is a leader in its geographic markets. The company's strategic and operating targets include:

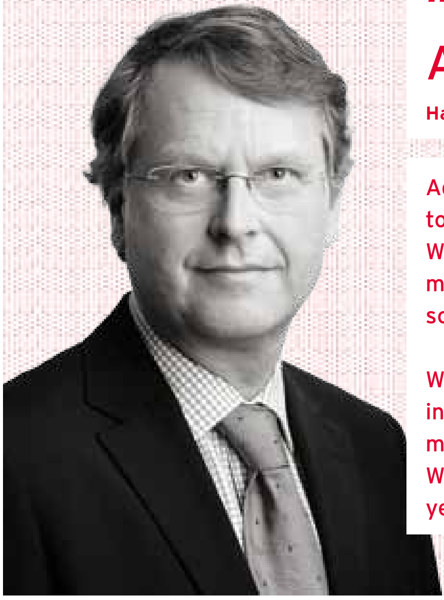
- Positioning Telekom Austria Group as a provider of convergent services
- Optimizing activities through operational excellence
- Value-creating growth through
  - convergence of Fixed Net and Mobile Communication in Austria
  - seizure of market consolidation opportunities
  - geographic expansion



Balanced Cash Use Policy

With regard to its cash use policy, the Telekom Austria Group's strategy is oriented toward achieving a balance between value-enhancing growth investments and continuous attractive shareholder remuneration. Growth investments compete with share buybacks and are only made if they can produce a greater increase in shareholder value. The medium-term goal is to achieve a net debt to EBITDA ratio of 1.8x–2.0x in order to safeguard a solid balance sheet structure and stable investment grade ratings. At year-end 2009, the net debt to EBITDA ratio was 2.0x.

The Telekom Austria Group remains committed to the cash use policy presented in January 2009 and reiterates its intention to distribute dividends amounting to 65% of net income or at least EUR 0.75 per share in the period 2009 to 2012.



"Solid Cash Flow, Attractive Dividends"

Hans Tschuden, Vice Chairman of the Management Board, Chief Financial Officer

Against the backdrop of a challenging economic environment in 2009, we continued to press ahead with the necessary restructuring measures in the Fixed Net segment. We also achieved significant savings across all business units on the basis of strict cost management. As a result, we successfully fulfilled our 2009 target of generating a solid operating free cash flow of EUR 1.1 billion.

We are convinced that merging Fixed Net and Mobile Communication operations in Austria will enable the Telekom Austria Group to best respond to market developments and customer expectations, while considerably boosting our earning power. We, therefore, intend to continue distributing an attractive dividend of EUR 0.75 in the years 2009 to 2012.

Market-Oriented Convergent Product Bundles

Fixed Net and Mobile Communication product bundles

At the end of 2007, the Telekom Austria Group started introducing cross-segment product bundles to safeguard the attractiveness of fixed net access lines: They provide a one-stop-shop solution for all communication and media needs, lower prices compared to single services as well as high-quality service and technical support from one source. Moreover, the Telekom Austria Group's product bundles leverage the successful domestic positioning of both the Fixed Net and Mobile Communication segments.

Due to the advanced digitalization of all types of transmission data, the form of transmission is becoming increasingly unimportant, what counts is transmission capacity. The convergence of the fixed net and mobile communication infrastructure, i.e. the integration of previously separate access networks, as well as the convergence of communication and IT, i.e. the optimization of communications processes on IT-basis, are the next logical steps.

Integration of Fixed Net and Mobile Communication in Austria

Supervisory Board approves merger

Many European telecommunications providers have already responded to the convergence of technologies by merging their previously separate fixed net and mobile communications operations. In the year under review, the Telekom Austria Group also duly evaluated the possibility of reorganizing its corporate structure in a similar way. At a number of its meetings, the Supervisory Board examined all potential options and on February 23, 2010 approved the merger of the domestic Fixed Net and Mobile Communication operations into a single operating company.

Numerous advantages through merger of operations

The main objective of this organizational merger is to create a basis to meet the increasing demand for integrated telecommunications solutions and convergent products. Moreover, the joint steering of sales activities will generate considerable revenue potential through cross-selling opportunities. This merger will also enhance Telekom Austria Group's innovative strength enabling the roll-out of a joint and future-proof network infrastructure and the full leverage of synergies across in-house processes. The organizational merger will take place in 2010. However, optimization of processes and the convergence of technological systems will require more time.

Once this integration has taken place, joint marketing and sales activities will generate substantial revenue effects. Harmonized processes will accelerate the development and launch of convergent innovations and the company will provide targeted services and technical support from a single source.

Valuable cost synergies

In addition to the revenue effects mentioned above, the integration of processes, management systems and key tasks is also expected to cut costs in the medium term. The structural adjustments required by this reorganization will, however, result in significant restructuring expenses that are expected to amortize within a few years.

Investments in New Technologies

Next Generation Network

The repositioning of the product portfolio and general rise in traffic volumes due to increased use of data services require considerable investments in network infrastructure and new technologies.

Telekom Austria Group is working intensively on gradually migrating its separate networks to an All-IP-based Next Generation Network. The convergence of network architecture reduces process complexity, improves efficiency and at the same time enables the introduction of new, innovative services. In addition, four glass fiber pilot projects were initiated in Vienna and Carinthia in the year under review with the aim of obtaining reliable information about development costs and customer acceptance of product design and pricing of premium services. The future product portfolio will encompass Internet connections with speeds of up to 100 Mbps, innovative Internet-based services and HDTV, including a video library.

In 2009, the Fixed Net segment also started the rollout of VDSL2 technology (Very High Speed Digital Subscriber Line) in rural areas based on the existing glass fiber core infrastructure up to the switching centers as well as on the migration to an NGN voice platform. This technology enables the upgrade of current network transmission bandwidths to up to 30 Mbps with very low incremental investments.

A Friendly Investment Climate

The Telekom Austria Group is making significant investments to meet rising demands for higher network capacity and transmission speeds. EUR 1.5 billion has been earmarked for the period up to 2013 for the further expansion of infrastructure and the ALLmediaNet in Austria. The Telekom Austria Group will be optimally prepared for the future flood of data.

Value-Accretive Growth

Differentiated market approach

The Group seeks to fully leverage both the growth potential arising from the product convergence in Austria and the opportunities offered by the Mobile Communication segment's international activities. Every strategic move will depend on the maturity level of each individual market, which will also determine what kind of transmission technologies and capacities are to be applied on a case-by-case basis.

The growth potential of the Slovenian, Croatian and Bulgarian markets will be leveraged by further expanding the subscriber base, driving data business and specifically targeting attractive market segments such as business customers. Investments in network infrastructure in these countries will be directed toward increasing capacities and transmission speeds. Benchmarked against the current low volumes of traffic and usage of data services Belarus, the Republic of Serbia and the Republic of Macedonia offer the greatest growth potential. Telekom Austria Group therefore seeks to achieve higher-than-average growth in subscriber numbers, to expand the share of contract customers and launch product innovations that meet the needs of the respective markets. The further technological development of the network infrastructure in these countries will be based upon demand for innovative applications and mobile data services.

Eastern and South-Eastern Europe remain the main target regions for any further expansion steps.

Efficient Processes and Risk Awareness

Continuous optimization and synergies

Safeguarding competitiveness in the face of persistent and severe price-pressure in all markets necessitates the ongoing optimization of processes and the efficient use of resources in all areas. In addition, the coordinated development of products and services in the Mobile Communication segment provides valuable synergy potential. This coordination function is carried out by a cross-border service company, which is also responsible for the partnership with Vodafone and the harmonization of technological platforms and processes aimed at lowering costs.

A segment-wide monitoring system has therefore been put in place to identify risk factors such as currency fluctuations or long-term macro-economic trends. Local key indicators, such as the topping-up patterns of prepaid customers or payment practices of contract customers are analyzed at regular intervals as are currency effects. These monitoring instruments are embedded in the group-wide risk management system of Telekom Austria Group.

Restructuring Measures in the Fixed Net Segment

Adjustment to current volume of business

In order to safeguard competitiveness, it is imperative to adjust the legacy cost structures of the Fixed Net segment to the current volume of business and state-of-the-art technologies. Headcount reduction is an essential element of this process and a number of socially compatible downsizing schemes have already been initiated in recent years. However, two-thirds of the Fixed Net segment workforce has civil servant status and their contracts cannot be terminated. In November 2008, a restructuring program targeting 1,250 members of staff was presented. It was anticipated that a number of employees would accept the social plan, that was part of the restructuring program. Moreover, employees who could no longer be employed within the company, would be permanently released from their duties. By the end of 2009, some 594 individuals had accepted this social plan and a further 887 were permanently released from their duties.

At the end of November 2009 an agreement with the relevant ministries was reached, that enables the voluntary transfer of up to 500 employees, who could no longer be employed within the company to administrative services of the Austrian police force.

Sustainability

Commitment and Main Goal

Economic success, ecological and social responsibility

The prime strategic objective of the Telekom Austria Group is the sustainable enhancement of shareholder value. However, the emphasis is not upon expansion at any price, but on taking forward-looking action to ensure the company's healthy development in the long term. The challenge of responsible company management is to combine economic success with environmental and social aspects.

To underline its deep-seated commitment to this principle, the Telekom Austria Group endeavors to further develop its sustainability profile. The increased involvement of the international subsidiaries and their integration into the corporate strategy are central to these efforts.

Organization of CSR

Involvement of all business units

The basic issues related to corporate social responsibility (CSR) are regulated at the Group level. Key standards such as the Code of Conduct, risk management and the policy concerning electromagnetic waves are drawn up centrally and are binding throughout the Group. Individual activities fall under the responsibility of the respective companies and comply with regional regulations and requirements. CSR management, coordination with the foreign subsidiaries and the coordination and control of the reporting structures are also dealt with at the Group level. All operating companies have specially designated members of staff who are responsible for the various areas of CSR. The CSR areas, in which the Telekom Austria Group is active, are the result of the company's business operations and the interests and concerns of its stakeholders. The relevant programs and activities are implemented by the responsible business units.

Sustainability Reporting

Global Reporting Initiative

In 2002 the Telekom Austria Group started publishing a sustainability report, which since 2006/07 has been published annually. This report is prepared on the basis of the recommendations of the Global Reporting Initiative (Guideline G3 for Sustainability Reports and the Telecommunications Sector Supplement). The company's own assessment of the extent to which it has achieved compliance with the G3 Guidelines of the GRI Reporting Framework in the Sustainability Report 2008/09 was externally audited and classified as Level B+.

The Sustainability Report 2008/09 is available online at http://sr2008-09.telekomaustria.com.

Environmental and Climate Protection

The innovative solutions provided by information and communications technologies offer enormous potential for climate protection. The virtualization and digitalization of processes reduces the impact on the environment. Video-conferencing and teleworking are major levers for cutting travel and consequently CO_2. The increased use of e-government, e-health, e-studying etc. also offers savings potential.

However, the increased use of data-intensive services also leads to higher energy consumption in the ICT area. The Telekom Austria Group is therefore stepping up measures to reduce the company's CO_2 emissions.

The Telekom Austria Group's companies are active participants in a range of national and international environment protection initiatives. By joining the WWF Climate Group, Telekom Austria Fixed Net undertook to reduce its CO_2 emissions by at least

Tomorrow will also be fair and sunny!

For quite some time, the Telekom Austria Group has documented its sustainability activities in detailed reports. Engaging all business units ensures that the Group makes steady progress along the path to sustainability. The current areas of high pressure are associated with energy efficiency, the reduction of CO_2 emissions and the increased use of renewable energy sources.

15% before 2012. A special department for energy management was created to ensure continuous improvements in energy efficiency and the systematic optimization of energy flows. In 2009 the energy management system was certified according to the new Austrian Standard ÖNORM EN 16001. To combat rising electricity consumption at computer centers, the Fixed Net segment has also signed up to the European Union Code of Conduct on Data Centres Energy Efficiency (COC).

Reduction of impact on the environment

In the Mobile Communication segment, mobilkom austria developed an environmental strategy of its own in 2009 to put in place clear structures to prevent unnecessary environmental pollution, increase resource efficiency in the individual business areas and motivate employees at all levels to become actively involved in protecting the environment.

Deployment of renewable energies

In Austria, mobilkom austria has brought on stream the first wind-powered base station. This prototype, which is the first of its kind in Europe, should make it possible to generate up to 80% of the base station's total energy requirement with wind power. A further trial that uses alternative sources of energy integrates photovoltaic cells at base stations. The Croatian subsidiary Vipnet is already using solar energy to power a number of base stations. Vip operator in Serbia is developing a project to utilize solar energy.

mobilkom austria has been conducting recycling campaigns since 2004. The company was the first mobile operator in Austria to introduce a system to reuse and recycle end-of-life mobile phones. In 2009 the "Handy-Recycling" project was taken a step further. As part of its comprehensive environmental program Re.think, the Slovenian operator Si.mobil initiated a recycling campaign. Vipnet's recently developed waste management plan also has a strong focus on recycling mobile phones.

Immision Control

Compliance with all standards

The threshold values to protect human health recommended by the International Committee on Non-Ionizing Radiation Protection (ICNIRP) on the basis of scientific studies, form the basis for specialist bodies, the World Health Organization (WHO), the EU and government guidelines. All Telekom Austria Group's companies comply with these standards or achieve significantly lower values than those required. Wide-ranging communication measures such as help-desks, discussions, hotlines and information brochures are used alongside stakeholder dialogue.

Media Competence

Support of responsible use of new media

Communications technologies such as the Internet and mobile telephony exert a considerable influence over our everyday lives. The Telekom Austria Group helps users – especially children and young people – deal with these media responsibly. In addition to their voluntary commitments within the framework of various child protection conventions, the Group companies also initiate and support projects of their own. Mobiltel has presented a long-term strategy for raising awareness about the responsible use of the Internet. Vipnet supports "Break the Chain", the UNICEF campaign against cyber-bullying.

Social Responsibility

Long-term partnerships

The Telekom Austria Group also demonstrates social responsibility in the form of long-term partnerships with charitable organizations. The choice of activities is left to the local companies which make their decision taking regional needs into account. mobilkom austria, for instance, has supported Doctors without Borders for the last nine years; Telekom Austria TA AG has supported Light into Darkness ("Licht ins Dunkel") for 36 years and in 2004, it entered into a cooperation with the Austrian Federation of the Blind and Partially Sighted. Mobiltel has been honored as "The Biggest Corporate Donor" in Bulgaria in recognition of its extraordinary commitment. Corporate donations support foundations, orphanages, community projects and educational institutions.

Human Resources

Know-How, A Factor of Success

EUR 11.5 million spent on further education

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

Comprehensive vocational training offering for potential experts and executives

The Fixed Net segment offers an extensive program of seminars designed to meet the professional training requirements of both individual employees and the various company departments. These courses are not only geared to developing professional competence, but they also promote teamwork capabilities and social skills. In the Mobile Communication segment, training activities include management training and specialist courses as well as seminars to improve communications skills and self-management. A modular development program has also been developed for potential experts and executives. In cooperation with the Executive Academy of the Vienna University of Economics and Business Administration, the segment offers excellent management training programs, including MBA courses.

The Telekom Austria Group's subsidiaries also organize their own special training programs and initiatives that are geared to local requirements. In 2009 Si.mobil, for example, introduced a new training concept that addresses four different target groups, thus providing differentiated learning opportunities. The main focus of education and professional training programs at Vip mobile in Serbia is on customer orientation, financial management and technical expertise.

Excellent Employer

National and international awards

The efforts made by the Telekom Austria Group to offer its employees a challenging and attractive working environment have been recognized with a host of awards. In 2009 the Bulgarian subsidiary Mobiltel received a prize for the best remuneration and bonus system and also for its outstanding role as an investor in human capital. Si.mobil also won several awards for, among other things, the most innovative human resources program and its social responsibility. In 2009 mobilkom austria once again took part in the "Great Place to Work" survey and was recognized as one of the best employers in Austria and the most attractive employer within its industry.

Tomorrow's Top Managers

302 apprentices, of whom 30% are women

The Telekom Austria Group pursues a multi-pronged strategy to meet future demand for skilled workers and executives, with youth training playing a central role. 62 new apprentices joined the company in the year under review and 302 young people are now receiving solid vocational training in a wide range of technical and commercial occupations. More than 30% of these apprentices are women.

Parallel to their vocational training, apprentices have the chance to obtain ICT Academy certification; in 2009, 30 apprentices chose to take advantage of this opportunity to gain an additional qualification. They also receive plenty of support if they choose to take the vocational matriculation exam, which entitles them to a place at a university or university of applied science once they have completed their apprenticeship.

mobilkom austria's A1 TOP TALENT COMPETITION shows a particularly practice-oriented approach to recruiting potential employees. Students with an interest in marketing, sales or customer service are given the opportunity to prove their talent at an exclusive project workshop. The winner receives a place on mobilkom austria's coveted one-year trainee program and the chance of an attractive start to their career.

Trainee program for the best

To foster the social skills of executives, the pilot project SeitenWechsel was launched, in which executives spend some time working in social institutions as part of a coordinated and mentored program. To date, 12 executives have experienced the meaning of social competence in the context of a social institution.

Internal Networking and Dialogue

The Telekom Austria Group gives high priority to actively involving employees in the continuous development of organizational structures and framework conditions. In early 2009, for example, the Fixed Net segment carried out a wide ranging employee survey. The results of this survey led, among other things, to the implementation of the following development formats: Basis Boards will now take place twice a year in the form of moderated workshops and will collect employee suggestions for ongoing improvements. The main focus in 2009 was on customer and performance-orientation, the sharing of best practices and employees' self-responsibility. The Open Spaces format promotes the development of a professional team culture and highlights cross-departmental interfaces. Employees who participate in these events are also involved in the evaluation and implementation of the defined measures in order to ensure their acceptance.

Employee survey proves effective

In the Mobile Communication segment, mobilkom austria, for example, has been carrying out anonymous employee surveys for a number of years. The survey in 2009 had a response rate of 72.6% and showed that the level of job satisfaction among employees has improved to 1.7 after 1.9 in 2007 (this assessment is based on the Austrian school grading system, where 1 is the best mark and 5 the worse). For the first time, employees were also asked to assess the need for change within the company. A feedback tool was used to provide executives with a detailed evaluation of their leadership skills and expertise. In the year under review, mangers reached a better score of 1.9 compared to 2.0 in the previous year with regard to their leadership skills. The implementation of results and suggestions was supported by specific measures in the single departments and carried out for the first time in close coordination with staff members by means of focus groups in relation to specific topics. A tailor-made modular further education program for executives "leading for success" was also initiated in the year under review.

Improved response rate in the Mobile Communication segment

Success-Oriented Approach and Motivation

The Telekom Austria Group uses a variety of instruments to promote a performance-oriented work ethic among its employees. A performance dialogue, for example, ensures discussion between managers and employees regarding expectations, career opportunities and incentives. The segments and countries have implemented this dialogue in differing forms. However, it is mandatory and must take place at regular intervals.

Regular performance appraisals

Employee Participation Program

To further develop existing performance incentives, the Mobile Communication segment, in consultation with its personnel representatives, has put in place a model that as of 2010 will redefine the remuneration of outstanding individual performance as well as employees' share in the overall success of the company. An Employee Participation Program for all employees of the Group in Austria was already introduced in December 2006. Under this scheme, which is planned to last until 2009, a number of Telekom Austria shares to be determined by the Supervisory Board are granted to the members of staff.

Health and Safety at Work

Comprehensive training program

The Telekom Austria Group offers its employees a host of facilities and initiatives to protect their health and minimize the risk of work-related accidents. Medical care at the workplace is provided by company doctors and vaccination programs and first aid courses are also regularly organized. The Telekom Austria Group's subsidiaries organize their own sports activities and information campaigns geared to local requirements and preferences. The latest protective equipment is provided to ensure occupational safety, and training courses and information meetings are regularly held to raise employees' awareness of the potential dangers of their workplace.

All members of the Austrian workforce with permanent employment contracts are covered by a company pension plan to which the company contributes 5% of the employees' monthly salaries.

Equal Opportunities and Diversity Management

Standard remuneration schemes

Female employees at the Telekom Austria Group are treated equally with their male colleagues. Clear descriptions of positions as well as of the required abilities and skills ensure a standard remuneration framework. Women account for 36.4% of employees at the Telekom Austria Group (2008: 35%), 20.7% in the Fixed Net segment (2008: 21%) and 51.5% in the Mobile Communication segment (2008: 49%). Flexible working hours help foster a positive work-life balance. Support programs are in place to ease the reintegration into the working world of employees who have been on parental leave.

Women account for roughly 20% of management

In addition to the three female members of the Supervisory Board of Telekom Austria AG, a further seven Supervisory Board positions within the Telekom Austria Group are held by women as are two Management Board and managing director positions at subsidiaries. The number of female executives employed at the foreign subsidiaries has risen to 52 women. The proportion of women in managerial positions at the Telekom Austria Group in 2009 amounted to roughly 20%.

In Austria the Telekom Austria Group employs 52 members of staff with disabilities. A number of disability liaison officers have been appointed to support their special needs and ensure that workplaces are adapted to disabled workers. Since 2009 the company has intensified its cooperation with the Social Welfare Office and the Institute for Vocational Integration.

Workforce Structure and Productivity

Headcount reduction of 2.2%

At year-end 2009 the Telekom Austria Group had 16,573 employees, a decline of 2.2% or of 381 persons compared to the previous year. A 7.9% decline in the Fixed Net segment to 7,893 employees contrasts with a growth-driven increase of 3.5% to 8,680 employees in the Mobile Communication segment. As of December 31, 2009, 33.8% of the workforce had civil service status (2008: 36.6%), with most of them employed in the Fixed Net segment. Revenues per employee declined by 2.6% to EUR 286,106 in the year under review. In the Mobile Communication segment the number of customers per employee increased by 2.8%. In the Fixed Net segment the number of access lines per employee improved by 7.3% to 293 lines.

Key Personnel Figures

Full-time employees at year-end	2009	2008	Change in %
Fixed Net segment	7,893	8,571	-7.9
Mobile Communication segment	8,680	8,383	3.5
Telekom Austria Group	16,573	16,954	-2.2
of which abroad	6,520	6,228	4.7
Productivity figures*			
Revenues per employee in EUR	286,106	293,734	-2.6
EBITDA per employee in EUR	106,888	108,675	-1.6
Fixed lines per Fixed Net employee	293	273	7.3
Mobile Communication customers per Mobile Communication employee	2,183	2,124	2.8

* 2008: excluding restructuring costs of EUR 632.1 million

Restructuring Program in the Fixed Net Segment

594 employees accepted the social plan

Against the backdrop of a shrinking Fixed Net market, a number of socially compatible personnel downsizing schemes have been successfully implemented in recent years. As part of these measures, a restructuring program was presented in November 2008, which addresses 1,250 employees. As of December 31, 2009 the social plan put forward under this program had been accepted by 594 employees, who have already left the company, a higher number than originally anticipated. The 887, who could no longer be employed within the company, were permanently released from their duties at year-end 2009. A more detailed description of the related financial effects is available in the Notes to the Consolidated Financial Statements starting from page 105 ((22) Provisions).

Furthermore, an agreement was reached with the relevant ministries in the year under review that allows employees with civil service status from the Fixed Net segment to transfer to the administrative services of the Austrian police force. The first group of twelve employees took advantage of this opportunity in September 2009. To enable as many employees as possible to move, more than 400 staff members were offered an eight-week training program in office management.

Subsiding Winds

Although the trend toward line loss in the Fixed Net segment was stemmed in 2009, measures to adjust capacities to the current volume of business are still needed. Major progress was made via the social plan and the opportunity for civil servants to take up administrative jobs with the police force.

Innovation and Technology

Clear Focus: Added Value for the Customer

EUR 40.3 million for research and development in 2009

The Telekom Austria Group regards its innovative strength as a crucial competitive advantage and especially in challenging times seeks to distinguish itself from the competition with innovative products, services and increased quality. In the area of innovation management, the Telekom Austria Group follows a holistic approach that steers all processes from idea generation and prototype development to implementation and marketing. The focus is on delivering attractive market-ready products and services that offer the customer a clear added value. However, ongoing upgrades to the product portfolio go hand-in-hand with an increased use of transmission networks. Thus, the expansion and renewal of the network infrastructure provide the basis for innovative applications.

The research and development activities of the Telekom Austria Group combine internal know-how and outside expertise in the form of partnerships with leading industrial enterprises and research institutes. The Chair of Future Communication at the University of Vienna that was endowed by the Telekom Austria Group, for example, focuses on the link between future applications and the necessary transmission technology.

In 2009 the Telekom Austria Group invested a total of EUR 40.3 million in research and development (2008: EUR 41.5 million).

Innovations – Fixed Net Segment

Pilot project for Next Generation Network

2009 saw the beginning of the Next Generation Network (NGN) roll-out based on glass fiber technology. During the first phase, ultra-fast glass fiber broadband access lines with transmission speeds of up to 1 Gbps will be realized for 150,000 residential and commercial users within the framework of pilot projects in selected "Fiber Cities". With this Next Generation Network program, Telekom Austria is not only creating the technical infrastructure of the twenty-first century, but the investment involved also provides a valuable boost for the economy.

All-IP service platform

Within the framework of the Next Generation Network roll-out, the existing telephone system will be migrated to a state-of-the-art All-IP service platform. All Telekom Austria's customers will be successively connected to this new service platform that provides the basis for new communications services and convergent applications such as unified communication or voice-over-IP. Telekom Austria is one of the first service providers in Europe to take this step.

On the product front, activities focused on market-oriented innovations to intelligently network various domestic appliances. 2009 saw the launch of the aonTV Mediabox that builds upon the continuing success of the aonKombi and aonSuperKombi product bundles. The aonTV Mediabox illustrates the full potential of a networked home environment. Photographs and videos can be viewed on a television set and music played on a HiFi system all without cables. An integrated online hard disk also enables access via Internet or mobile phone.

Communications platform for 65+

As part of the AID (Interactive Awareness Display for Elderly People) research project co-funded by the Ministry of Transport, Innovation and Technology (BMVIT), Telekom Austria is working together with users from the target group of over-65-year-olds to develop a communications platform that will allow interaction via a touch-screen interface.

Following the successful introduction in June 2009 of the BusinessKombi product bundle for business customers, the module system BüroKomplett was developed in the year under review. This provides customers with solutions tailored to their individual needs by combining fixed net and mobile telephony, Internet services, hardware and software.

In November 2009, Telekom Austria launched its Managed Dedicated Unified Communications Services, hitherto the most comprehensive convergence concept for communications and information technologies that encompasses all three levels – network, end-devices and applications. As this allows users to access all content and services at any time, irrespective of the end-device, companies are able to optimize their entire communications processes and increase productivity.

Optimization of communications processes for enterprises

Innovations – Mobile Communication Segment

In 2009, the Mobile Communication segment moved forward with the coordination of its technology strategy and the cross-border harmonization of processes by implementing a Technology Governance policy. In addition to the regular launch of new applications and services, the Mobile Communication segment focuses on the quality of transmission networks and the expansion of capacities. The Telekom Austria Group is a front-runner in both disciplines.

Technology strategy across countries

The 2009 Global Telecom Business Magazine Award once again highlighted mobilkom austria's innovative strength also at the international level. This was the third time in a row that mobilkom austria had received this recognition. The 2009 award was bestowed upon mobilkom austria for the company's chip-based development of the NFC ticket system, which was first presented to an international audience at the Mobile World Congress 2009 in Barcelona. mobilkom austria also received the Security Award for its unique net-based security solution, A1 INTERNET SECURITY, which had already won a prize in 2008. Furthermore, the GSM Association (GSMA) used mobilkom austria's highly innovative A1 solutions for mobile broadband as a benchmark at international congresses.

The great importance and soundness of investments in quality enhancement and the technological upgrade of networks were confirmed by "connect", Europe's biggest magazine for telecommunications, when it carried out network tests in Germany, Austria and Switzerland; mobilkom austria emerged as the test winner throughout the German-speaking countries. In particular, the test confirmed the excellent quality and coverage of mobile broadband services. The use of cutting-edge technologies such as HSPA+ with super-fast data transfer speeds of up to 21 Mbps, guarantees customers not only the best mobile broadband network but also the best voice and data services in Austria. HSPA+ was also introduced by Vipnet in Croatia and Mobiltel in Bulgaria in the year under review. Other examples of the segment's innovative strength include the launch of the M-Tel Navigator in Bulgaria, Vip Auto Monitoring to optimize vehicle fleet management in Croatia, and KEY-CONTROL, the innovative remote control service in Belarus.

Bright with Prolonged Sunshine

The Telekom Austria Group is the unchallenged technological and innovation leader in its markets, investing approximately EUR 40.3 million in research and development in the year under review. While the Fixed Net focuses on rolling-out the Next Generation Network, the Mobile Communication segment is concentrating on the quality of transmission networks, the expansion of capacities and the introduction of new applications and services.

In 2009 the A1 InnovationDays, a competition to generate ideas and applications for new mobile communications services, again served as an important discussion and presentation platform that attracted a great deal of international attention. At the same time, the first Austrian Mobile Camp was held with a view to exchanging ideas and sharing information about the latest trends and developments in mobile technology through workshops and lectures.

Investor Relations

Telekom Austria Stock Data

Stock Number	72000
Symbol	TKA
ISIN	AT0000720008
Reuters	TELA.VI
Bloomberg	TKA AV
Traded on	Vienna Stock Exchange

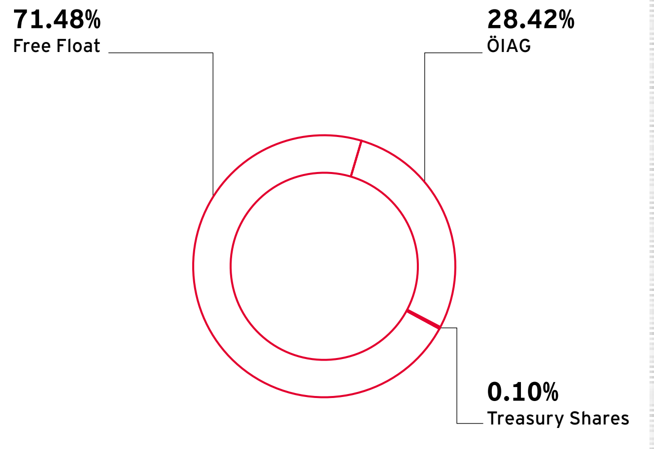
Shareholder Structure

Telekom Austria AG shares have been listed on the Vienna Stock Exchange since November 2000. Following the authorization of the Annual General Meeting on May 20, 2009 and a resolution of the Management Board, 17 million treasury shares were retired as of August 24, 2009, resulting in a reduction of the number of shares issued from 460 million to 443 million and a decrease in share capital of 3.7%. As of April 7, 2009 Capital Research & Management, California, announced that it had increased its stake to 10.01% or 46.1 million of the 460 million shares originally issued. UBS AG, Zurich, and its subsidiaries announced an interest of 4.95% as of August 20, 2009. As the managers of the individual funds controlled by these two companies make their investment decisions independently of one another, these shares are regarded as free float. At year-end 2009, 71.48% or 316.7 million shares were free-float; of the remainder, 28.42% or 125.9 million shares were held by ÖIAG and 0.1% or 0.4 million shares by the company itself.

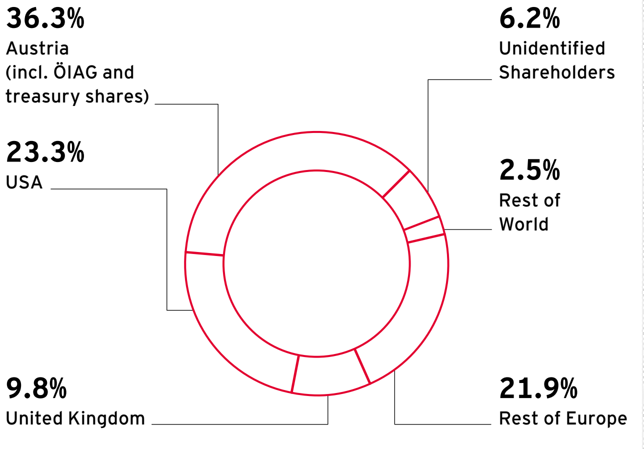
The shareholder analysis carried out by Telekom Austria AG as of December 31, 2009 identified 93.8% of the shares. According to this survey, 36.3% of the shares are held by Austrian shareholders (including ÖIAG), approximately 9.8% by investors in the United Kingdom and 23.3% by U.S. investors. Most of the remaining stock is held in other European countries. The percentage of shares owned by employees of the Telekom Austria Group remained stable at approximately 0.4%.

After the reporting period, Capital Research & Management announced that it had increased its stake to 15.13% as of January 20, 2010.

Shareholder Structure
as of Dec. 31, 2009



Shareholder Structure by Country
as of Dec. 31, 2009



Shareholder Remuneration

Dividend floor of EUR 0.75 per share for 2009–2012

The planned cash use policy for the period 2009 to 2012 presented by the Telekom Austria Group at the Capital Market Day in January 2009 provided for a payout ratio of 65% of net income and a dividend floor of EUR 0.75 per share. The evaluation of whether to resume the share buyback program, which was temporarily suspended in 2007 due to net debt exceeding the target ratio to EBITDA, was carried out as announced in 2009. Owing to the operational challenges facing the Group in Eastern and South-Eastern Europe and current currency translation risks, the decision was taken not to resume share buybacks in 2010.

Future action will depend on the normalization of business and the stabilization of exchange rates and will remain in line with the company's cash use policy that envisages the resumption of share buybacks.

The Management Board will propose a dividend of EUR 0.75 per eligible share at the Annual General Meeting to be held on May 27, 2010. Based on a share price of EUR 9.95 at year-end 2009, this represents a dividend yield of 7.5%.

Variable to Fair

Telekom Austria shares were unable to participate in the rally on international stock markets in 2009, falling 3.4% to EUR 9.95 compared to the previous year. The outlook looks brighter for the Telekom Austria Group's cash use policy which envisages a minimum dividend floor of EUR 0.75, for the period 2009–2012, a dividend yield of 7.5% at year-end 2009.

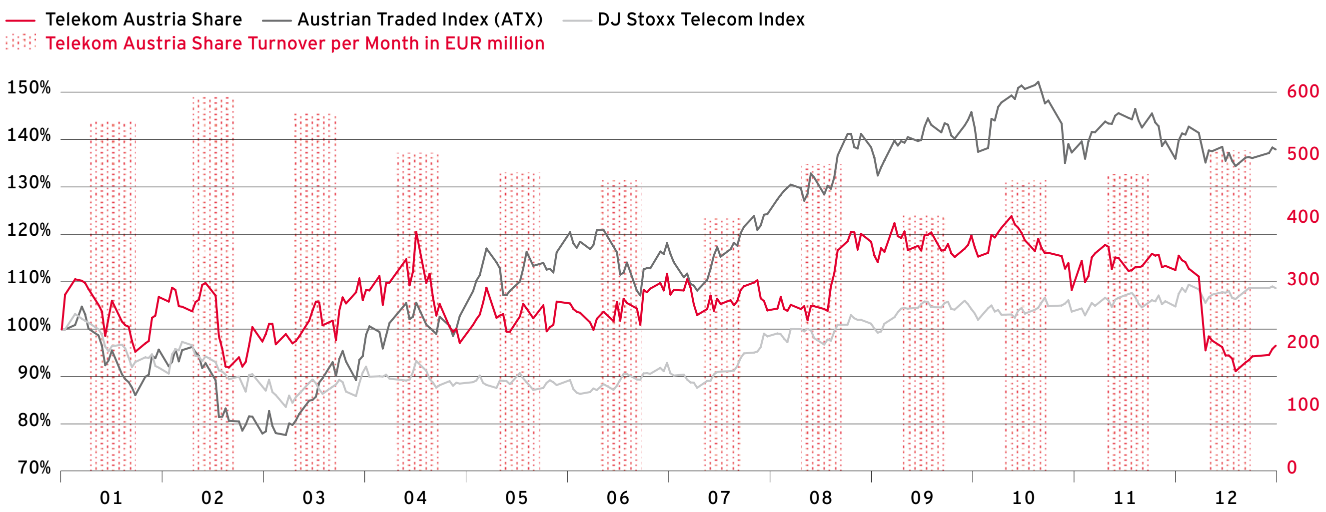
Annual General Meeting 2009

The ninth Annual General Meeting of Telekom Austria AG was held on May 20, 2009 at the Austria Center Vienna. It was attended by approximately 338 shareholders representing 52% of the share capital. All resolutions passed by the Annual General Meeting can be viewed on the corporate website www.telekomaustria.com under the menu item Investor Relations. A selection of the main resolutions passed by the Annual General Meeting is listed below:

- The discharge of the members of the Management Board and the Supervisory Board for the 2008 financial year
- Election of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as auditors for the 2009 financial year
- Distribution of a dividend of EUR 0.75 per eligible share
- Authorization of the Management Board to acquire treasury shares for a price between EUR 1 and EUR 30 per share
- Authorization of the Management Board to decrease the share capital of the company by retiring up to 46 million treasury shares without further resolution by the Annual General Meeting

All resolutions available at www.telekomaustria.com

Development of Telekom Austria Share Price
Full Year 2009



Capital Markets & Share Development

After significant depreciations in the previous year, capital markets recorded an overall positive development in 2009 despite significant volatility. The DJ Stoxx Telecom Index rose by 12.1% and the S&P 500 Index in the U.S.A. by more than 26.5%. After a weak start, the ATX, the Vienna Stock Exchange's leading index, also gained momentum in the course of 2009 and closed the year up 42.5%.

Telekom Austria Share ranked third on the ATX

With a weighting of 9.14% at year-end 2009, the Telekom Austria share ranked third on the ATX. Market fears regarding further business development and currency fluctuations in Eastern and South-Eastern Europe influenced the performance of the Telekom Austria share, which closed the year at EUR 9.95, down 3.4% compared to the previous year. Market capitalization declined from EUR 4.7 billion to EUR 4.4 billion. Turnover from trading (double count without over-the-counter trading) decreased from EUR 11.2 billion to EUR 5.9 billion. Turnover from over-the-counter-trading (double count) fell by 59% to EUR 312 million in the year under review. A total of 35,988 option contracts with a value of EUR 41.6 million and Telekom Austria as the underlying instrument, were traded on the Austrian Futures and Options Exchange (ÖTOB). Until May 17, 2007 Telekom Austria shares were also listed on the New York Stock Exchange – NYSE.

Intensive Dialogue with Investors

Intensive communication

Telekom Austria Group responded to the uncertainties that dominated the capital markets in the wake of the 2008 financial crisis by intensifying its communication activities. Via 16 (2008: 12) road shows and 16 (2008: 11) international investor and telecommunications conferences, Telekom Austria Group actively sought dialogue with analysts, private and institutional investors. The frequency of other events was also substantially increased, with 339 one-on-one meetings (2008: 239), 64 group presentations (2008: 44) and 173 teleconferences (2008: 162). A Capital Market Day held in January 2009 was attended by approximately 60 Austrian and international analysts. Top management provided detailed information regarding the Group's strategy and the development of the two operational segments and also updated the cash use policy for the period 2009 to 2012. Detailed information is available at www.telekomaustria.com/ir/capital-market-day.php.

In the year under review, 27 financial institutions carried out analyses of the Telekom Austria share. A list of these analyses, including updates and the names of the respective contact persons is available at www.telekomaustria.com/ir/analysen.php.

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Diversification & External Financing

In January 2009 the Telekom Austria Group's subsidiary, Telekom Finanzmanagement GmbH, successfully placed a EUR 750 million bullet bond with a coupon of 6.375% and a seven-year maturity. The bond is listed in Luxembourg and has a denomination of EUR 1,000. The transaction has diversified the Telekom Austria Group's debt portfolio and secured the refinancing requirement beyond the year 2010.

Based on an agreement that was concluded in the year under review, the Group can rely on unused committed lines of credit for a total volume of EUR 1.1 billion at year-end 2009.
In addition to this, liquidity is also safeguarded by other lines of credit totaling EUR 600 million in the form of unilateral lines of credit and a EUR 300 million Multi-Currency Short-Term and Medium-Term Treasury Notes Program. No other long-term financing agreements were concluded in 2009.

Rating by External Agencies

Telekom Austria AG has been subject to regular evaluations by Moody's Investors Service and Standard & Poor's ever since it issued its first bond. Moody's affirmed its long-term rating of A3 (stable outlook) for the 2009 financial year. Standard & Poor's had already revised the outlook from "stable" to "negative" in 2008 and reaffirmed it in 2009. Last year's decision had been attributed to the personnel costs in the Fixed Net segment and increased economic risks in the Group companies in Eastern and South-Eastern Europe. Due to Telekom Austria Group's weaker-than-expected outlook for 2010, Standard & Poor's placed its long-term rating (BBB+/negative outlook) of Telekom Austria AG on the CreditWatch list with negative implications, but confirmed the short-term A-2 rating.

Financial Calendar

February 24, 2010
Results for the Financial Year 2009

May 12, 2010
Results for the First Quarter 2010

May 27, 2010
Annual General Meeting
Wiener Stadthalle, Halle F

June 1, 2010
Ex-Dividend Day

June 4, 2010
Dividend Payment Date

August 18, 2010
Results for the First Half 2010

November 10, 2010
Results for the First Nine Months 2010

Key Figures Telekom Austria Share

	2009	2008	2007
Stock price low in EUR	9.23	8.10	16.90
Stock price high in EUR	12.87	19.50	21.55
Stock price as of Dec. 31 in EUR	9.95	10.30	19.03
P-E ratio as of Dec. 31	45.2	–	17.5
Income/loss per share in EUR	0.22	-0.11	1.09
Free cash flow per share in EUR	1.52	1.71	2.16
Market capitalization in EUR billion	4.4	4.7	8.8
Average stock exchange turnover/day in EUR million	23.8	44.5	62.9
Number of shares of common stock	443,000,000	460,000,000	460,000,000
Number of outstanding shares as of Dec. 31	442,563,969	442,398,222	442,211,742
Share capital in EUR	966,183,000	1,003,260,000	1,003,260,000
Weighting ATX in %	9.1	15	10
Weighting DJ Stoxx Telecom in %	1.6	1.2	1.3

Corporate Governance Report

Responsible Company Management and Control

Strict principles and control

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

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

Austrian Corporate Governance Code

Renewed commitment by the Telekom Austria Group

Telekom Austria AG shares have been listed on the Vienna Stock Exchange since November 2000. The Austrian Corporate Governance Code enjoys widespread acceptance on this market place. The Code as currently amended can be viewed at www.corporate-governance.at or www.telekomaustria.com. In January 2010, an amended and expanded version of the Code was published and shall apply to all financial years starting after December 31, 2009. The most important changes concern aspects of the variable and share-based remuneration of the Management Board and other executives. Several provisions of the Code were also adjusted to comply with amendments to the Stock Corporation Act 2009. The Telekom Austria Group fulfilled almost all of the extended reporting obligations at an early date and will continue to consistently work on further developing its corporate governance in future.

Sunny with Clear Visibility

As a listed company Telekom Austria AG has a strong commitment to good corporate governance. The most important principles are transparency and clear areas of competency and responsibility. Moreover, the Telekom Austria Group achieved compliance with the extended reporting obligations of the Austrian Corporate Governance Code at an early date.

The Telekom Austria Group committed itself to voluntary compliance with the Code as of 2003. The Group complies with all the legal requirements laid down in 33 "L Rules". The Code also defines 45 "C Rules", where deviations must be explained. The Telekom Austria Group issues the following statement regarding Rule 28 and 28a as amended in January 2010:

Stock option plans and programs for the beneficial transfer of shares including the stipulated long-term exercise hurdles, are decided by the Supervisory Board in order to ensure that they are in line with the business plan. The basis and mode of operation of the stock option program were presented to the Annual General Meeting on June 4, 2003 and May 23, 2006. The Telekom Austria Group intends to start a Performance Share Program in 2010 that will be presented to the Annual General Meeting on May 27, 2010.

In accordance with Rule 62 of the Austrian Corporate Governance Code, Telekom Austria Group's compliance with the provisions of the Code and the correctness of reporting are externally evaluated on a three-year basis. The most recent evaluation, which was carried out by KPMG in early 2008, discovered no facts that conflicted with the declaration made by the Management Board and the Supervisory Board regarding observance and compliance with the provisions of the Austrian Corporate Governance Code.

Members of the Management Board

At year-end 2009, the Management Board of the Telekom Austria Group comprised Hannes Ametsreiter, the Chairman of the Management Board, and Hans Tschuden, the Vice Chairman of the Management Board and Chief Financial Officer. Boris Nemsic resigned from the Management Board as of March 31, 2009.

Hannes Ametsreiter – Chairman of the Management Board since April 1, 2009, appointed until December 31, 2013, CEO of the Fixed Net segment since January 1, 2009

Hannes Ametsreiter was born in 1967. He studied journalism and communication together with sport science in Salzburg. After completing his doctorate, he continued his education with an MBA at Pepperdine University in the U.S.A. He began his professional career as a brand manager with Procter & Gamble, before he joined product management at mobilkom austria in 1996. Since 2001 he has served as Chief Marketing Officer of mobilkom austria and since 2002 he has also been responsible for the company's customer service. From 2005 to 2006 he was assigned 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 also became a member of the Management Board of Telekom Austria AG with responsibility for the Fixed Net segment and was appointed CEO of Telekom Austria TA AG. Since April 1, 2009 Hannes Ametsreiter has served as CEO of Telekom Austria AG and CEO of mobilkom austria AG. Hannes Ametsreiter holds no other positions outside the Group.

Areas of Responsibility Hannes Ametsreiter

- International Business Development and Group Strategy
- Mobile Communication Segment
- Fixed Net Segment
- General Secretariat and Information Security (Group)
- Communication (Group)
- Human Resources (Group) / Human Resources Department
- Audit (Group)

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

Hans Tschuden was born in 1958. He graduated from the Vienna University of Economics and Business Administration and the International Executive Program (INSEAD) in Paris. In 1989 Hans Tschuden joined the Wienerberger Group, first in controlling, then from 1993 onward as head of Wienerberger Rohrsysteme GmbH in Vienna. From 1995 he served as Managing Director of Keramo Wienerberger in Belgium before moving to Steinzeug Abwassersysteme in Cologne in 1998. In 1999, he became a member of the Wienerberger Management Committee and in May 2001 he was appointed CFO of Wienerberger AG. Since April 1, 2007 Hans Tschuden has been the Chief Financial Officer of the Telekom Austria Group. On January 1, 2009 he was appointed Vice Chairman of the Management Board of the Telekom Austria Group. Outside the Group, Hans Tschuden is a member of the Supervisory Boards of APK-Pensionskassen AG and HFA Zwei Mittelstandsfinanzierungs-AG. Hans Tschuden holds no other comparable positions outside the Group.

Areas of Responsibility Hans Tschuden

- Investor Relations
- Treasury (Group)
- Corporate Planning, Controlling & Reporting (Group), Risk Management
- Accounting (Group), ICS Group
- Fiscal (Group)
- Legal / General Counsel

Boris Nemsic – Chairman of the Management Board, until March 31, 2009
Boris Nemsic, born in 1957, served in a variety of areas and capacities at the Telekom Austria Group since joining the company in 1997. In July 2002 he was appointed to the Management Board of the Telekom Austria Group. On May 24, 2006 he became Chairman of the Management Board, a position he held until he left the Telekom Austria Group on March 31, 2009.

Members and Committees of the Supervisory Board

The Supervisory Board of Telekom Austria AG comprises eight members who are elected by the Annual General Meeting, and four members who are delegated by the Works' Council. Employee co-determination on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria.

The Supervisory Board has set up three committees to provide effective support by carrying out preparatory work on specific tasks and issues on behalf of the Supervisory Board.

Six members, five meetings in 2009

The **Audit Committee** is responsible for auditing and preparing the approval of the annual financial statements and for auditing the consolidated financial statements, the proposal for the distribution of profit, the Management Report and the Group Management Report as well as the Corporate Governance Report. High priority is also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. It also prepares the selection of the auditor, monitors the independence of the auditor and the auditor of the consolidated accounts, in particular with regard to the performance of additional services. The members of the Audit Committee are Peter Michaelis, who serves as Chairman, Wilfried Stadler, who acts as the financial expert, Peter Oswald, Rainer Wieltsch, Wilhelm Eidenberger and until his recent retirement Michael Kolek. Markus Hinker joined the Audit Committee on February 18, 2010.

Members: Peter Michaelis, Edith Hlawati

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

The **Personnel and Nomination Committee** deals with appointments to the Management Board. The Committee comprises Peter Michaelis (the Chairman), Edith Hlawati and until his recent retirement Michael Kolek. Michael Kolek retired from the Committee on February 10, 2010 and was succeeded by Markus Hinker.

Supervisory Board Activities in the Year Under Review

High board meeting frequency in 2009

During 2009, the Supervisory Board held extensive discussions on the strategic orientation of the Telekom Austria Group, the positioning and development of the Fixed Net and Mobile Communication segments as well as matters relating to the Management Board at seven meetings of the Supervisory Board, one strategy workshop and five meetings of the Audit Committee. Particular mention should be made of Hannes Ametsreiter's appointment as Chairman of the Management Board, the support for the technology and marketing offensive in the Fixed Net segment, the measures to increase operating efficiency in both segments and the intensive work carried out by the Audit Committee in connection with risk management and the internal control system. The focal areas of the Supervisory Board's work are explained in greater detail in the Report by the Supervisory Board on page 45. In the year under review, seven members of the Supervisory Board attended all seven meetings, four members failed to attend one meeting each, one member was unable to attend two meetings. No member of the Supervisory Board attended fewer than 50% of all Supervisory Board's meetings. All members of the Supervisory Board attended the strategy workshop.

Independence of Supervisory Board Members

Transparent business relationships

The guidelines laid down by the Supervisory Board in 2006 to determine the independence of its members were adjusted to comply with the modified provisions of the Austrian Corporate Governance Code and now conform to Appendix 1 of the Code. Pursuant to these provisions, the members of the Supervisory Board are deemed to be independent if they have no business or personal relations with the company or its Management Board that could result in a material conflict of interest and thus influence the members' behavior. The business relationship with the law firm Cerha Hempel Spiegelfeld Hlawati, in which Edith Hlawati is a partner, was authorized by the Supervisory Board in 2006. The hourly rates charged by this firm conform to local practice and are consistent with those billed to third parties. In 2009 the Supervisory Board authorized the framework agreement concluded between Harald Stöber and Telekom Austria TA AG for consultancy services relating to strategic Fixed Net projects. In both cases, the amount of the fees that have been paid are reported on page 97.

Members of the Supervisory Board

Name (Year of Birth)	Profession	Other Supervisory Board Positions and Comparable Functions	First Appointed	End of Current Term of Office or Date of Retirement	Independent pursuant to Rule 53 and 54 of the Austrian Corporate Governance Code
Peter Michaelis Chairman (1946)	CEO of Österreichische Industrieholding Aktiengesellschaft	OMV AG, Österreichische Post AG, APK Pensionskassen AG	June 28, 2001	2012	Independent pursuant to Rule 53, but not Rule 54
Edith Hlawati Vice Chairwoman (1957)	Partner in the Law Firm Cerha Hempel Spiegelfeld Hlawati	Österreichische Post AG	June 28, 2001	2012	yes
Henrietta Egerth-Stadlhuber (1971)	Managing Director of the Austrian Research Promotion Agency		May 20, 2008	2012	yes
Stephan Koren (1957)	Deputy Director General of BAWAG PSK Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft	BAWAG PSK Versicherungs-AG, Österreichische Kontrollbank AG, Omnimedia Werbegesellschaft mbH, Wiener Stadtwerke Holding AG, BWA Beteiligungs- u. Verwaltungs-AG, Bausparkasse Wüstenrot AG, Austria Wirtschaftsservice GmbH	September 17, 1999	2012	no
Peter J. Oswald (1962)	Member of the Boards of Mondi plc (UK) and Mondi Ltd (South Africa), CEO of Mondi AG	Chairman of the Supervisory Board of Mondi Swiecie SA	May 20, 2008	2012	yes
Wilfried Stadler (1951)	Business consultant, bank consultant, honorary professor at the Vienna University of Economics and Business	ATP Planungs- u. Beteiligungs AG, Bundestheater-Holding GmbH, East Centro Capital Management AG, Konos Mittelstandsfinanzierungs AG, Quadriga Capital Management GmbH, Trodat Holding GmbH, Wienstrom GmbH	July 15, 2005	2012	yes
Harald Stöber (1952)	Business Consultant	Deutsche Messe AG Hanover, Arcor AG & Co KG, Vodafone D2 GmbH	June 4, 2003	2012	yes
Rainer Wieltsch (1944)	Managing Director of Aabar Automotives GmbH, Aabar Europe Holding GmbH, IPIC Ferrostaal Holdings GMBH, PIC Gamma Holdings GmbH and NOVA Chemicals Holding GmbH	OMV AG, Österreichische Post AG	June 12, 2002	2012	yes
Members of the Supervisory Board Delegated by the Works Council					
Wilhelm Eidenberger (1962)	Chairman of the Personnel Committee Linz of Telekom Austria AG		April 30, 2001		
Silvia Bauer (1968)	Member of the Central Works Council of Telekom Austria AG		January 30, 2009		
Michael Kolek* (1960)	Chairman of the Central Works Council of Telekom Austria AG	Österreichische Industrieholding AG, APK Pensionskassen AG, Telekom Austria TA AG, Telekom Austria Personalmanagement GmbH	March 20, 2002		
Werner Luksch (1967)	Chairman of the Central Works Council of mobilkom austria AG	mobilkom austria AG, Österreichische Industrieholding AG	August 3, 2007		
Markus Hinker** (1959)	Member of the Central Works Council of Telekom Austria AG	Telekom Austria Personalmanagement GmbH	July 15, 2005		

* Michael Kolek resigned from the Supervisory Board on February 10, 2010.
** Markus Hinker retired from the Supervisory Board as of January 27, 2009 and was reelected to the Supervisory Board on February 18, 2010.

Remuneration of the Members of the Supervisory Board

Approval by the Annual General Meeting

The Annual General Meeting held on May 20, 2009 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairwoman and EUR 15,000 for all other members for the 2008 financial year. Remuneration for members of the Supervisory Board for the 2008 financial year was paid out following the discharge by the Annual General Meeting in May 2009. Until further notice, the attendance allowance for meetings of the Supervisory Board is set at EUR 300 per member and meeting. In 2009, remuneration amounting to TEUR 173, including expenses (2008: 174 TEUR) was paid to members of the Supervisory Board.

Name	Remuneration awarded for the 2008 financial year and paid in 2009 in EUR	Meeting attendance allowance in 2009 in EUR
Peter Michaelis	30,000	3,300
Edith Hlawati	22,500	2,100
Henrietta Egerth-Stadlhuber	9,263	2,100
Wilhelm Eidenberger	-	3,000
Silvia Bauer	-	2,100
Michael Kolek*	-	3,300
Stephan Koren	15,000	1,800
Werner Luksch	-	2,100
Peter J. Oswald	9,263	3,000
Wilfried Stadler	15,000	3,300
Harald Stöber	15,000	2,100
Rainer Wieltsch	15,000	3,600
Hans Haider**	5,779	-
Wolfgang Berndt**	5,779	-

* retired on February 10, 2010 **retired on May 20, 2008

Management Board Remuneration Report

Transparent reporting of individual remuneration packages

The Remuneration Committee is responsible for structuring the remuneration package awarded to the Management Board. Besides a basic salary, a variable performance-based component was agreed which is contingent upon the achievement of defined targets. This performance-based salary component is limited to 150% of the basic salary. The targets for the variable salary component are based equally on key financial figures such as Economic Value Added (EVA), free cash flow or earnings per share as well as on strategic objectives. The amount of the variable salary component is calculated on the basis of the annual financial statements approved by the Supervisory Board and the implementation of the strategic projects discussed by the Supervisory Board and authorized by the Remuneration Committee. In 2009, the members of the Management Board were also granted stock options within the framework of the multi-year stock option program ESOP; these options require participants to hold an investment in the company through the purchase of Telekom Austria shares.

Total expenses for the basic salaries of members of the Management Board in 2009 amounted to TEUR 1,002 (2008: TEUR 1,129) with additional performance-based remuneration totaling TEUR 1,318 (2008: TEUR 1,449). Comparability with the previous year's figures is limited due to the resignation of one member of the Management Board during the year. No benefits were derived from the multi-year stock option program in 2009.

Remuneration of the Individual Members of the Management Board 2009

Management Board's remuneration in TEUR	Basic salary (including remuneration in kind)	Performance-based remuneration	Multi-year stock options	Total remuneration 2009
Hannes Ametsreiter	436	436	-	872
Hans Tschuden	441	441	-	882
Boris Nemsic*	124	442	-	566
Total	**1,002**	**1,318**	**-**	**2,320**

* Chairman of the Management Board until March 31, 2009

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

Clear regulation of severance payment entitlements

Stock Option Program

The Telekom Austria Group established a multi-year Employee Stock Option Program (ESOP) in 2004, in which some 300 employees participate each year. Participants are required to make an investment by purchasing Telekom Austria shares. Furthermore, the options may only be exercised if earnings per share reach the target value defined by the Supervisory Board. The final tranche of the Employee Stock Option Program (ESOP) was issued in 2009. A detailed description of the stock option program can be found on page 120.

Investment in Telekom Austria shares as the prerequisite

In 2009 Hannes Ametsreiter and Hans Tschuden were each granted 120,000 stock options with an exercise price of EUR 11.06 from the tranche ESOP 2009+. This grant was contingent upon the purchase of 4,800 Telekom Austria shares each, which must be held until the option is exercised. The options have an exercise period expiring on May 31, 2013 and their exercise is contingent upon reaching the defined exercise hurdle of earnings per share. This target value was not reached in 2009.

Earnings per share as exercise hurdle

In order to meet the eligibility requirements for the ESOP program, Hans Tschuden and Hannes Ametsreiter held 15,000 and 18,242 Telekom Austria shares respectively as of December 31, 2009. No options were exercised by members of the Management Board in 2009. The Telekom Austria Group intends to introduce a Performance Share Program for the Management Board in 2010 that will be contingent upon the achievement of sustainable, multi-year targets and the purchase of Telekom Austria shares.

Promotion of Female Executives

The percentage of women on the Supervisory Board of Telekom Austria AG has risen steadily in recent years to a current quota of 25%, which is considerably higher than the average female quota of 6% within the ATX Prime Market. Since 2001 the important function of Vice Chair of the Supervisory Board of the Telekom Austria Group has been held by a woman, Edith Hlawati. A further seven Supervisory Board positions within the Telekom Austria Group were held by women in 2009 as were two Management Board and managing director positions. The proportion of women in managerial positions at the Telekom Austria Group in 2009 amounted to roughly 20%.

High percentage of women, also on the Supervisory Board

Directors and Officers (D&O) Insurance

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

Auditor's Fees

Full disclosure of total remuneration

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft credibly demonstrated its impartiality to the Audit Committee of the Supervisory Board, in particular regarding reporting pursuant to Article 270 para. 1a of the Austrian Commercial Code. A detailed analysis by the Supervisory Board revealed no legal obstacle to the appointment of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. On May 20, 2009 the Annual General Meeting elected KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as auditors of the annual financial statements and consolidated financial statements for the 2009 financial year. The expenses of the Telekom Austria Group for the audit of the 2009 annual financial statements amounted to EUR 1.6 million as in the previous year. Consultancy fees for additional services provided by KPMG in 2009 amounted to EUR 0.1 million as in 2008. Expenses for tax consultancy and other services totaled EUR 0.4 million compared to EUR 0.5 million in 2008.

Other Corporate Governance Instruments

Risk management, internal control system, Code of Conduct

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

The internal control system of the Telekom Austria Group is aimed at safeguarding the effectiveness and profitability of business activities, the integrity and reliability of financial reporting as well as compliance with the relevant laws and regulations. The Code of Conduct, which is binding throughout the Group, is designed to raise awareness among employees with regard to corruption prevention and lawful ethical conduct. A reporting system has been put in place that enables employees to confidentially report legally dubious procedures or violations of this code. The Code of Conduct has been published at www.telekomaustria.com. To prevent the misuse or passing on of confidential information, Group-wide compliance guidelines have been implemented and classified units defined within the company.

Vienna, February 2010

Hannes Ametsreiter, Chairman of the Management Board
Hans Tschuden, Vice Chairman of the Management Board

Report by the Supervisory Board

Ladies and Gentlemen,

The Telekom Austria Group faced up to the difficult challenges created by the global economic crisis and increased competition in the 2009 financial year under the new management of Hannes Ametsreiter with a clearly focused strategy to achieve a sustainable increase in shareholder value and a strong cost awareness.

Discussions at the seven meetings of the Supervisory Board and the strategy workshop in the 2009 financial year focused on the strategic orientation of the Telekom Austria Group and the positioning of the Fixed Net and Mobile Communication segments in a competitive and economically difficult operating environment. Against the backdrop of the current situation on the financial markets, the Supervisory Board dealt in depth at the very beginning of the year with the Telekom Austria Group's financing policy, which is not only extremely solid but was also further diversified in the year under review through the issue of a EUR 750 million corporate bond. The resignation of Boris Nemsic from the Management Board of the Telekom Austria Group in March 2009 made it necessary to find a successor. Hannes Ametsreiter, who joined the Management Board of the Telekom Austria Group at the start of the year, was appointed Chairman of the Management Board as of April 1, 2009.

The marketing and technology offensive to safeguard the competitiveness of the Fixed Net segment formed the strategic focus of the two meetings of the Supervisory Board held in spring 2009. The infrastructure project "Next Generation Network" and the glass fiber pilot projects were discussed in as much detail as the measures to improve operating efficiency and the IT strategy. At its meeting in August 2009 in Belarus, the Supervisory Board had the opportunity to experience at first hand the strategic orientation of the Belarusian subsidiary, Velcom, and discuss with the local management the measures that have been taken to deal with the overall economic situation and in particular the devaluation of the currency.

The agreement reached in autumn 2009 enabling Telekom Austria's civil servants to take up employment with the state will have a far-reaching impact in terms of personnel strategy and allow the Telekom Austria Group greater flexibility in future.

The strategy workshop dealt in detail with the framework conditions, future challenges and resulting options for action aimed at safeguarding the Telekom Austria Group's value-oriented future growth. The evaluation of a deeper integration of the Fixed Net and Mobile Communication operations in Austria as well as the approval of the budget for 2010 were the main topics of discussion at the meeting of the Supervisory Board in December 2009. The Supervisory Board also dealt with the design, and in particular the sustainable and multi-year performance criteria, for the future Performance Share Program for the management. At this meeting the Supervisory Board also analyzed the effectiveness of its activities pursuant to Rule 36 of the Austrian Corporate Governance Code on the basis of the results of the self-evaluation questionnaire.

Silvia Bauer took up her seat on the Supervisory Board on behalf of the Works' Council on January 30, 2009, succeeding Markus Hinker. With three female members on the Supervisory Board, the equivalent of 25%, the Telekom Austria Group is leading the way within the ATX Prime Market. Following the retirement of Michael Kolek on February 10, 2010 Markus Hinker was reelected to the Supervisory Board of the Telekom Austria Group by the Central Works Council.

At five meetings in 2009 the Audit Committee of the Supervisory Board carried out its additional duties to monitor the effectiveness of the internal control system, risk management and the internal audit system. Furthermore, it also dealt intensively with financial reporting during the preparation of the annual financial statements and quarterly reports. Other key areas of the Audit Committee's work included the impairment tests carried out at Velcom in Belarus and at Vip mobile in the Republic of Serbia. During the audit of the annual financial statements and the consolidated financial statements for 2009 the Audit Committee also received regular reports on the results of the auditing procedure for both reports. KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft credibly demonstrated its impartiality to the Audit Committee of the Supervisory Board, in particular regarding reporting pursuant to Article 270 para. 1a of the Austrian Commercial Code. The outcome of the Audit Committee meetings was communicated to the Supervisory Board on a regular basis.

The Supervisory Board of Telekom Austria AG is strongly committed to compliance with the Austrian Corporate Governance Code and to a responsible company management and control aimed at generating sustainable corporate value. The Supervisory Board has laid down criteria for determining the independence of its members. Seven of the eight shareholder representatives are deemed to be independent pursuant to Rule 53 of the Austrian Corporate Governance Code.

The annual financial statements of Telekom Austria AG and the consolidated financial statements as of December 31, 2009 received unqualified opinions from KPMG Austria Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The Management Report and the Group Management Report are consistent with the annual financial statements and consolidated financial statements. After prior consultation with the Audit Committee, and extensive discussion and review, the Supervisory Board approved the 2009 annual financial statements in accordance with Article 96 para. 4 of the Austrian Stock Corporation Act. Furthermore, after prior consultation with the Audit Committee and after detailed discussion and review, it also approved the consolidated financial statements pursuant to Article 245a of the Austrian Commercial Code and IFRS, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approved the Management Board's proposal to distribute a dividend of EUR 0.75 per eligible share and carry forward the remaining amount.

I would like to take this opportunity to thank the members of the Management Board and all our employees for their commitment in 2009 and to ask them for their constructive support to overcome the challenges that lie ahead. In particular, I would like to thank Boris Nemsic under whose leadership the company has developed into a modern, internationally successful player on the telecommunications market and a leading Austrian listed company. I would also like to thank our growing number of customers in Austria and abroad for the confidence they have placed in the Telekom Austria Group. Finally, I would like to appeal to the shareholders of Telekom Austria AG to show the same loyalty to the company as they have done in the past.

Peter Michaelis
Chairman of the Supervisory Board
Vienna, February 2010

Group Management Report 2009

Global Financial and Economic Crisis

Economic recession in Europe, GDP decline of 3.4% in Austria

In 2009 the financial crisis that had unfolded in 2008 turned into a real economy crisis, causing a significant global fall in demand in almost all industries. Despite government interventions in the form of economic stimulus packages, most European economies saw their output decline in a year-on-year comparison, although the first signs of recovery were visible in the second half of 2009. According to the Austrian Institute of Economic Research (WIFO), real GDP in Austria contracted by 3.4% while the unemployment rate measured according to international standards rose from 3.8% to 5.0% in 2009. Inflation fell from 3.2% to 0.5%, which was largely due to the decline in the price of primary energies and raw materials.

Unstable local currencies in Eastern and South-Eastern Europe

Following years of higher than average growth, the Eastern and South-Eastern European countries also slipped into recession, with very steep declines in GDP of up to 10% in some cases. In several countries the situation was aggravated by unstable local currencies. The Belarusian ruble weakened against the euro by 33% in a year-on-year comparison, losing 24% of its value over the year. Despite a certain volatility, the Croatian kuna essentially remained stable over the year as a whole. In Serbia an intervention by the national bank stabilized the dinar, but the currency nevertheless lost 16% of its value against the euro year-on-year.

International capital markets remained volatile in 2009. However, there were signs of a turnaround on the stock markets in the second quarter. Since the end of 2008 the U.S. Federal Reserve has kept the base interest rate at virtually zero. The European Central Bank abandoned its monetary policy strategy of keeping inflation low, and between October 2008 and May 2009 successively cut interest rates from 4.25% to 1.00% in order to stimulate the economy.

Competition and Convergence Characterize the Telecommunications Industry

Further decline of Fixed Net voice minutes

As a result of the persistent fixed-to-mobile substitution trend in Austria in 2009, fixed net voice minutes as a proportion of the total telecommunications market declined to 21.7% from almost 25.0% in the previous year. Both the fixed net and mobile communication markets were characterized by fierce competition and persistent price pressure. Furthermore, lower international roaming revenues and a reduction in termination charges led to a drop in mobile communication revenues. The percentage of Austrian households using fixed net or mobile broadband rose from 77% to more than 90% in the year under review. Mobile broadband accounted for almost 43.7% of the overall broadband market, up from 36.5% in the previous year.

Downward trend of Fixed Net access lines decelerated

In 2009 the Telekom Austria Group's product bundles aonKombi and aonSuperKombi continued to be successful and were also extended to the business segment. Based on these attractive global solutions, the Fixed Net segment was able to decelerate the persistent decline in access lines over the past years and for the first time in the last decade even reported fixed line net additions in the fourth quarter of 2009.

The Mobile Communication segment was able to either increase or at least stabilize customer numbers in all of the Telekom Austria Group's operating markets. However, it was the difficult economic situation, price pressure and foreign currency translation effects in individual markets, as well as regulatory and fiscal policy measures that had the biggest impact on the business performance in 2009.

Regulatory Decisions – Fixed Net Segment

Recognition of fixed-to-mobile substitution by the regulator

According to the new draft proposals from the Austrian regulatory authority (the Telecom Control Commission), fixed line broadband connections for residential customers will in future be excluded from regulation at the wholesale level due to their widespread substitution by mobile broadband service. Although the European Commission had initially expressed serious doubts about this planned redefinition of the market, it eventually gave the Austrian regulator the green light on December 9, 2009 after further facts had been submitted. The recognition by the regulator of the marked extent to which fixed net lines are being replaced by mobile communication in Austria will allow the partial deregulation of the wholesale broadband market for residential customers, which is unparalleled in Europe in this form.

Deregulation of certain markets

In early 2009 the third round of regulatory reviews was carried out to assess the intensity of competition on the Austrian telecommunications market and the possible need to impose regulatory requirements on companies with a dominant market position. As a result, all regulatory obligations governing the market for domestic calls made by residential customers were lifted, as this retail market was deemed to be highly competitive. At the same time, regulatory requirements for wholesale rental lines of "terminating segments" were lifted for certain bandwidths and regions. There is unlikely to be any further significant reduction of regulatory intensity in the Fixed Net segment's other telecommunications markets; regulatory changes could be made during 2010.

New EU legal framework

A new legal framework for the regulation of telecommunications services was adopted in Brussels, which also includes a regulatory commitment to investments in new networks. The new legal framework must be implemented in Austria on the basis of an amendment to the Austrian Telecommunications Act by mid 2011. In the new EU Commission, the former Commissioner for Competition, Neelie Kroes, has taken over responsibility for the telecommunications sector.

Telecommunication surveillance systems pursuant to the code of criminal procedure

The 2003 Telecommunications Act requires Austrian operators to provide all necessary technology for intercepting a telecommunication pursuant to the code of criminal procedure. In 2008, a decree was issued regulating remuneration for surveillance measures carried out on behalf of the state under which telecommunications providers were awarded a one-off payment for their investments in telephone surveillance systems. This payment was settled in 2009. Consequently, Telekom Austria Group received a total of EUR 10.9 million after tax from the Austrian state as reimbursement for this specific investment.

In proceedings before the regulatory authority, the mobile operator Hutchison H3G demanded that interconnection charges in Telekom Austria Group's fixed net network be lowered. The Telecom Control Commission rejected H3G's arguments and in fact saw sufficient grounds for an overall increase in fixed net interconnection fees. The final ruling provides for a 29% increase in local interconnection fees, a 19% increase in regional fees and a small reduction of 5% in national termination charges.

Regulatory Decisions – Mobile Communication Segment

Differing regional regulatory systems

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

Changes of the second EU roaming regulation

On June 18, 2009 the second EU Regulation governing roaming tariffs became effective and will remain in force until July 2012, unless explicitly extended past this date. The Regulation brought about the following changes:

- The caps on roaming voice tariffs for outgoing calls made abroad will be reduced once more to 43 cents as of July 1, 2009, and by a further 4 cents as of July 1, 2010 and July 1, 2011 respectively;
- A reduction in the price ceiling for incoming calls to 19 cents as of July 1, 2009 and by a further 4 cents as of July 1, 2010 and July 1, 2011 respectively;
- The capping of wholesale prices at 26 cents as of July 1, 2009 and by a further 4 cents as of July 1, 2010 and 2011 respectively;
- Per-second billing for retail and wholesale customers after the first 30 seconds;
- No charges for the receipt of text messages as of July 1, 2010 when abroad;
- No charges for voice mail messages for roaming customers as of July 1, 2010;
- The introduction of a price cap of 11 cents for retail customers and 4 cents for wholesale customers on SMS sent from abroad;
- The obligation to provide personalized tariff information for the use of data roaming services as of July 1, 2009;
- As of March 1, 2010, the introduction of one or several cost caps or data volume limits, which will result in the data roaming service being cut off once this ceiling has been exceeded unless the customer has explicitly consented to incurring additional expense;
- The introduction of a wholesale cap for data-roaming services of EUR 1 per megabyte as of July 1, 2009 and further reductions to 80 cents as of July 1, 2010 and to 50 cents as of July 1, 2011.

Mobile termination charges

In May 2009, the European Commission also published a recommendation concerning the calculation of termination rates aimed at harmonizing the cost-based methods used within the Community and consequently termination charges. A further objective is to reduce termination charges for mobile communication to a very low uniform level.

Regulation in foreign markets

The most important regulatory decisions for 2009 on the Telekom Austria Group's international markets can be summed up as follows: In Belarus, interconnection will continue to be carried out via the state-owned fixed net company, BelTelekom. To what extent and when the market will be deregulated remains unclear. The implementation of number portability is planned for the end of 2011. In Bulgaria, the gradual lowering of termination charges for peak and off-peak times was initiated and number portability introduced as of July 1, 2009.

In Croatia, the national termination charge was reduced from 10.8 to 9.2 cents for Vipnet and one other domestic operator as of March 1, 2009 and a gliding path model was agreed for further reductions to be made over the next three years. Starting on August 1, 2009, Croatia introduced a mobile communications levy on revenues from voice telephony, SMS and MMS amounting to 6%. In Serbia, efforts to deregulate the telecommunications market and align framework conditions to those of the EU are still in their infancy. A 10% mobile communications levy was introduced in the year under review. In Liechtenstein, which is a member of the European Economic Area, the old EU roaming rules remained in force; the new regulation is expected to become effective in Q2, 2010. In Slovenia, a decision was made in September 2009 to harmonize termination charges for all mobile operators at 3.24 cents by January 1, 2013. In Macedonia, the port-out fee was lowered to EUR 3.25.

Reporting Changes

Reporting of FX gains and losses

As of Q1 2009 foreign exchange gains and losses are reported in full as part of the financial result instead of being split between operating and financial income as in the past. In the prior year's figures foreign exchange gains of EUR 14.8 million (Fixed Net segment 0.5 million exchange rate loss, Mobile Communication segment EUR 15.3 million exchange rate gain) were reclassified from the Telekom Austria Group's operating result to the financial result.

Adjusted revenue breakdown in both segments

The revenue breakdown in both segments, Fixed Net and Mobile Communication, has also been condensed as of Q1 2009 to reflect changes in the product portfolio. This adjustment affects the revenue split but not the amount of total segment revenues. Revenue breakdown in previous years' reporting has been adapted accordingly for comparative purposes. In the Fixed Net segment previously reported revenues from "Fixed Net Voice Traffic", "Switched Voice Monthly" and "Internet Access & Media" as well as some smaller reclassifications are now included in "Access, Voice and Broadband" to reflect the marketing of product bundles encompassing access lines, voice telephony, Internet and television. The category "Other Revenues" and "Payphones & Value Added Services" will subsequently be condensed and included in "Other Revenues."

In the Mobile Communication segment "Traffic and Monthly Rental Revenues" were condensed and included in "Subscription and Traffic Revenues" reflecting the trend towards flat rates or product bundles.

Development of Results

Revenue decline of 7.1%

The Telekom Austria Group reported revenues of EUR 4,802.0 million in 2009, a 7.1% decline compared to the previous year, in line with the updated quarterly report outlook.

Although the Fixed Net segment was able to reduce the decline in access lines to 1.0%, voice traffic volumes dropped by 12.0% compared to the previous year. Total segment revenues fell by 8.8% to EUR 1,860.1 million in the year under review.

Revenue development in the Mobile Communication segment was affected by the economic recession, the negative effects of regulatory measures and foreign currency translation as well as by competitive pressure on prices. In the year under review, the Mobile Communication segment reported a 5.5% decline in revenues to EUR 3,205.5 million, despite increasing subscriber numbers by 6.4% to 18.9 million. The negative effect of foreign currency translation on revenues amounted to EUR 91.3 million. On a local currency basis the decline was 2.8%.

The Telekom Austria Group's international activities accounted for 44.9% of total revenues in the 2009 financial year, down slightly from 44.6% in the previous year.

Operating expenses were substantially reduced in 2009 following comprehensive cost-cutting programs implemented in all Telekom Austria Group's business units, whereas the 7.4% decline in material expenses to EUR 396.8 million was mainly due to a lower number of sold end-devices in both segments. Adjusted for the restructuring expense of EUR 632.1 million in the previous year, personnel costs decreased by 2.1% to EUR 805.6 million. As a result of the restructuring program, the Fixed Net headcount was reduced by 12.6%, while in the Mobile Communication segment the average headcount rose by 4.4% due to the expansion of the Belarusian operator Velcom and following the launch of operations in the Republic of Serbia and the Republic of Macedonia in 2007.

Operating Expenses

in EUR million	2009	2008	Change in %
Material expenses	396.8	428.3	-7.4
Employee costs	805.6	1,454.6	-44.6
Depreciation and amortization	1,097.9	1,155.3	-5.0
Impairment charges	352.2	4.8	-
Other operating expenses	1,900.2	2,080.7	-8.7

Financial Figures

in EUR million	2009	2008	Change in %
Revenues	4,802.0	5,170.3	-7.1
EBITDA*	1,794.0	1,280.8	40.1
EBITDA margin* in %	37.4	24.8	-
Operating income*	343.9	120.7	184.9
Net income/loss	94.9	-48.8	-
Income/loss per share in EUR	0.22	-0.11	-
Free cash flow per share in EUR	1.52	1.71	-10.9
Capital expenditures	711.4	807.6	-11.9
Net debt	3,614.8	3,993.3	-9.5

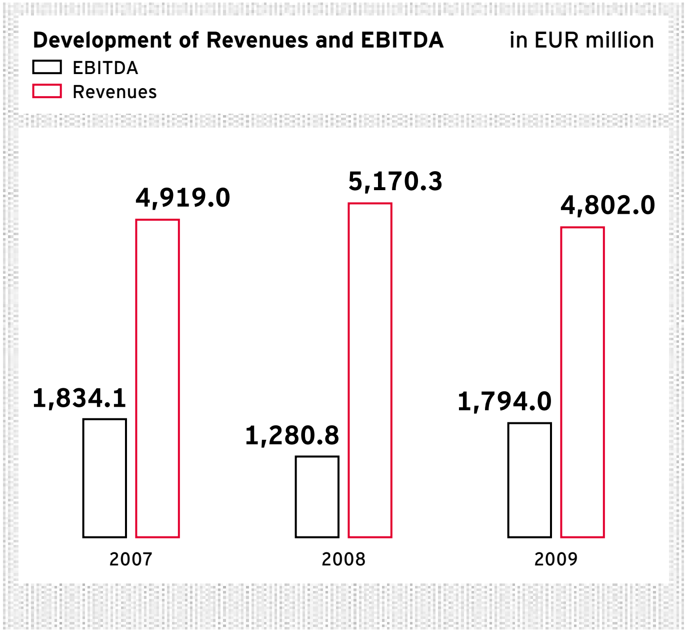
Financial Figures by Segment

in EUR million	2009	2008	Change in %
Revenues			
Fixed Net	1,860.1	2,038.8	-8.8
Mobile Communication	3,205.5	3,390.9	-5.5
Holding, others & eliminations	-263.6	-259.4	1.6
Revenues	4,802.0	5,170.3	-7.1
EBITDA*			
Fixed Net	575.7	-20.8	-
Mobile Communication	1,246.3	1,325.3	-6.0
Holding, others & eliminations	-28.0	-23.7	18.1
EBITDA	1,794.0	1,280.8	40.1
Operating income*			
Fixed Net	116.1	-530.3	-
Mobile Communication	255.1	674.0	-62.2
Holding, others & eliminations	-27.3	-23.0	18.7
Operating income	343.9	120.7	184.9

* The figure for 2008 has been adjusted to reflect the changed reporting of foreign exchange gains and losses.

Adjusted for the changed reporting of foreign exchange gains and losses, other operating expenses decreased by 8.7% in the year under review to EUR 1,900.2 million. In the Fixed Net segment, interconnection expenses declined due to the reduction of unbundling prices decreed by the regulator. In the Mobile Communication segment, this expense item decreased due to the reduction of termination charges. Both segments also curtailed their expenses for advertizing, repairs and maintenance.

Adjusted for the changed reporting of exchange rate losses and gains as well as the previous year's restructuring expense, the EBITDA margin improved by 0.4 percentage points to 37.4% as a result of the cost savings described above. Group EBITDA amounted to EUR 1,794.0 million (2008 including the restructuring program: EUR 1,280.8 million).



The Fixed Net segment reported EBITDA of EUR 575.7 million and an EBITDA margin of 30.9% in the year under review. In the Mobile Communication segment, the development of EBITDA, which declined by 6.0% to EUR 1,246.3 million, was almost parallel to the trend in revenues. As a result, the EBITDA margin shrank only slightly from 39.1% to 38.9%.

Depreciation, amortization and impairment charges

Depreciation and amortization charges declined in both segments and amounted to EUR 1,097.9 million, 5.0% lower than in the previous year. Impairment charges in the year under review totaled EUR 352.2 million, after EUR 4.8 million in 2008. The goodwill from the acquisition of Velcom in Belarus had to be reduced by EUR 290.0 million due to the devaluation of the Belarusian ruble (which lost approximately 33% of its value in a year-on-year comparison), the resulting weaker generation of cash flow and a lower growth forecast. Due to the overall economic environment, an impairment charge of EUR 62.0 million was also recorded for Vip mobile's license in the Republic of Serbia.

Operating income of EUR 343.9 million

As a result, operating income for the 2009 financial year amounted to EUR 343.9 million. Adjusted for the changed reporting of currency translation differences, the comparable figure in 2008 was EUR 120.7 million due to a restructuring expense of EUR 632.1 million.

Total interest expenses rose by 7.7% or EUR 17.8 million to EUR 249.5 million, mainly due to non-cash accrued interests for the restructuring provision in the amount of EUR 35.7 million. Interest income rose from EUR 26.3 million to EUR 29.5 million. After a gain of EUR 13.5 million in 2008, a loss of EUR 14.2 million from exchange rate differences was reported in the financial result in the year under review. This was largely attributable to the devaluation over the year of the Belarusian ruble and the Serbian dinar by approximately 24% and 16% respectively.

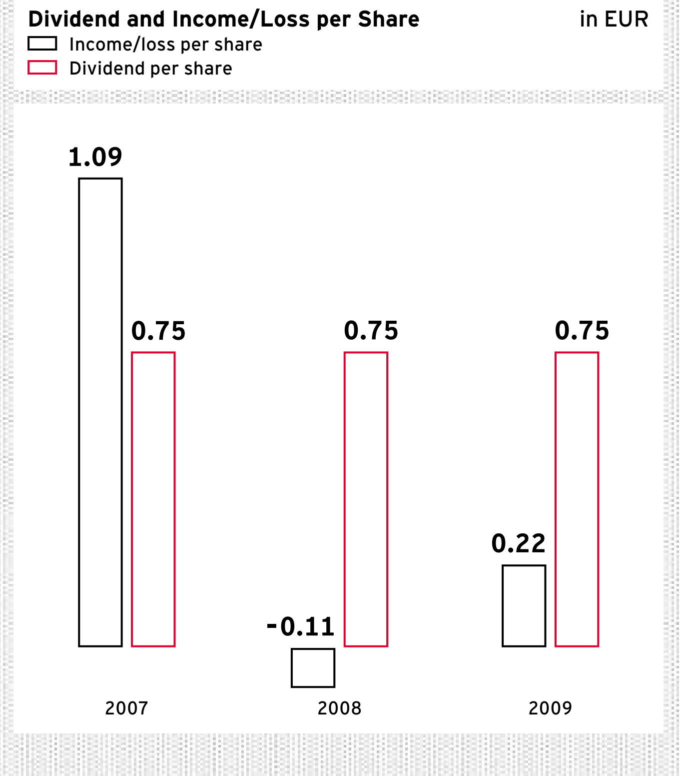
Impairment charges relating to operations in Belarus and the Republic of Serbia resulted in a low tax expense of EUR 11.4 million for the Telekom Austria Group in the year under review. In 2008 an income tax benefit of EUR 27.6 million was reported, which was attributable to the tax deductibility of the non-cash restructuring provision in 2008.

Telekom Austria Group's net income amounted to EUR 94.9 million in 2009 after a net loss of EUR 48.8 million in the previous year. Earnings per share improved from EUR -0.11 to EUR 0.22, with a weighted average number of shares outstanding of approximately 442.4 million (2008: 442.2 million).

The Telekom Austria Group's Return on Invested Capital (ROIC – calculated by dividing operating income after taxes by the average invested capital) rose from 1.2% to 4.8% as a result of the restructuring expenses in 2008. Return on Equity (ROE – net income divided by average equity) for 2009 amounted to 5.0%

	2009	2008	2007
Income/loss per share in EUR	0.22	-0.11	1.09
Dividend per share in EUR	0.75	0.75	0.75
Free cash flow per share	1.52	1.71	2.16
ROE in %	5.0	-2.1	18.3
ROIC in %	4.8	1.2	8.6

Dividend and Income/Loss per Share in EUR



Balance Sheet Structure

The Telekom Austria Group closed 2009 with a balance sheet total of EUR 8,498.7, down 5.5% on the previous year. The development of current assets was influenced by the issue of the EUR 750 million bond in January 2009 and the resulting increase in cash and cash equivalents. Current assets totaled EUR 2,023.8 million in 2009, a 31.0% increase compared to the same period of the previous year. The goodwill total under the non-current asset item decreased by 23.8% to EUR 1,493.1, mainly due to the impairment in Belarus. The 16.1% decrease in other intangible assets to EUR 1,900.3 million compared to the previous year was largely attributable to the devaluation of the Belarusian ruble and the impairment of the mobile license in the Republic of Serbia. Property, plant and equipment registered a decline of 10.1% to EUR 2,675.2 million due to reduced capital expenditures and the effects of currency translations.

Decline in balance sheet total of 5.5%

Balance Sheet Structure

in EUR million	Dec. 31, 2009	As % of the Balance Sheet Total	Dec. 31, 2008	As % of the Balance Sheet Total
Current assets	2,023.8	23.8	1,545.4	17.2
Property, plant and equipment	2,675.2	31.5	2,976.0	33.1
Goodwill	1,493.1	17.6	1,958.5	21.8
Other intangible assets	1,900.3	22.4	2,265.6	25.2
Other assets	406.3	4.8	251.9	2.8
ASSETS	**8,498.7**	**100.0**	**8,997.4**	**100.0**
Current liabilities	2,679.5	31.5	2,220.5	24.7
Long-term debt	3,213.7	37.8	2,917.4	32.4
Lease obligations and cross-border lease	21.1	0.2	29.7	0.3
Employee benefit obligations	123.7	1.5	117.4	1.3
Other long-term liabilities	846.6	10.0	1,556.8	17.3
Stockholders' equity	1,614.1	19.0	2,155.6	24.0
LIABILITIES AND STOCKHOLDERS' EQUITY	**8,498.7**	**100.0**	**8,997.4**	**100.0**

Under the short-term borrowing item, higher financial and other liabilities were set against lower accounts receivable, which decreased by 11.1% to EUR 523.6 million. The impact of the bond issued in January 2009 on the development of long-term debt was partly offset by the shift of a bond to short-term borrowings.

Bond issue changes debt maturity

Stockholders' equity decreased by 25.1% to EUR 1,614.1 million due to the payment of dividends in the amount of EUR 331.8 million for the 2008 financial year as well as foreign currency translation adjustments following the devaluation of the Belarusian ruble along with impairment charges in Belarus and the Republic of Serbia in the amount of EUR 352.0 million. With a 5.5% decline in the balance sheet total, stockholders' equity as of December 31, 2009 amounted to 19.0% compared to 24.0% in the previous year.

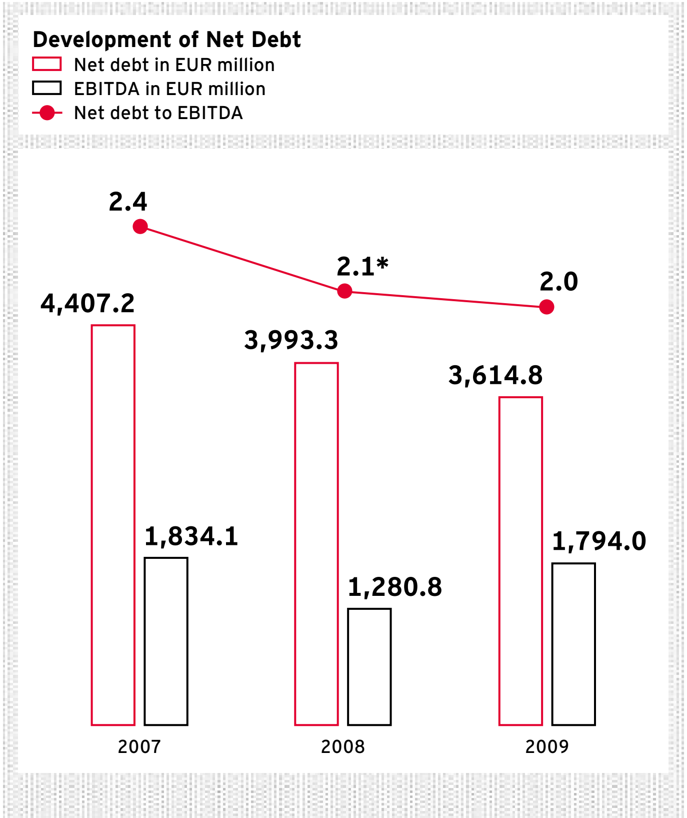
Stockholders' equity of 19.0%

In 2009, the Telekom Austria Group successfully reduced its net debt by 9.5% from EUR 3,993.3 million to EUR 3,614.8 million. The net debt to EBITDA ratio was 2.0x after 2.1x excluding the restructuring expense reported in the previous year.

Net Debt*

in EUR million	Dec. 31, 2009	Dec. 31, 2008
Long-term debt	3,234.8	3,599.5
Short-term borrowings	1,501.6	961.5
Cash and cash equivalents, short-term and long-term investments, financing with related parties	-1,099.0	-513.1
Derivative financial instruments for hedging purposes	-22.5	-54.6
Net debt of Telekom Austria Group	**3,614.8**	**3,993.3**
Net debt to EBITDA ratio (2008: excluding expenses for restructuring program)	2.0x	2.1x

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



* Excluding restructuring expenses. Including restructuring expenses, the net debt to EBITDA ratio amounted to 3.1x.

Since 2003, the Telekom Austria Group has been subjected to regular evaluations by Moody's Investors Service and Standard & Poor's. Moody's affirmed its long-term rating at A3 (stable outlook) for the 2009 financial year. Standard & Poor's had already revised the outlook from "stable" to "negative" in 2008 and reaffirmed it in 2009. Last year's decision was attributed to the personnel costs in the Fixed Net segment and increased economic risks in the Group companies in Eastern and South-Eastern Europe. Due to the Telekom Austria Group's weaker-than-expected outlook for 2010, Standard & Poor's placed its long-term rating (BBB+/negative outlook) of Telekom Austria AG on the CreditWatch list with negative implications as of December 2009, but confirmed the short-term A-2 rating.

Development of Cash Flow

In a year-on-year comparison cash flow generated from operations fell by EUR 178.4 million to EUR 1,385.4 million in 2009, mainly due to weaker operating results. Lower capital expenditures reduced the cash flow used in investing activities by 8.8% to EUR 929.8 million. Cash used in financing activities recorded an outflow of EUR 152.9 million compared to EUR 522.8 million in the previous year.

Cash Flow

in EUR million	2009	2008	Change in %
Cash flow generated from operations	1,385.4	1,563.8	-11.4
Cash used in investing activities	-929.8	-854.9	8.8
Cash generated from (used in) financing activities	-152.9	-522.8	-70.8
Effects from exchange rate changes	42.6	-10.4	–
Increase in cash and cash equivalents	345.3	175.7	96.5

Lower Capital Expenditures

Total capital expenditures for tangible and intangible assets were reduced by 11.9% to EUR 711.4 million compared to the previous year. Capital expenditures for tangible assets declined by 12.7% to EUR 516.7 million, while capital expenditures for intangible assets declined by 9.7% to EUR 194.7 million.

Capital Expenditures*

in EUR million	2009	2008	Change in %
Tangible Fixed Net	225.7	201.8	11.8
Tangible Mobile Communication	291.0	390.1	-25.4
Total Tangible	**516.7**	**591.9**	**-12.7**
Intangible Fixed Net	63.1	61.7	2.3
Intangible Mobile Communication	131.6	156.2	-15.7
Eliminations	0.0	-2.2	–
Total Intangible	194.7	215.7	-9.7
Capital Expenditures*	**711.4**	**807.6**	**-11.9**

* Excluding capital expenditures arising from asset retirement obligations

Total investment in the Fixed Net segment rose by 9.6% to EUR 288.8 million. Investments focused on the gradual migration to a single IP-based network architecture, the glass fiber pilot projects in Villach, Klagenfurt and two Vienna districts as well as on equipment investments for end-customers. Total investments in the Mobile Communication segment decreased by 22.6% to EUR 422.6 million in 2009 compared to the previous year. Capital expenditures were substantially cut, especially in Austria, Bulgaria, Croatia and the Republic of Serbia.

Fixed Net Segment

Decline of Fixed Net access lines decelerated to 1.0%

Compared to other European operators the Fixed Net segment of the Telekom Austria Group has achieved considerable success in safeguarding fixed net access lines by introducing attractive product bundles and customer retention measures. While in 2008 approximately 97,600 lines were lost, this decline was reduced to 23,300 lines in 2009, the equivalent of 1.0%, and for the first time in a decade the Fixed Net segment even reported net additions in the fourth quarter of 2009. The number of fixed net broadband lines rose by 15.5% to 1,022,600; the dynamic growth in the retail segment more than offset the decline in the wholesale segment. Total subscriber numbers of the broadband product aonTV rose from 63,800 to 101,300 in 2009.

Key Data Fixed Net

Key Financials in EUR million	2009	2008	Change in %
Revenues	**1,860.1**	**2,038.8**	**-8.8**
of which access, voice and broadband	972.2	1,080.7	-10.0
of which data	394.2	439.2	-10.3
of which wholesale, voice and Internet	351.2	405.6	-13.4
of which other	142.5	113.3	25.8
EBITDA	**575.7**	**-20.8**	**-**
EBITDA margin in %	**30.9**	**-1.0**	**-**
Operating income	**116.1**	**-530.3**	**-**
Capital expenditures	**288.8**	**263.5**	**9.6**

Key Operating Data Fixed Net in million minutes			
National traffic	2,353	2,698	-12.8
Fixed-to-mobile traffic	681	737	-7.5
International fixed net traffic	346	405	-14.5
Total voice telephony	**3,380**	**3,839**	**-12.0**
Market share voice telephony in %	60.4	61.3	-
Average tariff voice telephony in EUR/minute	0.078	0.083	-6.0
Average monthly revenues per fixed access line in EUR	35.0	36.9	-5.1
Broadband penetration in Austria in % of households	90.5	77.5	-

Fixed Access Lines in '000s			
Fixed access lines	2,313.5	2,336.8	-1.0
Fixed net broadband access lines Retail	967.2	818.9	18.1
Fixed net broadband access lines Wholesale	55.4	66.8	-17.1
Total fixed net broadband access lines	**1,022.6**	**885.7**	**15.5**
Unbundled lines	286.6	298.9	-4.1
Human resources as of Dec. 31 (full-time employees)	**7,893**	**8,571**	**-7.9**

Despite these operating successes, revenues declined by 8.8% to EUR 1,860.1 million due to the developments and market trends described below. Total revenues from access lines, voice telephony and broadband fell by 10.0% to EUR 972.2 million, with most of this decline due to continued fixed-to-mobile substitution; the volume of fixed net voice minutes was 12.0% lower than in 2008. Average revenues per line decreased by 5.1% to EUR 35.0. An effect of EUR 36.4 million reflects the deconsolidation of three small foreign companies that were sold in February and November of the previous year.

Decline of data and wholesale revenues

In the data business lower prices for the new generation of xDSL-based networks for business customers and smaller investments by business customers in information and communications technology projects led to a 10.3% decline in revenues to EUR 394.2 million.

In the wholesale voice telephony and internet business the reduction in unbundling prices decreed by the regulator, lower volume of minutes and lower prices for international voice traffic pushed revenues down by 13.4% to EUR 351.2 million.

Other revenues rose mainly because of increased revenues from interactive TV formats.

Operating Expenses Fixed Net

in EUR million	2009	2008	Change in %
Material expenses	70.2	86.4	-18.8
Employee costs including benefits and taxes	528.4	1,186.1	-55.5
Depreciation, amortization and impairment charges	459.6	509.5	-9.8
Interconnection	291.5	344.4	-15.4
Maintenance and repairs	101.3	107.9	-6.1
Services received	114.1	83.5	36.6
Other support services	81.8	110.1	-25.7
Other operating expenses	173.7	200.6	-13.4
Operating Expenses Fixed Net	1,820.6	2,628.5	-30.7

Adjusted for the restructuring expense of EUR 632.1 million in the previous year, personnel expenses decreased by 4.6% to EUR 528.4 million in the 2009 financial year. Material expenses declined by 18.8% to EUR 70.2 million largely due to lower sales of end-devices, in particular broadband equipment, which is increasingly being leased instead of sold to customers. Expenses from interconnection declined by 15.4% to EUR 291.5 million as a result of the reduction of international mobile termination charges and the lower volume of international traffic.

Cost-cutting program proves effective

EUR 101.3 million was spent on the maintenance and repair of buildings and infrastructure facilities, 6.1% less than in the previous year. Expenses for services received rose by 36.6% to EUR 114.1 million, mainly due to increased tuning services in the wake of higher sales of interactive TV formats. Expenses for other support services were cut by 25.7% to EUR 81.8 million due to lower deployment of external staff. Following the continuation and intensification of the cost-cutting program other operating expenses fell by 13.4% to EUR 173.7 million. The biggest savings were achieved in the area of advertising, consultancy services, rental expenses, traveling expenses and transport services.

The Fixed Net segment reported a total EBITDA of EUR 575.7 million in the year under review. Adjusted for the changed reporting of currency translation differences, EBITDA in the previous year had been EUR -20.8 million due to the creation of the restructuring provision. The restrictive investment policy pursued in recent years led to a further reduction of depreciation, amortization and impairment charges by 9.8% to EUR 459.6 million. Following operating income of EUR -530.3 million (adjusted for foreign currency translation effects) in 2008, operating income in 2009 amounted to EUR 116.1 million.

Mobile Communication Segment

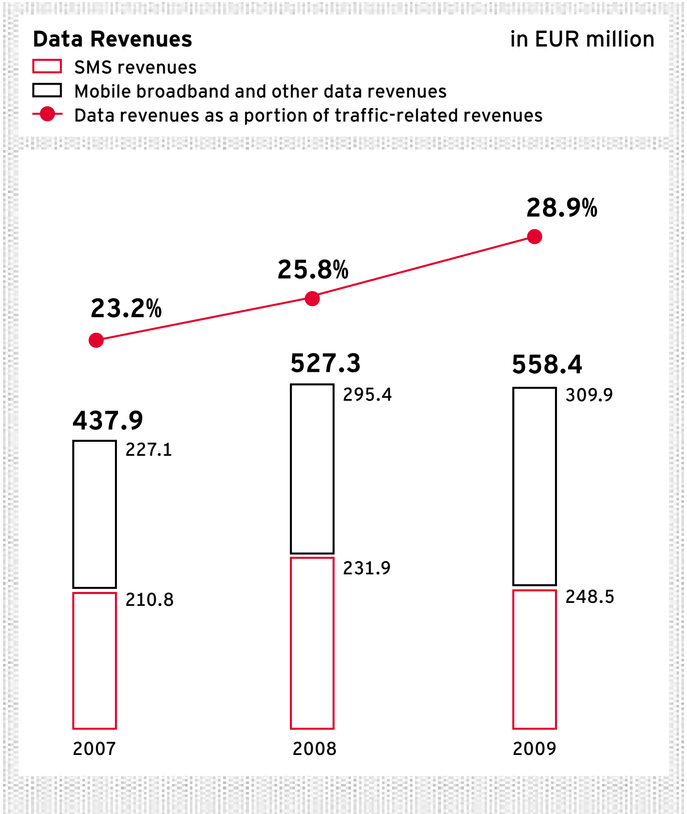
In 2009, the Mobile Communication segment succeeded in increasing or stabilizing its subscriber base in all markets, reporting total growth of 6.4% or 1.1 million to approximately 18.9 million customers.

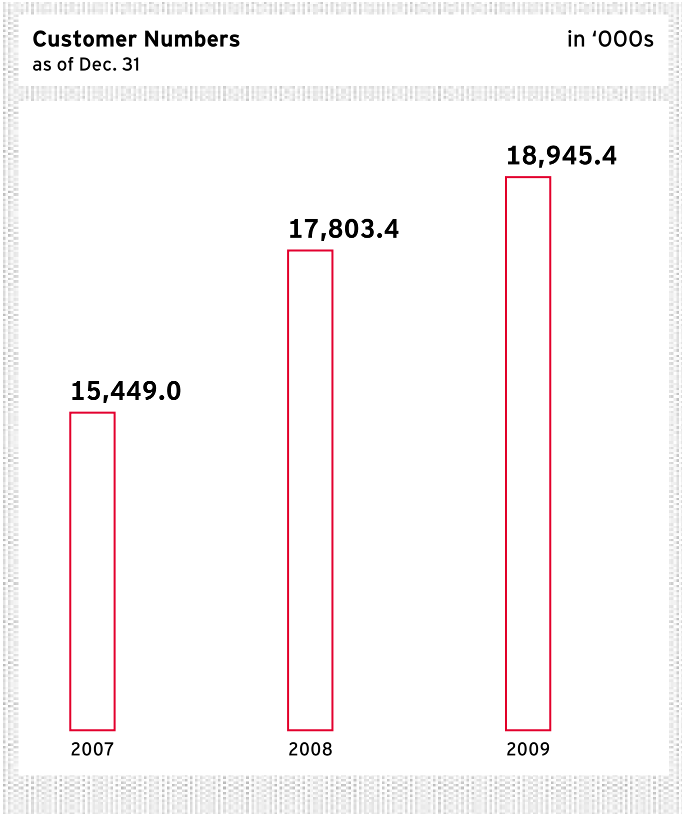
Customer growth of 1.1 million to 18.9 million subscribers

Business development in 2009 was influenced by continuing intense competition in all markets, the negative effects of the economic recession and currency translation in Belarus and the Republic of Serbia. The reduction of termination and roaming charges decreed by the regulators also had a negative impact. Despite the operating success made possible by the introduction of innovative products and applications, total revenues declined by 5.5% to EUR 3,205.5 million. On a local currency basis revenues decreased by 2.8%.

Key Data Mobile Communication

in EUR million	2009	2008	Change in %
Revenues	**3,205.5**	3,390.9	-5.5
of which subscription and traffic revenues	2,329.9	2,413.4	-3.5
of which sale of equipment	228.3	269.8	-15.4
of which roaming	136.5	182.1	-25.0
of which interconnection	480.0	510.8	-6.0
of which other	70.2	61.4	14.3
of which discounts	-39.4	-46.6	-15.5
EBITDA	**1,246.3**	1,325.3	-6.0
EBITDA margin in %	**38.9**	39.1	-
Operating income	**255.1**	674.0	-62.2
Capital expenditures	**422.6**	546.3	-22.6
Number of customers (in '000s)	**18,945.4**	17,803.4	6.4
Share of revenues from data services in %	**28.9**	25.8	-
Human resources (full-time employees as of Dec. 31)	**8,680**	8,383	3.5





Falling prices and negative regulatory effects

Traffic and monthly rental revenues declined by 3.5% in the year under review due to regulatory measures and falling prices as a result of competitive pressure. This development was partly offset by a 6.4% increase in the subscriber base to more than 18.9 million customers. The 15.4% decline in revenues from the sale of equipment in 2009 was largely attributable to a drop in overall sales volume. Due to a host of far-reaching regulatory measures, interconnection revenues decreased by 6.0% to EUR 480 million and roaming revenues by 25.0%. Data products also played an increasingly important role in the reporting year, with data revenues as a portion of traffic-related revenues rising from 25.8% to 28.9%. In Austria alone, the number of mobile broadband subscribers rose by 35.0% to 540,000.

Cost-cutting programs in all business units

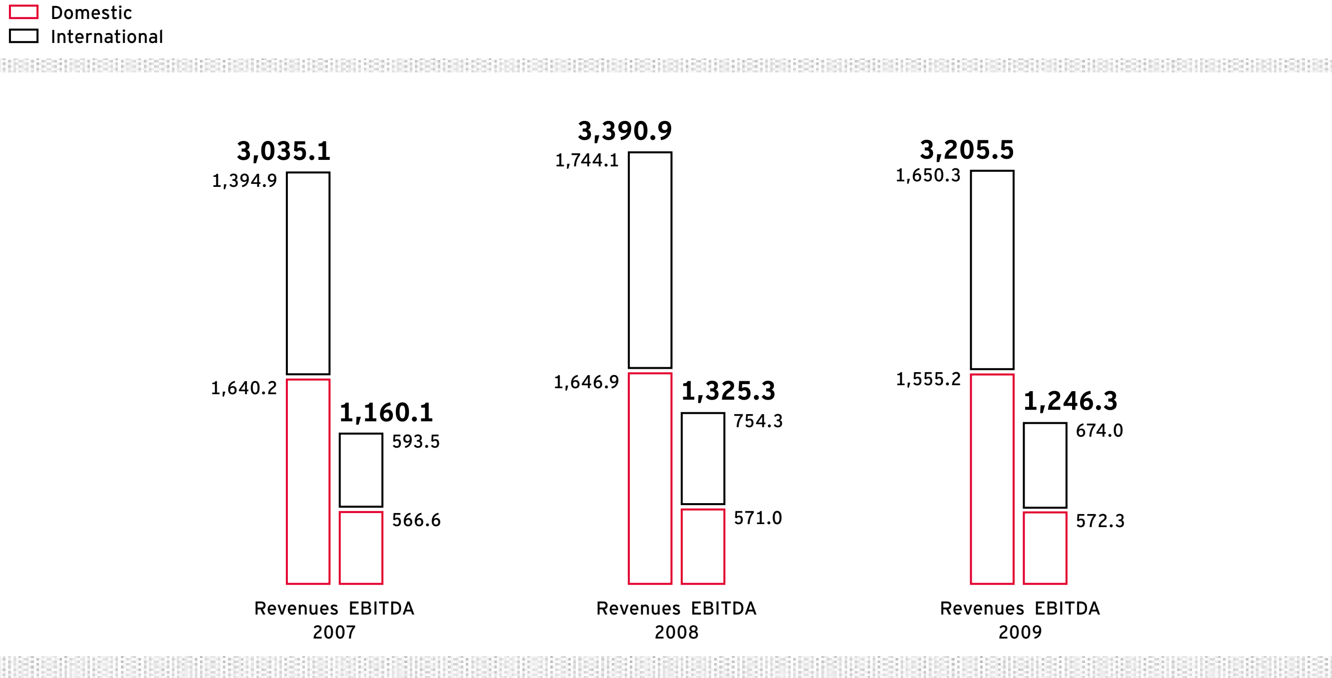
Following the implementation of comprehensive cost-cutting programs in all mobile communication companies, operating costs were reduced by 4.9%, whereas the 3.4% decline in material expenses to EUR 347.9 million was due to lower equipment sales. The headcount in the Mobile Communication segment rose by 3.5% to 8,680 employees largely because of the further expansion of Vip mobile in the Republic of Serbia and Vip operator in the Republic of Macedonia as well recruitment in Belarus. This resulted in a 3.6% rise in personnel expenses to EUR 276.5 million.

Impairment charges in Belarus and the Republic of Serbia

In line with lower capital expenditures, depreciation and amortization charges decreased by 1.9% to EUR 639.2 million. The goodwill from the acquisition of Velcom had to be reduced by EUR 290.0 million mainly because of the weaker cash flow and lower growth forecast as a result of the devaluation of the Belarusian ruble. The poor economic situation in the Republic of Serbia led to a EUR 62.0 million impairment charge on the mobile license. This resulted in total impairment charges of EUR 352.0 million.

At EUR 388.5 million, interconnection charges were 6.7% lower than in the previous year.

Mobile Communication Revenues and EBITDA Domestic and International in EUR million



Operating Expenses Mobile Communication

in EUR million	2009	2008	Change in %
Material expenses	347.9	360.3	-3.4
Employee costs including benefits and taxes	276.5	266.8	3.6
Depreciation, amortization and impairment charges	991.2	651.3	52.2
Interconnection	388.5	416.4	-6.7
Maintenance and repairs	86.8	80.4	8.0
Services received	275.3	313.7	-12.2
Other support services	38.3	34.9	9.7
Other operating expenses	587.0	631.3	-7.0
Operating Expenses Mobile Communication	2,991.5	2,755.1	8.6

Expenses for services received declined by 12.2% to EUR 275.3 million due to lower roaming tariffs.

Due to the developments described above, EBITDA of the Mobile Communication segment decreased by 6.0% to EUR 1,246.3 million. Currency translation effects in the amount of EUR 34.8 million also had a negative impact on EBITDA. On a local currency basis, EBITDA declined by 3.3%.

In the 2009 financial year, operating income in the Mobile Communication segment totaled EUR 255.1 million, 62.2% less than in the previous year. However, excluding the impairment charges and on a local currency basis this decline would diminish to 8.8%.

mobilkom austria – Austria

Despite fierce competition mobilkom austria grew its subscriber base by 7.5% to approximately 4.8 million customers in 2009, defending its market leadership with a market share of 42.6%. At the same time, the share of contract customers rose by 12.6%, with the mobile broadband business also continuing to register dynamic growth: with 540,000 customers, mobile broadband in fact accounts for 17.0% of the entire broadband market (including fixed net) up from 14.7%.

Subscriber growth of
7.5%
to 4.8 million customers

However, increased use of data services was unable to compensate for the impact of intense competition, roaming regulation and lower termination charges. The 12.7% decline in average revenues per user to EUR 24.7 was also partly attributable to the increased offering of "SIM-only" products with lower tariffs and limited features but also to the negative impact of the increasing proportion of data SIMs. Moreover, this trend was intensified by the success of product bundles that cut across segments and were used to address new customer groups.

mobilkom austria reported a decline in total revenues of 5.6% to EUR 1,574.4 million. A cost-cutting program stemmed the decline in EBITDA by 2.5% to EUR 585.7 million. Operating income amounted to EUR 354.9 million, 0.7% lower than in the previous year.

mobilkom austria

Key Financials in EUR million	2009	2008	Change in %
Revenues	1,574.4	1,668.0	-5.6
EBITDA	585.7	600.9	-2.5
EBITDA margin in %	37.2	36.0	–
Operating income	354.9	352.5	0.7
Mobile penetration in %	135.7	126.6	–
Market share in %	42.6	42.5	–
Number of competitors	6	6	–
Number of customers in '000s	4,834.2	4,496.3	7.5
Share of contract customers in %	72.8	69.5	–
Average revenues per user (ARPU) in EUR	24.7	28.3	-12.7
Share of revenues from data services in %	37.0	32.2	–
Human resources (full-time employees as of Dec. 31)	2,143	2,144	0.0

Market share
almost stable at
49.8%

Mobiltel – Bulgaria

In the year under review Mobiltel, the leading mobile communication operator in Bulgaria, was able to keep its market share almost stable at 49.8% with approximately 5.4 million customers. At the same time, the number of contract customers rose by 13.9%. The country's overall economic situation had a negative impact on the development of demand in both the residential and business customer segments. There was also a substantial decline in termination charges.

Mobiltel's revenues declined by 7.9% to EUR 614.7 million in the 2009 financial year. EBITDA amounted to EUR 327.1 million, 11.8% lower than in the previous year. Substantial reductions in operating expenses prevented a sharper fall. The EBITDA margin remained at a high level of 53.2% after 55.6% in the previous year. Operating income was 25.2% lower than in the previous year, amounting to EUR 147.9 million.

Mobiltel

Key Financials in EUR million	2009	2008	Change in %
Revenues	614.7	667.4	-7.9
EBITDA	327.1	370.9	-11.8
EBITDA margin in %	53.2	55.6	–
Operating income	147.9	197.8	-25.2
Mobile penetration in %	142.0	142.1	–
Market share in %	49.8	50.0	–
Number of competitors	2	2	–
Number of customers in '000s	5,352.5	5,396.2	-0.8
Share of contract customers in %	59.0	51.4	–
Average revenues per user (ARPU) in EUR	9.1	9.8	-7.1
Share of revenues from data services in %	16.1	11.7	–
Human resources (full-time employees as of Dec. 31)	2,455	2,422	1.4

Subscriber growth of
10.9%
to 4.1 million customers

Velcom – Belarus

Velcom successfully defended its position on the Belarusian mobile communication market in the face of strong competition, expanding its subscriber base by 10.9% to 4.1 million customers, but registering a 2.1% decline in market share to 42.7%. Business performance was influenced both by operational challenges and the development of the Belarusian ruble, which lost roughly 24% of its value against the euro over the year.

While Velcom was able to compensate for some of these effects by raising tariffs by 18%, revenues nevertheless declined by 3.2% to EUR 300.3 million. On a local currency basis, however, revenues grew by 19.9%. EBITDA declined by 2.3% to EUR 149.9 million compared to the previous year. On a local currency basis an increase of 21.1% was registered.

Due to strong currency devaluation goodwill also had to be reduced; an impairment charge amounting to EUR 290.0 million was recorded. Velcom therefore reported an operating loss of EUR 211.9 million for the 2009 financial year. Excluding the impairment charge and on a local currency basis, operating income rose by 28.9% to EUR 96.8 million.

Velcom

Key Financials in EUR million	2009	2008	Change in %
Revenues	300.3	310.3	-3.2
EBITDA	149.9	153.4	-2.3
EBITDA margin in %	49.9	49.4	–
Operating income	-211.9	75.1	–
Mobile penetration in %	99.4	85.1	–
Market share in %	42.7	44.8	–
Number of competitors	2	2	–
Number of customers in '000s	4,102.4	3,697.9	10.9
Share of contract customers in %	75.8	77.8	–
Average revenues per user (ARPU) in EUR	6.1	7.3	-16.4
Share of revenues from data services in %	16.3	16.7	–
Human resources (full-time employees as of Dec. 31)	1,711	1,607	6.5

Vipnet – Croatia

Vipnet consolidated its position as the second largest mobile communication operator in Croatia, increasing customer numbers by 4.7% to 2.6 million and even slightly expanding its market share to 42.6%. Business in 2009 was marked by lower termination charges and the introduction of a 6% mobile communication levy. The number of contract customers rose by 13.2% and the share of revenues generated by data traffic increased to 30.0%.

Subscriber growth of
4.7%
to 2.6 million customers

However, Vipnet reported a decline in revenues of 8.9% to EUR 476.9 million. In a year-on-year comparison, EBITDA declined by 14.5% to EUR 170.8 million. Nevertheless, more significant impacts on results were prevented by cost-cutting measures. Operating income amounted to EUR 100.8 million, well below the previous year's figure of EUR 126.3 million.

Vipnet

Key Financials in EUR million	2009	2008	Change in %
Revenues	476.9	523.6	-8.9
EBITDA	170.8	199.8	-14.5
EBITDA margin in %	35.8	38.2	–
Operating income	100.8	126.3	-20.2
Mobile penetration in %	138.4	133.6	–
Market share in %	42.6	42.2	–
Number of competitors	2	2	–
Number of customers in '000s	2,603.0	2,486.6	4.7
Share of contract customers in %	24.6	22.8	–
Average revenues per user (ARPU) in EUR	12.3	14.7	-16.3
Share of revenues from data services in %	30.0	28.9	–
Human resources (full-time employees as of Dec. 31)	1,064	1,074	-0.9

Si.mobil – Slovenia

Si.mobil, the second-largest mobile communication operator in Slovenia, grew its subscriber base by 3.3% to almost 590,000 customers in 2009, slightly improving its market share to 28.2%.

Subscriber growth of
3.3%
to roughly 590,000 customers

Lower termination charges, the negative impacts of roaming regulation and tariff reductions as a result of competitive pressure led to a decline in revenues of 4.9% to EUR 180.3 million. EBITDA decreased by 18.0% to EUR 48.2 million due to the creation of provisions for poorer customer payment behavior. Operating income amounted to EUR 25.5 million, 31.8% lower than in the previous year.

Si.mobil

Key Financials in EUR million	2009	2008	Change in %
Revenues	180.3	189.5	-4.9
EBITDA	48.2	58.8	-18.0
EBITDA margin in %	26.7	31.0	–
Operating income	25.5	37.4	-31.8
Mobile penetration in %	102.9	102.7	–
Market share in %	28.2	27.7	–
Number of competitors	5	5	–
Number of customers in '000s	589.4	570.6	3.3
Share of contract customers in %	69.2	65.8	–
Average revenues per user (ARPU) in EUR	21.7	24.0	-9.6
Share of revenues from data services in %	22.1	20.2	–
Human resources (full-time employees as of Dec. 31)	329	326	0.9

Vip mobile – Republic of Serbia

Subscriber growth of
27.1%
to roughly 1.2 million customers

Vip mobile launched operations in the Republic of Serbia in July 2007 and reported 1.2 million customers following a 27.1% increase in the year under review. With a penetration rate of 128.4% this is the equivalent of a 12.0% market share, up from 9.1% in the previous year.

As a result of this larger subscriber base and higher traffic volumes, Vip mobile was able to increase revenues by 36.8% to EUR 80.7 million. The introduction of a 10.0% mobile communication levy in August 2009 had a negative impact on business performance. Despite continuing start-up investments and expenses for customer acquisition, EBITDA improved from EUR -36.1 million to EUR -23.6 million.

Vip mobile

Key Financials in EUR million	2009	2008	Change in %
Revenues	80.7	59.0	36.8
EBITDA	-23.6	-36.1	-34.6
Operating income	-143.3	-87.6	63.6
Mobile penetration in %	128.4	132.9	–
Market share in %	12.0	9.1	–
Number of competitors	2	2	–
Number of customers in '000s	1,153.9	907.9	27.1
Average revenues per user (ARPU) in EUR	5.5	5.9	-6.0
Human resources (full-time employees as of Dec. 31)	772	613	25.9

Against the backdrop of a difficult economic situation, the original growth forecasts had to be revised. As a result, an impairment charge of EUR 62.0 million was recorded for the mobile license, leading to an operating loss of EUR 143.3 million, after a loss of EUR 87.6 million in the previous year.

Vip operator – Republic of Macedonia

Subscriber growth of
25.5%
to 303,700 customers

Vip operator started operations in the Republic of Macedonia in September 2007. By the end of 2009, after growing its subscriber base by 25.5% to approximately 303,700 customers, Vip operator held a market share of 15.9% (2008: 10.7%).

Revenues improved by 82.4% to EUR 21.7 million compared to the previous year. Due to start-up investments, EBITDA improved to EUR -13.4 million after EUR -19.5 million in the previous year. The operating loss decreased from EUR 24.2 million to EUR 20.9 million.

Vip operator

Key Financials in EUR million	2009	2008	Change in %
Revenues	21.7	11.9	82.4
EBITDA	-13.4	-19.5	-31.3
Operating income	-20.9	-24.2	-13.6
Mobile penetration in %	92.7	112.3	–
Market share in %	15.9	10.7	–
Number of competitors	2	2	–
Number of customers in '000s	303.7	242.0	25.5
Average revenues per user (ARPU) in EUR	6.1	3.8	60.5
Human resources (full-time employees as of Dec. 31)	172	170	1.2

mobilkom liechtenstein

At year-end 2009, mobilkom liechtenstein had approximately 6,300 customers, 6.8% more than in the previous year. Revenues in the year under review amounted to EUR 15.6 million, down 23.2% year-on-year. This development was essentially due to the regulation of termination charges between market players and the negative effect of regulation on roaming. Average revenues per user were the highest within the Mobile Communication segment and amounted to EUR 57.3 in 2009. EBITDA declined by 15.0% to EUR 3.4 million while operating income fell by 18.8% to EUR 2.6 million in the year under review.

Subscriber growth of
6.8%
to 6,300 customers

mobilkom liechtenstein

Key Financials in EUR million	2009	2008	Change in %
Revenues	15.6	20.3	-23.2
EBITDA	3.4	4.0	-15.0
EBITDA margin in %	21.8	19.7	-
Operating income	2.6	3.2	-18.8
Mobile penetration in %	90.1	87.4	-
Market share in %	20.1	19.6	-
Number of customers (in '000s)	6.3	5.9	6.8
Average revenues per user (ARPU) in EUR	57.3	70.1	-18.3
Share of revenues from data services in %	9.5	9.1	-
Human resources (full-time employees as of Dec. 31)	15	13	15.4

Human Resources

At year-end 2009, the Telekom Austria Group had 16,573 employees, a decline of 2.2% compared to the previous year. The headcount in the Mobile Communication segment increased by 3.5% to 8,680 employees, largely due to the development of the start-up companies in the Republic of Serbia and the Republic of Macedonia as well as a rising personnel requirement in Belarus.

A restructuring program was initiated in the Fixed Net segment in 2008 to bring the headcount in line with current business volumes. Those employees who can no longer be employed within the company may choose to accept a social plan. Employees whose contracts cannot be terminated will be permanently released from their duties. As of December 31, 2009, the provision created for those employees, who have been released from their duties, covered 789 people.

Employees at year-end*

	2009	2008	Change in %
Fixed Net	7,893	8,571	-7.9
Mobile Communication	8,680	8,383	3.5
Total	16,573	16,954	-2.2

*Full-time employees

At year-end 2009, the Fixed Net segment had 7,893 employees, a decline of 7.9% compared to the same period in the previous year. As of December 31, 2009 33.8% of the workforce of Telekom Austria Group had civil service status (2008: 36.6%).

Telekom Austria Group competes in a dynamic and highly competitive environment. Against this background, the skills and qualifications of the workforce are central to safeguarding the company's competitiveness and innovative strength. At the same time, however, it is essential to increase efficiency and productivity. In order to address these fundamental challenges, Telekom Austria Group uses modern instruments of human resource development and training, and creates performance-oriented remuneration schemes. In the 2009 financial year, EUR 11.5 million was spent on further education and professional training, the equivalent of EUR 685 per employee.

Changes to the Management Board and Supervisory Board

Hannes Ametsreiter succeeds Boris Nemsic

Following the resignation of Boris Nemsic, the Supervisory Board appointed Hannes Ametsreiter as CEO and Chairman of the Management Board of the Telekom Austria AG and CEO of mobilkom austria AG. The Works Council nominated Silvia Bauer to succeed Markus Hinker who resigned from the Supervisory Board as of January 27, 2009. All other shareholder representatives were re-elected by the Annual General Meeting in May 2009 and will continue to serve on the Board.

Innovation and Technology

EUR 40.3 million spent on R&D

Telekom Austria Group's research and development activities focus on the development of market-oriented products and services as well as the further technological up-grade of network infrastructures. In 2009 expenditures on research and development totaled EUR 40.3 million (2008: EUR 41.5 million).

2009 saw the start of the rollout of the glass fiber-based Next Generation Network (NGN). The first four pilot projects are providing valuable information regarding costs and customer acceptance. Parallel to this, the further development and gradual migration of the existing infrastructure to a state-of-the-art All-IP service platform was continued.

The Mobile Communication segment pushed ahead with the harmonization of its technology strategy by implementing a cross-border Technology Governance policy. An intensive exchange of know-how, experience from the markets and a focus on highly standardized technology platforms will provide a joint basis for the coordinated introduction of innovative voice and data products as well as customer solutions.

Sustainable Corporate Management

Balance between economic, ecological and social aspects

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

The innovative solutions provided by information and communication technologies offer enormous potential for climate protection. The virtualization and digitalization of processes reduces the impact on the environment. Video-conferencing and teleworking are major levers for cutting work-related travel and consequently CO_2 emissions. Increased use of e-government, e-health, e-studying etc. also offers considerable savings potential.

The Telekom Austria Group companies are active participants in a range of national and international environmental protection initiatives. By participating in the WWF Climate Group the Fixed Net segment undertook to reduce its CO_2 emissions by at least 15% before 2012. A special department for energy management was created to ensure continuous improvements to energy efficiency and the systematic optimization of energy flows. In 2009 the energy management system was certified according to the new Austrian standard ÖNORM EN 16001. To combat rising electricity consumption at computer centers, the Fixed Net segment has also signed up to the European Union Code of Conduct on Data Centres Energy Efficiency (COC).

Cash Use Policy

Dividend floor of EUR 0.75 per share

The planned cash use policy for the period 2009 to 2012 presented by the Telekom Austria Group in January 2009 provided for a payout ratio of 65% of net income and a minimum dividend floor of EUR 0.75 per share. The evaluation of whether to resume the share buyback program, which was temporarily suspended in 2007 due to net debt exceeding the target ratio to EBITDA, was carried out in 2009.

Owing to the operational challenges facing the Group in Eastern and South-Eastern Europe and exchange rate risks, a resumption of share buybacks in 2010 is not expected.

Shareholder Structure and Disclosures about Share Capital

Roughly 71.6% of shares are free-float

At year-end 2009, 71.58% or 317.1 million Telekom Austria AG shares were free-float; of these, 0.1% or 0.4 million shares were held by the company itself. The remaining 28.42% or 125.9 million shares are held by the Republic of Austria through ÖIAG. As of April 7, 2009 Capital Research & Management, California, announced that it had increased its stake to 10.01% or 46.1 million of the 460 million shares originally issued. UBS AG, Zurich, and its subsidiaries announced an interest of 4.95% as of August 20, 2009. As the managers of the individual funds controlled by these two companies make their investment decisions independently of one another, these shares are regarded as free float.

Following the authorization of the Annual General Meeting in May 2009 and a resolution of the Management Board, treasury shares were retired as of August 24, 2009, resulting in a reduction of the number of shares issued from 460 million to 443 million and a decrease in share capital of 3.7%.

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

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

Risk Management

Sectoral and geographical diversification

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

As the individual business areas of the Fixed Net segment are exposed to risks of a diverse nature, risk management implementation is not a centrally steered process but is managed by the local segment managers. Segment-wide monitoring and coordination is carried out by a central risk manager. In structured interviews and workshops with top management, risks are identified, evaluated and then compiled in a risk report, on the basis of which, measures are drawn up and put in place to mitigate and avoid risks. Their effectiveness is then monitored in a second step.

Risk management in the Mobile Communication segment is steered by a committee comprised of members of the management boards of the individual mobile communication companies on the basis of a risk catalogue, which distinguishes between regional and segment-specific risks. After the risks have been assessed and categorized according to their threat potential, measures designed to deal with them are drawn up and implemented. A regular status report is sent to management as a controlling instrument.

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

Market and Competitive Risks

Persisting price pressure

A high level of competition, which is also increasingly affecting international markets, is leading to sharp falls in the prices of voice telephony and data traffic in both segments of the Telekom Austria Group. There is therefore a risk that growth in volume will not be able to offset these price declines. Falling prices for mobile communication also accelerate fixed-to-mobile substitution. However, the Fixed Net segment was able to successfully stem the decline in fixed access lines with attractive product bundles.

Regulatory and Legal Risks

Network access and price regulation

Telecommunications services offered by a provider with significant market power are subject to network access and price regulation. The Telekom Austria Group is categorized as such in Austria; the international subsidiaries are also subject to the regulatory frameworks of their own countries. The operational flexibility of the Fixed Net segment is curtailed by the regulation of customer tariffs and charges at the wholesale level as well as the obligation to open up access to infrastructure and services.

In 2007, the European Parliament and the European Council passed a resolution for the introduction of comprehensive regulation of roaming tariffs for calls within the European Union. In 2008 a new proposal was drawn up and discussed by EU bodies and subsequently implemented in 2009. This ruling affects the Telekom Austria Group's mobile communication companies in the EU member states Austria, Slovenia and Bulgaria. Furthermore, regulatory decisions to reduce termination charges can also impact the results of the Telekom Austria Group.

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

Financial and Economic Risks

Liquidity reserve safeguards flexibility

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

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

No financial instruments for speculative purposes

The market risk pertaining to long-term debt and derivative instruments is quantified using value-at-risk models. In 2003, 2005, and 2008 TFG entered into interest rate swaps. The company also uses forward exchange contracts to hedge foreign currency risks.

Exposure to Credit Risks

The company regularly monitors its exposure to credit risk; there is no significant credit risk exposure with regard to any individual business partner or any individual financial instrument. In order to reduce the risk of non-performance by the other parties to swap agreements, the contracts are subject to Swap Dealer Agreements.

Regular monitoring

Safeguarding the Sound Value of Assets

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

Impairment tests carried out once a year of when deemed necessary

Personnel

Approximately two-thirds of the Fixed Net segment workforce have civil service status and their contracts cannot be terminated. Consequently, management has only limited scope to adjust the headcount to the future volume of business.

Technical and Geographical Risks

Force majeure, human error and faulty materials can cause damage to the technical infrastructure of the Telekom Austria Group. Technological progress also creates risks due to the speed with which the infrastructure reaches its end-of-life. Effective measures to ensure maximum network reliability and fault tolerance encompass redundant critical network components, firewalls, self-defending networks and the implementation of the highest safety standards.

Technological evolution

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

Internal Control System for Financial Reporting

Even after delisting from the New York Stock Exchange, the Telekom Austria Group has retained its internal control system for financial reporting (ICS) and thus complies with all the EU standards, which became mandatory for the first time in 2009. The internal control system should ensure adequate certainty regarding the reliability and correctness of the external financial reporting in compliance with national and international standards. The most important contents and principles apply to all Telekom Austria Group's companies. Behind any important financial transaction a risk and control matrix ensures that financial reporting is correct and complete.

Reliability and correctness

Review at regular intervals

The effectiveness of this system is surveyed and analyzed at regular intervals. At the end of the year, a management evaluation of the companies under scrutiny is carried out in consultation with the business departments. Based on the results of this evaluation and the defined criteria, management confirmed the effectiveness of the internal control system as of December 31, 2009.

Major Subsequent Events

Changed shareholder structure

Capital Research and Management Company increased its stake to 15.13% or 67,039,703 shares as of January 20, 2010. As the managers of the individual funds controlled by this company make their investment decisions independently of one another, these shares are regarded as free float.

Outlook

Challenging market environment expected also for 2010

The Telekom Austria Group expects the current difficult market environment that has dominated the current financial year to persist in 2010. This environment is characterized by the coincidence of several negative external effects with the impact of weak economies. The negative external effects mainly encompass continuing fixed-to-mobile substitution in Austria, sustained price pressure in all Group's major markets and the effect from regulatory-induced lower roaming prices and mobile termination charges in Austria, Bulgaria, Croatia and Slovenia. Furthermore, the introduction of a tax levied on selected mobile communications services in Croatia and the Republic of Serbia constitutes an additional burden.

Outlook 2010: revenues of EUR 4.7 billion and EBITDA of EUR 1.6 billion

Revenues for the 2010 financial year are expected to amount to roughly EUR 4.7 billion. The company has already initiated significant cost-cutting programs in both segments addressing both personnel and materials expenses to mitigate the negative impact of lower revenues. Including the expected cost-savings, EBITDA should reach approximately EUR 1.6 billion. Depending on the extent of investments for the migration to an All-IP-based network in the Fixed Net segment, capital expenditures of the Telekom Austria Group are forecast to reach up to EUR 800 million. This amount does not reflect a material rollout of the glass fiber infrastructure, which is not expected to start in 2010.

Operating free cash flow remains the management's primary focus and is expected to reach approximately EUR 800 million. The Telekom Austria Group reiterates its intention to distribute dividends amounting to 65% of annual net income or at least EUR 0.75 per share until 2012. The Management Board remains committed to its cash use policy including returning excess cash to shareholders via share buy-backs within the 1.8x–2.0x net debt to EBITDA target balance and provided its main foreign currencies and operations remain stable. Nevertheless, in the light of the persistently challenging operating environment the share buy-back is not expected to start in 2010.

Convergence of Fixed Net and Mobile Communication segments

Furthermore, in view of the continuing convergence of the fixed net and mobile communication markets and based on international developments in mobile communication, the Management Board of Telekom Austria AG in coordination with the Supervisory Board is exploring the possibility of merging fixed net and mobile communication operations in Austria. The outcome of this analysis will be submitted to the Supervisory Board of Telekom Austria AG in Q1 2010 and will form the basis for further action.

Vienna, February 12, 2010


Hannes Ametsreiter Hans Tschuden

Consolidated Financial Statements 2009

TELEKOM AUSTRIA AG - Consolidated Statements of Operations

Notes		2009	2008
(4)	Operating revenues	4,801,983	5,170,319
(5)	Other operating income	94,558	74,066
	Operating expenses		
	Materials	(396,788)	(428,316)
	Employee expenses, including benefits and taxes	(805,585)	(1,454,636)
(18)(19)	Depreciation and amortization	(1,097,923)	(1,155,317)
(17)(18)(19)	Impairment charges	(352,188)	(4,800)
(6)	Other operating expenses	(1,900,119)	(2,080,665)
	OPERATING INCOME	**343,938**	**120,651**
	Financial result		
(7)	Interest income	29,514	26,311
(7)	Interest expense	(249,491)	(231,714)
(7)	Foreign exchange differences	(14,252)	13,493
(7)	Other financial result	(4,180)	(3,249)
(15)	Equity in earnings of affiliates	780	(1,873)
	INCOME BEFORE INCOME TAXES	**106,311**	**(76,382)**
(30)	Income taxes	(11,406)	27,622
	NET INCOME (LOSS)	**94,904**	**(48,760)**
	Attributable to:		
	Owners of the parent	95,129	(48,767)
	Non-controlling interests	(225)	6
(29)	Basic and fully diluted earnings per share	0.22	(0.11)

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

in EUR '000s

TELEKOM AUSTRIA AG - Consolidated Statements of Comprehensive Income

	2009	2008
Net income (loss) for the year	**94,904**	**(48,760)**
Unrealized result on securities available - for - sale	1,425	(2,112)
Income tax (expense) benefit	(338)	532
Realized result on securities available - for - sale	(172)	(113)
Income tax (expense) benefit	24	19
Unrealized result on hedging activities	(3,643)	(14,455)
Income tax (expense) benefit	586	2,629
Foreign currency translation adjustment	(340,829)	(17,298)
Income tax (expense) benefit	-	(407)
Other comprehensive income for the year	**(342,947)**	**(31,205)**
Total comprehensive income for the year	**(248,042)**	**(79,965)**
Attributable to:		
Owners of the parent	(247,818)	(79,972)
Non - controlling interests	(225)	6

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

TELEKOM AUSTRIA AG - Consolidated Statements of Financial Position

Notes		December 31, 2009	December 31, 2008	December 31, 2007
	ASSETS			
	Current assets			
	Cash and cash equivalents	730,054	384,762	209,126
(8)	Short-term investments	215,412	85,993	19,459
(9)	Accounts receivable - trade, net of allowances	668,640	716,571	743,128
(10)	Receivables due from related parties	3,893	3,234	3,294
(11)	Inventories	126,418	128,488	128,297
(12)	Prepaid expenses	121,323	112,576	124,755
(30)	Income taxes receivable	43,929	32,860	30,856
(13)	Non-current assets held for sale	3,177	6,343	254
(14)	Other current assets	111,004	74,597	67,062
	TOTAL CURRENT ASSETS	**2,023,849**	**1,545,425**	**1,326,231**
	Non-current assets			
(15)	Investments in associates	7,467	4,193	5,694
(16)	Financial assets long-term	137,755	42,995	60,024
(17)	Goodwill	1,493,062	1,958,540	1,939,614
(18)	Other intangible assets, net	1,900,294	2,265,614	2,432,963
(19)	Property, plant and equipment, net	2,675,156	2,975,954	3,186,462
(20)	Other non-current assets	33,664	61,296	8,518
(30)	Deferred tax assets	227,508	143,432	44,138
(10)	Receivables due from related parties, long-term finance	-	-	100
	TOTAL NON-CURRENT ASSETS	**6,474,905**	**7,452,024**	**7,677,513**
	TOTAL ASSETS	**8,498,754**	**8,997,450**	**9,003,744**
	LIABILITIES AND STOCKHOLDERS' EQUITY			
	Current liabilities			
(21)	Short-term borrowings	(856,014)	(961,494)	(1,236,070)
	Accounts payable - trade	(523,646)	(589,159)	(637,083)
(22)	Provisions and accrued liabilities	(222,753)	(228,361)	(203,623)
(10)	Payables due to related parties	(11,446)	(13,734)	(17,299)
(30)	Income taxes payable	(22,485)	(20,163)	(21,766)
(23)	Other current liabilities	(890,821)	(232,441)	(237,962)
(24)	Deferred income	(152,345)	(175,111)	(203,419)
	TOTAL CURRENT LIABILITIES	**(2,679,511)**	**(2,220,461)**	**(2,557,222)**
	Non-current liabilities			
(25)	Long-term debt	(3,213,671)	(2,917,403)	(2,793,833)
(26)	Lease obligations and cross border leases	(21,091)	(29,739)	(49,739)
(27)	Employee benefit obligations	(123,732)	(117,406)	(112,998)
(22)	Provisions long-term	(669,868)	(691,413)	(89,630)
(30)	Deferred tax liabilities	(144,017)	(188,087)	(195,408)
(28)	Other non-current liabilities and deferred income	(32,719)	(677,349)	(639,618)
	TOTAL NON-CURRENT LIABILITIES	**(4,205,097)**	**(4,621,397)**	**(3,881,226)**
	Stockholders' equity			
	Common stock	(966,183)	(1,003,260)	(1,003,260)
	Treasury shares	8,196	330,845	334,350
	Additional paid-in capital	(582,896)	(547,318)	(548,902)
	Retained earnings	(482,913)	(1,005,231)	(1,385,657)
	Revaluation reserve	15,519	13,401	(99)
	Translation adjustments	396,854	56,025	38,320
(29)	**Equity attributable to equity holders of the parent**	**(1,611,423)**	**(2,155,538)**	**(2,565,248)**
	Non-controlling interests	(2,723)	(54)	(48)
	TOTAL STOCKHOLDERS' EQUITY	**(1,614,146)**	**(2,155,592)**	**(2,565,296)**
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**(8,498,754)**	**(8,997,450)**	**(9,003,744)**

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

in EUR '000s

TELEKOM AUSTRIA AG - Consolidated Statements of Cash Flows

Notes		2009	2008
	Cash flow from operating activities		
	Net income (loss)	94,904	(48,760)
	Adjustments to reconcile net income to cash flow		
(18)(19)	Depreciation, amortization and		
(17)	impairment charges	1,450,112	1,160,117
	Write-offs from and appreciation to investments		(6)
(27)	Employee benefit obligations - non-cash	11,976	10,330
(6)	Allowance for doubtful accounts	50,048	45,518
(30)	Change in deferred taxes	(88,182)	(105,792)
(15)	Equity in earnings of affiliates - non-cash	(115)	2,606
(31)	Stock compensation	(5,367)	(8,987)
(31)	Employee participation program	1,616	1,921
(22)	Asset retirement obligation - accretion expense	6,938	5,770
(22)	Provision for restructuring - non-cash	42,232	617,424
(7)	Result on sale of investments	(1,086)	3,719
(5)(6)	Result on disposal/retirement of equipment	(5,516)	(9,806)
(32)	Other	12,209	19,733
		1,569,769	**1,693,787**
	Changes assets/liabilities, net of business combinations		
(9)	Accounts receivable - trade	(10,992)	(27,769)
(10)	Receivables due from related parties	(274)	76
(11)	Inventories	2,579	(483)
(12)(14)	Prepaid expenses and other assets	(28,713)	2,913
	Accounts payable - trade	(44,197)	(49,910)
(27)	Employee benefit obligations	(6,096)	(7,133)
(22)	Provisions and accrued liabilities	(54,029)	(9,070)
(10)	Payables due to related parties	(2,276)	(4,019)
(23)(24)	Other liabilities and deferred income	(40,353)	(34,545)
		(184,350)	**(129,941)**
	Cash flow from operating activities	**1,385,418**	**1,563,846**
	Cash flow from investing activities		
(18)(19)	Capital expenditures, including interest capitalized	(711,446)	(807,643)
(2)(15)	Acquisitions of subsidiaries, net of cash acquired	(12,726)	(14,535)
(2)(15)	Sale of subsidiaries, net of cash	7,664	1,162
(18)(19)	Proceeds from sale of equipment	18,047	28,735
(8)(16)	Purchase of investments	(394,894)	(73,507)
(8)(16)	Proceeds from sale of investments	163,513	10,879
	Cash flow from investing activities	**(929,842)**	**(854,910)**
	Cash flow from financing activities		
(25)	Proceeds from issuance of long-term debt	750,000	845,000
(25)	Principal payments on long-term debt	(629,884)	(423,277)
(21)	Change in short-term borrowings	58,825	(612,830)
(29)	Dividends paid	(331,799)	(331,659)
	Cash flow from financing activities	**(152,857)**	**(522,765)**
	Effect of exchange rate changes	42,573	(10,535)
	Change in cash and cash equivalents	**345,292**	**175,637**
	Cash and cash equivalents at beginning of the year	384,762	209,126
	Cash and cash equivalents at end of the year	730,054	384,762

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

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

	Common stock Par value	Treasury shares at cost	Additional paid - in capital
Balance at January 1, 2008	**1,003,260**	**(334,350)**	**548,902**
Total comprehensive income for the period	-	-	-
Distribution of dividends	-	-	-
Employee Participation Program	-	3,505	(1,584)
Balance at December 31, 2008	**1,003,260**	**(330,845)**	**547,318**
Total comprehensive income for the period	-	-	-
Distribution of dividends	-	-	-
Retirement of treasury shares	(37,077)	319,534	37,077
Employee Participation Program	-	3,115	(1,499)
Addition from acquisition	-	-	-
Balance at December 31, 2009	**966,183**	**(8,196)**	**582,896**

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

in EUR '000s

Retained earnings	Revaluation reserve	Translation adjustment	Total	Non-controlling interests	Total stockholders' equity
1,385,657	**99**	**(38,320)**	**2,565,248**	**48**	**2,565,296**
(48,767)	(13,500)	(17,705)	(79,972)	6	(79,965)
(331,659)	-	-	(331,659)	-	(331,659)
-	-	-	1,921	-	1,921
1,005,231	**(13,401)**	**(56,025)**	**2,155,538**	**54**	**2,155,592**
95,129	(2,118)	(340,829)	(247,818)	(225)	(248,042)
(331,799)	-	-	(331,799)	-	(331,799)
(285,976)	-	-	33,559	-	33,559
327	-	-	1,943	-	1,943
-	-	-	-	2,894	2,894
482,913	**(15,519)**	**(396,854)**	**1,611,423**	**2,723**	**1,614,146**

Consolidated Segment Reporting

2009	Fixed Net	Mobile Communication	Corporate & Other	Eliminations	Consolidated
External revenues	1,694,979	3,107,004	-	-	4,801,983
Intersegmental revenues	165,075	98,536	-	(263,612)	-
Total revenues	**1,860,054**	**3,205,541**	**-**	**(263,612)**	**4,801,983**
Other operating income	76,652	41,077	6,800	(29,971)	94,558
Segment expenses	(1,360,972)	(2,000,306)	(32,206)	290,994	(3,102,491)
EBITDA (excl. impairment charges)	**575,735**	**1,246,312**	**(25,407)**	**(2,589)**	**1,794,050**
Impairment charges	(196)	(351,992)	-	-	(352,188)
EBITDA (incl. impairment charges)	**575,539**	**894,319**	**(25,407)**	**(2,589)**	**1,441,861**
Depreciation and amortization	(459,420)	(639,199)	-	696	(1,097,923)
Operating income	**116,118**	**255,120**	**(25,407)**	**(1,894)**	**343,938**
Interest income					29,514
Interest expense					(249,491)
Equity in earnings of affiliates					780
Other income					(18,432)
Tax expense					(11,406)
Net income (loss)					**94,904**
Segment assets	2,338,280	6,427,423	7,027,111	(7,294,059)	8,498,754
Segment liabilities	(1,213,880)	(4,500,291)	(5,417,892)	4,247,454	(6,884,608)
Capital expenditures	288,792	422,654	-	-	711,446
Cost to acquire assets	288,938	428,247	-	-	717,184
Non-cash items	55,634	419,131	(4,656)	-	470,108

2008	Fixed Net	Mobile Communication	Corporate & Other	Eliminations	Consolidated
External revenues	1,865,827	3,304,492	-	-	5,170,319
Intersegmental revenues	172,951	86,443	-	(259,394)	-
Total revenues	**2,038,778**	**3,390,935**	**-**	**(259,394)**	**5,170,319**
Other operating income	59,391	38,182	6,607	(30,113)	74,066
Segment expenses	(2,118,953)	(2,103,835)	(30,600)	289,770	(3,963,618)
EBITDA (excl. impairment charges)	**(20,785)**	**1,325,283**	**(23,993)**	**263**	**1,280,768**
Impairment charges	(4,800)	-	-	-	(4,800)
EBITDA (incl. impairment charges)	**(25,585)**	**1,325,283**	**(23,993)**	**263**	**1,275,968**
Depreciation and amortization	(504,679)	(651,274)	-	636	(1,155,317)
Operating income	**(530,263)**	**674,009**	**(23,993)**	**899**	**120,651**
Interest income					26,311
Interest expense					(231,714)
Equity in earnings of affiliates					(1,873)
Other income					10,244
Tax expense					27,622
Net income (loss)					**(48,760)**
Segment assets	2,520,235	7,530,443	6,660,928	(7,714,156)	8,997,450
Segment liabilities	(1,471,767)	(4,797,699)	(5,104,916)	4,532,524	(6,841,858)
Capital expenditures	263,457	546,335	-	(2,150)	807,643
Cost to acquire assets	270,958	557,990	-	(2,150)	826,798
Non-cash items	631,386	57,935	4,995	-	694,316

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

in EUR '000s

Table of Other Intangible Assets

	Licenses	Brand names	Software	Customer base	Advances/ construction in progress	Other	Total
Cost							
Balance at January 1, 2008	1,110,197	545,071	821,905	1,100,488	52,954	157,809	3,788,424
Additions	2,836	-	92,316	51	84,890	35,670	215,764
Disposals	(35)	-	(80,288)	-	-	(5,370)	(85,693)
Transfers	3,414	-	88,431	-	(68,907)	8,075	31,014
Translation adjustments	(33,206)	2,274	(224)	8,317	(268)	(1,930)	(25,036)
Changes in reporting entities	(1,082)	-	(3,809)	5,220	-	3	332
Balance at December 31, 2008	**1,082,124**	**547,344**	**918,336**	**1,114,076**	**68,669**	**194,259**	**3,924,809**
Additions	6,849	-	80,048	-	83,995	23,713	194,604
Disposals	(126)	-	(87,699)	-	(155)	(1,734)	(89,714)
Transfers	-	-	75,005	-	(65,675)	6,275	15,606
Translation adjustments	(40,547)	(25,621)	(14,128)	(91,723)	(561)	(4,121)	(176,700)
Changes in reporting entities	-	491	123	766	-	1,537	2,917
Balance at December 31, 2009	**1,048,301**	**522,215**	**971,686**	**1,023,119**	**86,273**	**219,929**	**3,871,523**
Accumulated amortization							
Balance at January 1, 2008	(381,126)	-	(485,067)	(401,388)	-	(87,880)	(1,355,461)
Additions	(71,322)	-	(150,580)	(128,180)	-	(34,801)	(384,882)
Impairments	-	(4,800)	-	-	-	-	(4,800)
Disposals	35	-	79,821	-	-	5,368	85,224
Transfers	(3,421)	-	(7,312)	-	-	3,392	(7,341)
Translation adjustments	2,036	-	11	(939)	-	2,613	3,721
Changes in reporting entities	1,024	-	3,324	-	-	-	4,348
Balance at December 31, 2008	**(452,772)**	**(4,800)**	**(559,803)**	**(530,507)**	**-**	**(111,313)**	**(1,659,195)**
Additions	(67,143)	-	(154,396)	(108,765)	-	(37,418)	(367,722)
Impairments	(61,992)	-	-	-	-	-	(61,992)
Disposals	126	-	87,148	-	-	1,582	88,856
Transfers	-	-	113	-	-	(87)	26
Translation adjustments	6,139	-	5,388	14,216	-	3,166	28,910
Changes in reporting entities	-	-	(102)	-	-	(9)	(111)
Balance at December 31, 2009	**(575,643)**	**(4,800)**	**(621,652)**	**(625,055)**	**-**	**(144,079)**	**(1,971,229)**
Carrying amount at							
December 31, 2009	472,658	517,415	350,033	398,064	86,273	75,850	1,900,294
December 31, 2008	629,352	542,544	358,533	583,570	68,669	82,946	2,265,614

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

Table of Tangible Assets

	Land, buildings & leasehold improvements	Communications network and other equipment	Finance leases	Advances/ construction in progress	Total
Cost					
Balance at January 1, 2008	828,968	10,593,076	3,906	268,519	11,694,469
Additions	11,780	406,162	-	193,092	611,034
Disposals	(29,055)	(361,694)	(70)	(1,342)	(392,161)
Transfers	10,100	194,236	-	(235,350)	(31,014)
Translation adjustments	(337)	5,598	135	(2,069)	3,328
Changes in reporting entities	(1,696)	(35,652)	(2,542)	(439)	(40,329)
Balance at December 31, 2008	**819,760**	**10,801,722**	**1,432**	**222,410**	**11,845,324**
Additions	10,176	358,944	-	153,459	522,580
Disposals	(8,668)	(265,921)	-	(3,230)	(277,820)
Transfers	(3,048)	135,380	-	(158,269)	(25,938)
Translation adjustments	(751)	(95,601)	-	(18,546)	(114,898)
Changes in reporting entities	78	51,256	-	1,364	52,698
Balance at December 31, 2009	**817,547**	**10,985,780**	**1,432**	**197,187**	**12,001,946**
Accumulated depreciation					
Balance at January 1, 2008	(430,265)	(8,074,968)	(2,774)	-	(8,508,007)
Additions	(45,254)	(724,788)	(392)	-	(770,434)
Impairments	-	-	-	-	-
Disposals	19,237	354,258	-	-	373,495
Transfers	(3)	7,343	-	-	7,341
Translation adjustments	124	(3,511)	(129)	-	(3,516)
Changes in reporting entities	624	28,599	2,526	-	31,748
Balance at December 31, 2008	**(455,534)**	**(8,413,072)**	**(764)**	**-**	**(8,869,371)**
Additions	(42,779)	(687,144)	(278)	-	(730,201)
Impairments	(196)	-	-	-	(196)
Disposals	6,115	240,818	-	-	246,934
Transfers	6,478	(11)	-	-	6,467
Translation adjustments	210	50,853	-	-	51,063
Changes in reporting entities	(38)	(31,448)	-	-	(31,486)
Balance at December 31, 2009	**(485,745)**	**(8,840,003)**	**(1,042)**	**-**	**(9,326,790)**
Carrying amount at					
December 31, 2009	331,802	2,145,777	390	197,187	2,675,156
December 31, 2008	364,226	2,388,650	668	222,410	2,975,954

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

in EUR '000s

(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 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 (aon-TV). 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 Industrie-Holding AG ("ÖIAG"), is a significant shareholder of Telekom Austria Group. At December 31, 2009 and 2008, ÖIAG's stake amounts to approximately 28.4% and 27.4%, respectively.

In addition to the related party transactions described in Note (10), the Federal Republic of Austria authorizes and supervises the Rundfunk und Telekom Regulierungs – GmbH ("RTR"), which regulates certain activities of Telekom Austria Group. The government holds the taxing authority for the Austrian operations of Telekom Austria Group and imposes taxes such as income and value-added taxes on Telekom Austria Group.

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

Basis of presentation

Telekom Austria Group prepared the accompanying consolidated financial statements as of December 31, 2009 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, 2009 and as endorsed by the European Union.

IFRIC 12 "Service Concession Arrangements", IAS 32 and IAS 1 "Puttable Instruments and Obligations arising on Liquidation", IFRS 1 and IAS 27 "Cost of an Investment in a Subsidiary, a Jointly-controlled Entity or an Associate", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", IFRS 2 "Vesting Conditions and Cancellations", IFRS 7 "Amendment: Disclosures", IFRS 1 Revised "First-time Adoption" as well as several improvements regarding IFRSs 2008 were effective in 2008 or for annual periods beginning on or after January 1, 2009. Telekom Austria Group adopted these standards as of January 1, 2009. The impact on its consolidated financial statements and disclosures was insignificant.

Furthermore, IFRIC 13 "Customer Loyalty Programmes" was adopted as of January 1, 2009. IFRIC 13 addresses the accounting of customer loyalty programs that are operated either by the manufacturer or service provider or by a third party. The award credit granted is accounted for as a separate component of the sales transaction and recognized as deferred revenue until it is either redeemed by the customer or forfeited. Due to the adoption of IFRIC 13, an amount of EUR 20,936 and EUR 25,653 was reclassified from provisions to deferred income as of December 31, 2008 and 2007, respectively. In the consolidated statements of cash flows, an amount of EUR 4,717 was reclassified. Prior-year figures were adjusted accordingly. The effect on net income (loss) is not significant. Telekom Austria Group recognizes customer loyalty rewards as deferred revenue at the time of the granting until these are redeemed or forfeited.

Telekom Austria Group early adopted the following standards in the year ended December 31, 2008:

New standards / interpretations		Effective *
IFRS 8	Operating Segments	January 1, 2009
IAS 23	Borrowing Costs	January 1, 2009
IAS 1	Presentation of Financial Statements	January 1, 2009

* This standard/interpretation is effective for annual periods beginning on or after the presented date.

The following standards and interpretations were issued, but were not effective for the 2009 financial year. Telekom Austria Group has not early adopted these standards and interpretations and is currently evaluating their impact on its consolidated financial statements and disclosures.

New standards / interpretations		Effective *
IFRIC 17	Distributions of Non-cash Assets to Owners	July 1, 2009
IFRIC 18	Transfers of Assets from Customers	July 1, 2009
IFRIC 9 and IAS 39	Amendments to IFRIC 9 and IAS 39: Embedded Derivatives	July 1, 2009
IAS 39	Financial Instruments: Recognition and Measurement: Eligible Hedged Items	July 1, 2009
IFRS 2	Group Cash-settled Share-based Payment Transactions	January 1, 2010
IFRS 1	Additional Exemptions	January 1, 2010
IFRS 3 and IAS 27	Business Combinations, Consolidated and Separate Financial Statements**	July 1, 2009
IAS 39 and IFRS 7	Reclassification of Financial Assets: Effective Date	July 1, 2009

* This standard/interpretation is effective for annual periods beginning on or after the presented date.
** This standard/interpretation is effective for business combinations taking place after June 30, 2009.

Principles of consolidation

The consolidated financial statements of Telekom Austria Group include 24 (2008: 21) subsidiaries in Austria and 29 (2008: 26) 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. Special purpose entities, irrespective of their legal structure, are consolidated when Telekom Austria Group has the power to govern the financial and operating policies of an entity.

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 five (2008: five) investments accounted for using the equity method. Under the equity method, only Telekom Austria Group's investments in and net amounts due to and due from the equity investee are included in the consolidated statements of financial position. Telekom Austria Group's share of the investee's earnings is included in the consolidated statements of operations; and only dividends, cash distributions, loans or other cash received from or paid to the investee are included in the consolidated statements of cash flows.

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

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

Foreign currency translation

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

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

The Slovak subsidiary, JetStream Slovakia, changed its functional currency from the Slovak Koruna to the Euro as a result of the adoption of the Euro as the national currency in Slovakia as of January 1, 2009. Exchange rate differences resulting from the inclusion of this subsidiary in the consolidated financial statements prior to this date, which are recorded in equity, remain unchanged until the subsidiary is deconsolidated.

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.

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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,	
	2009	2008	2009	2008
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.3000	7.3555	7.3417	7.2236
Czech Koruna (CZK)	26.4730	26.8750	26.4390	24.9389
Hungarian Forint (HUF)	270.4200	266.7000	280.5505	251.4502
Serbian Dinar (CSD)	95.8888	88.6010	93.9096	81.3144
Slovak Koruna (SKK)*	-	30.1260	-	31.2744
Rumanian LEU (RON)	4.2363	4.0225	4.2408	3.6809
Macedonian Denar (MKD)	61.1659	61.4123	61.2739	61.2621
Belarusian Rubel (BYR)	4,106.1100	3,077.1400	3,894.3698	3,143.1634
US Dollar (USD)	1.4406	1.3917	1.3939	1.4713

* Translated into Euro based on the exchange rate of 30.1260 as of January 1, 2009

Revenue recognition

Fixed Net
Telekom Austria Group generates revenues from fixed line 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.

Telekom Austria Group recognizes long distance and local service revenue based upon minutes of traffic processed or contracted fixed fee schedules when 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 and lines leased to commercial customers are billed in advance resulting in deferred revenues. These fees are amortized over the period the service is provided. Cash discounts and incentives are accounted for as reductions in revenues when granted.

Product and other service revenues are recognized when the products are delivered and accepted by customers or when services are provided in accordance with contract terms.

The installation of customer lines in residences is a separate service and Telekom Austria Group provides this installation service in situations where it is not providing other services. Revenue on such installation work is recognized when the installation work 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 some pre-defined access to existing capacity on its physical network in return for similar access to the physical network of the counterparty. Telekom Austria Group does not recognize revenue or an obligation to the counterparty under such agreements apart from the trade revenue arising from subscriber transactions under normal tariff plans. 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.

As of 2007, Telekom Austria Group offers contracts including multiple services. These multiple element contracts typically include fixed line and internet services and, optionally, mobile communication services. Telekom Austria Group accounts for these services as separate "units of accounting" based on the value each service has to the customer on a standalone basis. The amount of total arrangement consideration is allocated to the separate units of accounting based on their relative fair values.

Mobile Communication
Telekom Austria Group provides mobile communications services to individuals and commercial and non-commercial organizations. These 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.

Telekom Austria Group recognizes mobile usage 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 usage services are billed in advance resulting in deferred revenues. These fees are amortized over the period the service is provided. Cash discounts and incentives are accounted for as a reduction in revenues when granted. Customer acquisition costs are recognized pro-rata over the contract period as marketing expenses when a service contract exists.

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

Certain arrangements that Telekom Austria Group enters into provide for the delivery of multiple deliverables by Telekom Austria Group. These multiple element arrangements typically include the sale of a handset, activation fee and phone service contract. 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.

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

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

Research and development costs

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

Research and development costs are expensed as incurred and totaled EUR 40,299 and EUR 41,476 for the years ended December 31, 2009 and 2008, respectively, and are classified based on their origination as employee costs, depreciation or operating expenses in the consolidated statement of operations.

Interest, royalties and dividends

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

Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income attributable to the shareholders of the parent by the weighted average number of common shares outstanding for the year. The Management Board determined to settle all employee stock options granted in the course of the Stock Option Plan 2004 in cash. Thus no related dilutive effect has been considered in 2009 and 2008 for current stock option plans.

Cash and cash equivalents

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

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

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

If an impairment loss recognized in prior periods for a security no longer exists, Telekom Austria Group would consider the need to reverse all or a portion of the impairment charge.

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

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

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

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

The carrying amount of financial assets is reduced through the use of allowance accounts, and the impairment charge is recognized in the consolidated 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 valued at the lower of cost or net realizable value, with cost being determined on the basis of weighted average cost. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling expense. Telekom Austria Group assumes that replacement costs are the best measure of the net realizable value for spare parts and material used for construction and maintenance.

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

Goodwill and other intangible assets

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

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

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated shall: (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than an operating segment. A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Telekom Austria Group performs these impairment tests by calculating the value in use. Value in use is determined by estimating the future cash flows of the cash-generating unit based on the business plans, which are prepared for periods of four years and which are based on historical performance and Management's best estimates about future developments. The growth rates in the business plans reflect the weighted average growth rates based on market estimates. The present value of the perpetual annuity is calculated based on a constant growth rate, which does not exceed the long-term average growth rate for the industries and the countries in which the cash-generating unit operates.

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

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

	Years
Mobile communications and fixed net licenses	4-20
Patents and proprietary rights	4-20
Subscriber base	3-12
Software	2-10
Other	4-30

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

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

Internally developed software

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

Property, plant and equipment

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

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

The useful lives are:

	Years
Transmission equipment	1-10
Cables and wires	15-20
Communications equipment	3-20
Furniture, fixtures and other	2-15
Buildings and leasehold improvements	5-50

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

Borrowing costs

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

Government grants

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

Impairment of intangible and tangible fixed assets

In the event that facts and circumstances indicate that Telekom Austria Group's tangible or intangible fixed assets, regardless of whether they are to be held and used or to be disposed of, may be impaired, an evaluation of recoverability is performed. In accordance with IAS 36, an impairment loss is recognized when an asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction less the cost of the disposal. Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Impairment charges are recorded in the consolidated statement of operations as operating expenses.

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 are recorded at their net present value. Provisions for restructuring are recorded if there is a detailed formal plan for the restructuring and if a valid expectation has been raised in those affected that the restructuring will be carried out by starting to implement that plan or announcing its main features to those affected by it.

Leases

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

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

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

Employee benefit obligations

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

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

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

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

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

Changes in existing decommissioning, restoration and similar liabilities

In accordance with IAS 16 "Property, Plant and Equipment" the cost of an item of property, plant and equipment includes the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located. The resulting liability is measured in accordance with IAS 37. The effects of changes in the measurement of existing decommission, restoration and similar liabilities is accounted for in accordance with the provisions of IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The provisions require that an increase of the liability that reflects the passage of time shall be recognized in profit and loss. Changes in the measurement of these liabilities resulting from changes in the estimated timing or amount of the outflow of resources or changes in the discount rate shall be added or deducted from the cost of the assets in the current period. The amount deducted from the asset shall not exceed its carrying amount. A possible exceeding amount is reported in the financial statements of operations. If the adjustment results in an addition to the asset, it shall be considered whether there is an indication that the new 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 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 future taxable income will be available against which the credits and tax loss carry-forwards can be applied. 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 for prior periods.

Share-based compensation

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

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

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

Financial instruments

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

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

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

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

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

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

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

Derivative financial instruments

In accordance with IAS 39, Telekom Austria Group recognizes all derivative financial instruments as assets or liabilities in the statements of financial position, and measures all at fair value, regardless of Telekom Austria Group's intent. Changes in the fair value of derivative instruments designated as hedged items are recognized in income or in other comprehensive income (as revaluation 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 (revaluation 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 value due to their short-term nature. 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 ongoing credit evaluations of its key accounts. As of the reporting date, Telekom Austria Group does not have any significant concentration of business transacted with a particular supplier or creditor, nor does Telekom Austria Group have any concentration of labor, other services, franchises or other rights that could, if suddenly eliminated, severely impact operations. Telekom Austria Group invests its cash with various institutions with appropriate credit standings.

Through its expansion into the Central Eastern European (CEE) region, Telekom Austria Group operates in markets that have been experiencing political and economic change. This has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the CEE region involve uncertainties, including transfer, currency and tax uncertainties, which typically do not exist in other markets. The accompanying consolidated financial statements reflect Management's assessment of the impact of the CEE business environment on the operations and the financial position of Telekom Austria Group. The future business environment may differ from Management's assessment.

Use of estimates

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

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

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

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

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

d) Employee incentive plans: 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

As of June 1, 2009, Telekom Austria Group controls 100% of CRI Beteiligungs GmbH ("CRI"). The purchase consideration was paid in cash and amounted to EUR 10,660. CRI Beteiligungs GmbH is reported in the Fixed Net segment and was merged into Telekom Austria TA AG, which did not have any effect on the consolidated financial statements. CRI held 76% in Cable Runner GmbH, a technology company engaged in the installation of glass fibers in sewage circuits. For other companies acquired in the course of the purchase of CRI, see Note (38).

The following table summarizes the assets, liabilities and contingent liabilities of the companies acquired in 2009, disclosing their fair values at the date of acquisition as well as their carrying amounts according to IFRS prior to the acquisition. Fair values were determined based on the final purchase price allocation.

	Fair values on acquisition	Fair value adjustments	Carrying amounts before acquisition
Property, plant and equipment	21,212	-	21,212
Intangible assets	2,806	1,585	1,222
Other long-term assets	613	-	613
Deferred tax assets	6,487	6,409	78
Trade and other receivables	4,299	-	4,299
Cash and cash equivalents	1,093	-	1,093
Loans and borrowings	(3,171)	-	(3,171)
Deferred tax liabilities	(38)	(38)	-
Payables	(16,100)	-	(16,100)
Net assets acquired	**17,201**	**7,956**	**9,245**
Non-controlling interests	(2,890)		
Badwill on acquisition	(3,652)		
Total purchase consideration	**10,660**		
Cash and cash equivalents acquired	(1,093)		
Net cash outflow	9,567		

The aggregate purchase consideration includes EUR 120 incidental acquisition costs. The badwill relating to the acquisition is reported in other operating income and essentially relates to a deferred tax asset resulting from loss carry-forwards. Since the effect of the acquired entities on the consolidated financial statements of Telekom Austria Group is not considered significant, no pro-forma information disclosing the effect as if the acquisition had taken place as of January 1, 2009 and 2008 is presented. Cable Runner's net loss since the acquisition amounted to EUR 476, adjusted for tax effects due to the change of Cable Runner Austria GmbH into a partnership, thus representing an entity not subject to income taxes.

On March 28, 2008, Telekom Austria Group acquired 100% of MobilNet, the Austrian mobile communications business of Tele2. The aggregate purchase consideration was paid in cash and amounted to EUR 2,151. MobilNet previously operated as a virtual network operator of mobile communication services on a competitor's network. The assets and liabilities of MobilNet, which was merged into mobilkom austria AG, are reported in the Mobile Communication segment.

Furthermore, Telekom Austria Group acquired 100% of a reseller in the year ended December 31, 2008 to strengthen its market position in the fixed net market. The aggregate purchase consideration was paid in cash and amounted to EUR 5,350. The assets and liabilities of the company, which was merged into Telekom Austria TA AG, are reported in the Fixed Net segment.

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The following table summarizes the assets, liabilities and contingent liabilities of the companies acquired in 2008, disclosing their fair values at the date of acquisition as well as their carrying amounts according to IFRS prior to the acquisition. Fair values were determined based on the final purchase price allocation.

	Fair values on acquisition	Fair value adjustments	Carrying amounts before acquisition
Property, plant and equipment	936	-	936
Intangible assets	5,299	5,299	-
Deferred tax assets	5,330	(476)	5,806
Trade and other receivables	1,432	-	1,432
Cash and cash equivalents	155	-	155
Deferred tax liabilities	(1,434)	(849)	(585)
Payables	(10,040)	-	(10,040)
Net assets acquired	**1,678**	**3,974**	**(2,296)**
Goodwill on acquisition	1,925		
Debt paid on behalf of the acquirees	3,899		
Total purchase consideration	**7,501**		
Cash and cash equivalents acquired	(155)		
Net cash outflow	7,346		

The aggregate purchase consideration includes EUR 0.5 incidental acquisition costs. The factor contributing to goodwill is essentially the acquisition of market shares.

Since the effect of the acquired entities on the consolidated financial statements of Telekom Austria Group is not considered significant, no pro-forma information, disclosing the effect as if the acquisitions had taken place as of January 1, 2008, is presented.

In the year ended December 31, 2008, Telekom Austria Group sold its interest in eTel Polska, eTel Slovensko and Telekom Austria Czech Republic for a total consideration of EUR 7,939, of which EUR 3,770 and EUR 4,367 are outstanding as of December 31, 2009 and 2008, respectively (see Note (7)).

The following table summarizes the carrying amounts of the assets and liabilities sold in the year ended December 31, 2008:

	2008
Property, plant and equipment	9,513
Intangible assets	622
Deferred tax assets	3,679
Trade and other receivables	8,511
Cash and cash equivalents	2,961
Loans and borrowings	(10,334)
Payables	(8,835)

Having acquired 70% of the Cypriot SB Telecom Limited ("SBT") on October 3, 2007, Telekom Austria Group controls SBT. Telekom Austria Group also entered into a call and put option agreement to purchase the remaining 30% at a price of EUR 313,916 (present value at date of acquisition). These options will become exercisable in the fourth quarter of 2010. In accordance with IAS 32, Telekom Austria Group fully consolidates SB Telecom Limited without recording minority interests, and recognizes a financial liability corresponding to the fair value of the remaining 30% since the minority shareholder holds a put option. Additionally, Telekom Austria Group agreed to an additional interest-bearing purchase price component of EUR 292,355 (see Note (23)).

(3) Segment Reporting

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

The first-time adoption of IFRS 8 in the year ended December 31, 2008 did not have any substantial effects on the consolidated financial statements.

Telekom Austria Group operates in three business segments: Fixed Net, Mobile Communication as well as Corporate and Other. The reporting system, which is essentially based on the nature of services provided, reflects the internal financial reporting, the management structure of the organization and the predominant sources of risks and returns in Telekom Austria Group's businesses.

The Fixed Net segment includes fixed line services, data communication, television broadcasting (aonTV) and internet services (including multiple element contracts) and focuses on retail and wholesale customers. Wholesale customers, including telecommunications operators and service providers, are offered network-based services, while retail customers, including business and residential end-users, are offered voice telephony, data communications, internet and other services.

The Mobile Communication segment offers a full range of digital mobile communications services to business and residential customers as well as the sale of equipment.

The Corporate and Other segment includes the holding company which coordinates and supports the segments Fixed Net and Mobile Communication, and which provides for the connection to the capital markets. Other activities comprise mainly financing activities of Telekom Austria Group.

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

EBITDA is defined as net income excluding financial result, income taxes, depreciation and amortization and impairment charges. This equals operating income before depreciation, amortization and impairment charges. Telekom Austria Group uses EBITDA to measure the performance of segments because it is commonly used in the telecommunications industry as a comparative measure of financial performance. In addition, Telekom Austria Group believes it is an indicator of its ability to incur and service debt.

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

Non-cash items mainly consist of pension and severance expense, expense for stock-based compensation, accrued interest, accretion expense related to the asset retirement obligation, additions to bad debt allowances, restructuring expenses, the accrued interest and hedging expenses relating to the purchase price liability of SBT as well as, in 2009, impairment charges.

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

The impairment losses recorded in the Fixed Net segment in the year ended December 31, 2009 relate to property (see Note (18)). Impairment losses recorded in the year ended December 31, 2008 relate to the brand name eTel (see Note (18)). The impairment losses recorded in the Mobile Communication segment in the year ended December 31, 2009 relate to the goodwill of Velcom (see Note (17)) and to a license in Serbia (see Note (18)).

In the following table, Telekom Austria Group provides financial information by geographical area. External revenues are allocated by geographical location of Telekom Austria Group's customers. Non-current assets, which include other intangible assets and property, plant and equipment, are reported by geographical location of assets.

2009	Austria	Belarus	Bulgaria	Croatia	other countries	Eliminations	Consolidated
External revenues	2,646,462	292,791	559,039	415,160	888,532	-	4,801,983
Non-current assets	2,417,846	555,603	855,210	266,063	483,752	(3,025)	4,575,449
2008							
External revenues	2,863,277	302,936	608,493	448,200	947,412	-	5,170,319
Non-current assets	2,697,568	755,506	959,685	276,371	559,643	(7,205)	5,241,568

(4) Revenues

	2009	2008
Revenues from services	4,570,631	4,854,755
Revenues from sales of merchandise	231,353	315,564
Operating revenues	**4,801,983**	**5,170,319**

(5) Other Operating Income

	2009	2008
Rental revenue	15,390	16,498
Own work capitalized	32,138	25,877
Income from retirement of equipment	5,516	9,806
Other	41,514	21,885
Other operating income	**94,558**	**74,066**

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

Gains and losses from the retirement of assets are offset. Gains are reported as other operating income, losses as other operating expense.

Other operating income for the year ended December 31, 2009 includes a reimbursement of investment costs amounting to EUR 10,175. The reimbursement was received by network operators and is related to fully depreciated facilities that serve to provide information and to control data. Furthermore, the badwill related to the acquisition of CRI (see Note (2)) was recognized in other operating income.

(6) Other Operating Expenses

	2009	2008
Interconnection	561,547	640,183
Repairs and maintenance	182,018	183,303
Services received	292,011	296,595
Advertising and marketing	237,734	307,177
Other support services	112,090	137,303
Rental and lease expenses	135,345	129,906
Commissions	77,298	78,747
Bad debt expenses	50,048	45,518
Legal and other consulting	35,488	45,547
Travel expenses	20,899	26,279
Other taxes	21,093	28,033
Energy	41,617	38,700
Transportation	23,629	26,006
Training expenses	11,539	12,042
Other	97,764	85,327
Other operating expenses	**1,900,119**	**2,080,665**

At the Annual General Meeting on May 20, 2009, KPMG Austria GmbH was appointed as group auditor for Telekom Austria Group. Expenses related to the group auditor amount to:

	2009	2008
Audit fees	793	1,072
Other reviews	216	-
Fees KPMG Austria	**1,009**	**1,072**

(7) Financial Result

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

	2009	2008
Interest income on loans and receivables	15,905	4,363
Interest income on bank deposits	5,655	8,564
Interest income on held-to-maturity investments	1,917	4,146
Interest income on available-for-sale financial assets	1,976	715
Net gain on hedging transactions	1,179	-
Interest income from sale of tax benefit	2,881	8,524
Interest income	**29,514**	**26,311**

	2009	2008
Interest expense on financial liabilities	200,217	218,667
Interest expense on restructuring	35,659	-
Interest expense on employee benefit obligations	6,677	5,849
Interest expense on asset retirement obligations	6,938	5,770
Net loss on hedging transactions	-	1,428
Interest expense	**249,491**	**231,714**

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

	2009	2008
Gain on interest rate swaps - fair value hedge	7,326	30,582
Loss from fair value measurement of EMTN bonds	(6,146)	(32,010)
Interest income (expense)	**1,179**	**(1,428)**

 in EUR '000s

Foreign exchange differences

	2009	2008
Financial foreign exchange gains	19,757	25,220
Financial foreign exchange losses	(34,008)	(11,727)
Net foreign exchange gains (losses)	**(14,252)**	**13,493**

Starting with the first quarter of 2009, all foreign exchange gains and losses are reported in the financial result whereas until December 31, 2008, only foreign exchange differences relating to financing activities were reported therein. Until 2008, foreign exchange differences relating to operating activities were reported in operating income or operating expense. The new presentation provides a more reliable and relevant information regarding the operating result of Telekom Austria Group. Comparative figures for 2008 were adjusted accordingly and thus foreign exchange gains amounting to EUR 14,805 were transferred from other operating income to the financial result.

Other financial result

	2009	2008
Dividends received	158	408
Loss on sale of investments measured at cost	(586)	-
Gain on sale of investments measured at cost	-	10
Impairment on investments measured at cost	-	(139)
Loss on disposal of available-for-sale securities transferred from other comprehensive income	(24)	(15)
Gain on disposal of available-for-sale securities transferred from other comprehensive income	200	124
Result from financial instruments	(4,450)	200
Result from sale of subsidiaries	521	(3,837)
Result from financial assets	**(4,180)**	**(3,249)**

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

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

(8) Short-term Investments

Short-term investments consist of the following items:

At December 31,	2009	2008
Marketable securities short-term - available for sale	2,217	3,486
Marketable securities short-term - held to maturity	-	1,932
Deposits under cross border leases	8,842	19,247
Other short-term investments	204,353	61,328
Short-term investments	**215,412**	**85,993**

As of December 31, 2009, other short-term investments mainly relate to time deposits. As of December 31, 2008, a USD deposit in the amount of EUR 60,378 serving as collateral for guarantees related to cross border lease transactions was included in other short-term investments (see Note (26)).

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,	2009	2008
Accounts receivable - trade, gross	825,171	858,937
Allowances	(156,531)	(142,366)
Accounts receivable - trade, net	**668,640**	**716,571**

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

	2009	2008
Allowance at the beginning of the year	142,366	130,600
Foreign currency adjustment	(998)	(1,045)
Change in reporting entities	226	(1,600)
Released	(11,356)	(7,419)
Charged to expenses	61,404	52,937
Amounts written-off	(35,111)	(31,107)
Allowance at the end of the year	**156,531**	**142,366**
Thereof		
Specific allowance	38,224	28,837
General allowance	118,307	113,529

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

The aging of accounts receivable - trade as of December 31, 2009 and 2008 is as follows:

	Gross 2009	Allowance 2009	Gross 2008	Allowance 2008
Not yet due	572,864	8,222	623,148	8,803
Past due 0-90 days	91,047	11,324	88,312	12,130
Past due 91-180 days	31,770	15,703	24,971	16,792
Past due 181-360 days	38,570	32,612	37,577	27,149
More than one year	90,921	88,670	84,929	77,492
Total	**825,171**	**156,531**	**858,937**	**142,366**

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

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

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

In January 2002, Telekom Austria Group entered into a revolving period securitization ("asset-backed securitization program") and sold accounts receivable – trade to a Special Purpose Entity (SPE). This contract ended as of December 11, 2008, and was not extended.

As of December 31, 2008, accounts receivable - trade contained receivables amounting to EUR 396,176 which were sold to a special purpose entity under the asset-backed security program; however no financial liabilities existed any more. In accordance with SIC 12 ("Consolidation – Special Purpose Entities"), the special purpose entity was consolidated, which resulted in the recognition of the accounts receivable - trade in Telekom Austria Group's consolidated financial statements despite their prior sale.

Cash settlement of the short-term debt with the SPE took place on a monthly basis. Telekom Austria Group continued to service the receivables. Telekom Austria Group recorded in interest expense discounts and program fees related to the securitization of accounts receivable – trade of EUR 8,456 and service and liquidity fees of EUR 2,854 in other operating expense for the period ended December 31, 2008. Service fees amounting to EUR 209 were included in other operating income for 2008.

in EUR '000s

(10) Related Party Transactions

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

The disclosures below present balances and transactions relating to Telekom Austria Group's majority shareholder ÖIAG. None of the individual accounts associated with government agencies or government-owned entities are considered significant to Telekom Austria Group. The terms of services provided by Telekom Austria Group to government entities are generally based on standard pricing policies. However, Telekom Austria Group is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis. Beginning January 1, 2001, the contract with the government specifies the reimbursement of Euro 13.81 per customer per month, which is recorded as revenue in the service period. The total reimbursement was EUR 36,637 and EUR 37,947 in 2009 and 2008, respectively.

In November 2009, Telekom Austria Group signed an agreement with the Austrian government for the voluntary transfer of civil servants of its Fixed Net segment to the Austrian police force. The respective civil servants, whose jobs have become obsolete due to changes in technology, cannot be laid off due to their civil servant status. According to this agreement, civil servants employed by the Fixed Net segment may apply to the police force to take on administrative tasks. After six months and following a positive assessment, the civil servants may apply for a permanent transfer to the police force and waive the right to return to Telekom Austria Group. For civil servants transferred to the police force, Telekom Austria Group will pay the salaries until June 30, 2014 and it will compensate the civil servants for a potential shortfall in salary and pension benefits.

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 2009 and 2008 respectively, Telekom Austria Group was charged EUR 495 and EUR 604 for legal services by that law firm.

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

	2009	2008
Revenues	15,242	15,041
Other operating income	257	364
Expenses	41,741	49,571
Interest income	-	57
Interest expenses	41	41

For the years ended December 31, 2009 and 2008, of the total revenues EUR 14,917 and EUR 14,700, respectively related to paybox and originated from prepaid cards sold to paybox.

For the years ended December 31, 2009 and 2008, of the other expenses EUR 38,385 and EUR 42,200, respectively related to advertising and marketing services provided by Omnimedia.

For the years ended December 31, 2009 and 2008, of the total accounts receivable due from related parties EUR 3,658 and EUR 3,198, respectively related to paybox and originated from prepaid cards sold to paybox for resale.

For the years ended December 31, 2009 and 2008, of the total accounts payable due to related parties EUR 10,233 and EUR 12,968 respectively related to Omnimedia and originated from advertising and marketing services provided to Telekom Austria Group.

The liability of EUR 6,925 reported in short-term borrowings as of December 31, 2008 relates to Infotech (see Notes (15) and (21)).

The following table sets out compensation of executives:

	2009	2008
Short-term employee benefits	10,160	10,828
Pensions	406	498
Other long-term benefits	3	2
Termination benefits	1,921	699
Share-based payments	(367)	(494)
Compensation of executives	**12,122**	**11,532**

Expenses for pensions and severance for other employees amounted to EUR 22,700 and EUR 20,219 in 2009 and 2008, respectively. Expenses consist of service cost, voluntary severance payments, contributions to pension plans and other pension payments.

(11) Inventories

Inventories consist of:

At December 31,	2009	2008
Spare parts, cables and supplies	62,492	54,142
Merchandise	62,350	73,772
Prepayments	1,576	574
Inventories	**126,418**	**128,488**

As of December 31, 2009 and 2008, the carrying amount of inventories, representing fair value less cost to sell, amounted to EUR 70,092 and EUR 77,385, respectively. Telekom Austria Group recognized an expense of EUR 19,945 and EUR 24,163 resulting from a write-down of inventories in 2009 and 2008 respectively. As of December 31, 2009 and 2008, no inventories are pledged as collateral for liabilities.

(12) Prepaid Expenses

Prepaid expenses include the following items:

At December 31,	2009	2008
Advances to employees	14,910	14,336
Rent	11,355	9,079
Prepaid marketing expenses	56,344	63,442
Other	38,715	25,719
Prepaid expenses	**121,323**	**112,576**

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,	2009	2008
Land and buildings	3,177	-
Kolkhoz	-	260
Infotech (Note 15))	-	6,083
Non-current assets held for sale	**3,177**	**6,343**

The properties and buildings in the Fixed Net segment are classified as held for sale based on the Management Board's decision to sell them within a twelve-month period. The kolkhoz in the Mobile Communication segment pertained to a stake in a kolkhoz in Belarus which was acquired in the course of the acquisition of SBT in 2007.

In 2009, Telekom Austria Group recorded a gain amounting to EUR 903 relating to the sale of Infotech in the other financial result (see Note (7)). No gain or loss was realized on the sale of the kolkhoz. A gain on the sale of property amounting to EUR 5,977 was recorded in other operating income of the Fixed Net segment. The property had been transferred to assets held for sale in the second quarter 2009. In 2008, Telekom Austria Group did not recognize any gains or losses in connection with the disposal of assets held for sale.

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(14) Other Current Assets

Other current assets consist of the following items:

At December 31,	2009	2008
Derivative financial instruments	24,919	6,293
Other financial assets	43,544	28,866
Finance lease receivables	9,706	8,110
Other non-financial assets	34,521	33,497
Other current assets, gross	**112,690**	**76,766**
Less allowance for financial assets	(668)	(1,372)
Less allowance for non-financial assets	(1,017)	(796)
Other current assets	**111,004**	**74,597**

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

As of December 31, 2009 and 2008, other current financial assets mainly consist of roaming credits.

For information on finance lease receivables, see Note (26). Until December 31, 2008, short-term finance lease receivables were presented as accounts receivable – trade. Comparative figures for 2008 and the statements of financial position as of December 31, 2007, were adjusted accordingly.

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

The following table sets forth the aging of derivative financial instruments, finance lease receivables and other current financial assets as of December 31, 2009 and 2008:

	Gross 2009	Allowance 2009	Gross 2008	Allowance 2008
Not yet due	72,623	460	41,148	390
Past due 0-90 days	1,480	-	786	-
Past due 91-180 days	1,491	8	21	17
Past due 181-360 days	944	1	34	1
More than one year	1,631	200	1,279	965
Total	**78,169**	**668**	**43,268**	**1,372**

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

	2009	2008
Allowance at the beginning of the year	1,372	1,547
Foreign currency adjustment	(44)	114
Released	(185)	(222)
Charged to expenses	149	12
Amounts written-off	(624)	(79)
Allowance at the end of the year	**668**	**1,372**

(15) Investments in Associates

In March 2009, Telekom Austria Group acquired 25.029% of Marx Media Vienna GmbH, which is reported in the Fixed Net segment. The aggregate purchase consideration was paid in cash and amounted to EUR 3,159.

On April 30, 2009, Telekom Austria Group acquired 25.1% of DSA BeteiligungsGmbH, which is reported in the Fixed Net segment, for one Euro. The incidental acquisition costs amounted to EUR 382. Furthermore, Telekom Austria Group was granted an option to acquire another 25% for EUR 450. In July 2009, the stake of 25.1% in DSA BeteiligungsGmbH was sold and the option was forfeited. The disposal did not have any significant effect on the consolidated financial statements.

In April 2008, Telekom Austria Group acquired 37.47% of Infotech Holding GmbH, which is reported in the Fixed Net segment, for a total purchase price of EUR 7,189. In February 2009, Telekom Austria Group sold its stake of 37.47% in Infotech for a cash consideration of EUR 6,986. On December 31, 2008, the investment was classified as a "long-term asset held for sale" (see Note (13)). For details on the liability related to this transaction as of December 31, 2008, see Note (21).

Apart from the acquisitions described above, the investments in associates of Telekom Austria Group as of December 31, 2009 and 2008 include a 26% interest in Omnimedia Werbegesellschaft mbH ("Omnimedia"), a 25.1% interest in Output Service GmbH ("OSG") and a 40% interest in netdoktor.at GmbH (formerly Dr. Maté GmbH), which are reported in the Fixed Net segment, and an 83.33% interest in paybox austria GmbH ("paybox"), which is reported in the Mobile Communication segment. The investment in paybox is accounted for using the equity method of consolidation since Telekom Austria Group does not have a controlling financial interest due to the transfer of significant participation rights, but has significant influence.

The reporting date of Omnimedia and netdoktor.at is June 30. Telekom Austria Group's share of income as of December 31, 2009 and 2008 was based on interim financial statements of both companies.

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

	2009	2008
At January 1,	4,193	5,694
Dividends received	(666)	(733)
Recognized income	780	(341)
Impairment	-	(1,533)
Additions	3,159	7,189
Reclassifications	-	(6,083)
At December 31,	**7,467**	**4,193**

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

Statement of operations	2009	2008
Revenues	42,350	37,723
Operating income	3,430	3,993
Net income	2,837	2,576

For Marx Media, the aggregate financial information presented above for the year ended December 31, 2009 includes revenues, operating result and net income for the period April 1 to December 31, 2009.

Statement of financial position

At December 31,	2009	2008
Total assets	31,465	32,075
Total liabilities	28,255	29,727
Total stockholders' equity	3,210	2,349

in EUR '000s

(16) Financial Assets Long-term

Long-term financial assets consist of the following:

At December 31,	2009	2008
Other investments carried at cost	643	633
Other financial assets, long-term	100,336	9
Marketable securities - available-for-sale, long-term	14,156	11,197
Deposits cross border leases	22,619	31,155
Financial assets, long-term	**137,755**	**42,995**

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, 2009, Telekom Austria Group has no intentions to dispose of any of the investments it holds.

As of December 31, 2009, other long-term financial assets consist essentially of a EUR 100,000 deposit, required as collateral for guarantees related to cross border lease transactions (see Note (26)).

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

(17) Goodwill

The following table illustrates the changes in the carrying amount of goodwill by segment for the periods ended December 31, 2009 and 2008:

	Fixed Net	Mobile Communication	Total
Goodwill at December 31, 2007	61,233	1,878,381	1,939,614
Translation adjustments	667	16,334	17,001
Changes in reporting entities	1,925	-	1,925
Goodwill at December 31, 2008	**63,825**	**1,894,715**	**1,958,540**
Impairment	-	(290,000)	(290,000)
Translation adjustments	-	(175,478)	(175,478)
Goodwill at December 31, 2009	**63,825**	**1,429,237**	**1,493,062**

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

The negative effects of the financial crisis on the Belarusian economy have led to a material devaluation of the Belarusian Ruble of 33% since December 31, 2008. This effect, as well as lower-than-expected growth, results in lower future cash flows and consequently in a decline of the value in use. Key assumptions applied in the value in use calculation for the cash-generating unit Velcom are discount rates after tax (WACC) of 18.9% declining to 10.7% for the perpetual annuity (pre-tax 24.9% declining to 14.0%). An impairment charge in the amount of EUR 290,000 was recorded for the goodwill recognized from the acquisition of Velcom located in Belarus.

As of December 31, 2009 and 2008, the accumulated impairment charges totaled EUR 291,071 and EUR 1,071, respectively.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the business combination. Goodwill resulting from the acquisition of the domestic and international entities of eTel in 2007 was allocated to the cash-generating unit Telekom Austria TA AG as this reporting unit is expected to benefit from the synergies of the business combination.

At December 31,	2009	2008
Goodwill Mobile Communication		
mobilkom austria	364,000	364,000
Si.mobil	136,259	136,259
Vipnet	67,025	66,519
Velcom	256,510	722,494
Mobiltel	605,443	605,443
Total Mobile Communication	**1,429,237**	**1,894,715**
Goodwill Fixed Net		
Telekom Austria TA	50,863	50,863
World-Direct	1,239	1,239
Mass Response Service	11,723	11,723
Total Fixed Net	**63,825**	**63,825**
Total goodwill	**1,493,062**	**1,958,540**

The following parameters were applied for calculating the value in use in 2009: growth rates: Fixed Net 0.0%; Mobile Communication 1.0% to 2.0%; interest rates: Fixed Net 7.7%; Mobile Communication 7.7% to 18.9%. In 2008, the following parameters were applied: growth rates: Fixed Net 0.0%; Mobile Communication 1.0% to 3.1%; interest rates: Fixed Net 8.5%; Mobile Communication 8.5% to 18.9%. The resulting value in use was compared with the carrying amount of the cash-generating unit including goodwill. Impairment charges were recorded if the carrying amount of the cash-generating unit exceeded 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, 2009 and 2008, the carrying amount of software comprised internally developed software amounting to EUR 24,917 and EUR 16,237, respectively. Of the total additions to software during 2009 and 2008, internally developed software accounted for EUR 7,809 and EUR 4,120, respectively.

For the year ended December 31, 2009 and 2008, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

Interest capitalized for the years ended December 31, 2009 and 2008, totaled EUR 303 and EUR 647, 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
License cost	768,769	250,268
Term	2013-2024	2020-2025

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 2009, an impairment charge for the license of Vip mobile in the Republic of Serbia in the amount of EUR 61,992 was recorded in the Mobile Communication segment as a result of lower-than-expected growth and the economic downturn.

In 2009 and in 2008, the expected useful lives of specific software programs were reduced, which led to an increase in depreciation of EUR 537 and EUR 144, respectively.

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

2010	437,696
2011	296,563
2012	207,424
2013	128,543
2014	88,927
Thereafter	223,724

As of December 31, 2009 and 2008, brand names were allocated to the following cash-generating units:

At December 31,	2009	2008
Brand names Mobile Communication		
mobilkom austria	145,860	145,860
Si.mobil	3,148	3,148
Vipnet	26,201	26,003
Mobiltel	263,004	263,004
Velcom	77,210	103,028
Total Mobile Communication	**515,423**	**541,044**
Brand names Fixed Net		
Cable Runner	491	-
Mass Response Service	1,501	1,501
Total Fixed Net	**1,992**	**1,501**
Total brand names	**517,415**	**542,544**

Brand names are classified as intangible assets with indefinite useful lives. Every fourth quarter of each year presented, they are tested for impairment in accordance with IFRS, as described in Note (1). If an event or circumstance indicates that an asset may be impaired, impairment tests are also carried out on an interim basis. The following parameters were applied in 2009: growth rates: Fixed Net 0.0%; Mobile Communication 1.0% to 2.0%; interest rates: Fixed Net 8.2% to 8.7%; Mobile Communication 7.7% to 18.9%. In 2008, the parameters applied were the same as for the impairment testing of goodwill. As the brand name of eTel, which was acquired in 2007, is no longer marketed and, therefore, is of no further use to Telekom Austria Group, an impairment of EUR 4,800 was recorded in the year ended December 31, 2008. The change in the carrying amounts of the brand names Vipnet and Velcom is due to foreign currency translation. The additions to brand names in the Fixed Net segment relate to the acquisition of CRI (see Note (2)).

As of December 31, 2009 and 2008, purchase commitments for intangible assets amounted to EUR 27,017 and EUR 8,299, respectively.

(19) Property, Plant and Equipment

The "Table of Tangible Assets" provides the components and a reconciliation of the changes in tangible assets.

As of December 31, 2009 and 2008, interest capitalized totaled EUR 1,089 and EUR 1,052, respectively. Calculation of capitalized interest was based on interest rates of 3.5% and 4.6% for the years ended December 31, 2009 and 2008, respectively.

In 2009 and 2008, the carrying amount of land amounted to EUR 55,675 and EUR 54,934, respectively.

In the year ended December 31, 2009, impairment charges of EUR 196 were recorded due to the results of an impairment test related to developed land held for sale in the Fixed Net segment.

In 2009 and 2008, Telekom Austria Group reduced the estimated useful lives of certain technical equipment due to the rapid development of the technological environment in the relevant markets. The changes in estimate resulted in an increase in depreciation of EUR 10,235 and EUR 12,666 in 2009 and 2008, respectively. In 2009, the expected useful life of glass fibers of the access net was extended, and in 2008, the expected useful lives of specific furniture and fixtures were extended. This reduced depreciation expense by EUR 498 and EUR 537, respectively.

Government grants totaling EUR 3,081 and EUR 1,743 were deducted from acquisition cost in 2009 and 2008, respectively.

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

As of December 31, 2009 and 2008, communication network and other equipment with a carrying amount of EUR 20,515 and EUR 55,529, respectively, were pledged as collateral for the cross border lease transactions described in Note (26).

As of December 31, 2009 and 2008, purchase commitments for property, plant and equipment amounted to EUR 63,514 and EUR 31,515, respectively.

The estimated useful lives of property, plant and equipment and of intangible assets utilized to calculate depreciation and amortization represent the periods in which the assets are estimated to be in use at Telekom Austria Group. An extension of these useful lives by one year would lead to a decrease in depreciation and amortization expense of EUR 163,464. A reduction in the useful lives of one year would lead to an increase in depreciation and amortization expense of EUR 196,314.

(20) Other Non-current Assets

Other non-current assets include the following items:

At December 31,	2009	2008
Forward exchange contracts	-	36,467
Finance lease receivables	6,694	6,335
Other financial assets	21,724	16,233
Other non-financial assets	5,379	2,381
Other non-current assets, gross	**33,797**	**61,416**
Less allowance for financial assets	(133)	(120)
Other non-current assets	**33,664**	**61,296**

As of December 31, 2009 and 2008, other non-current financial assets mainly consist of derivative financial assets (fair value hedges – see Note (33)) and loans to employees. For information on finance lease receivables, see Note (26).

The following table sets forth the aging of forward exchange contracts, long-term finance lease receivables and other non-current financial assets as of December 31, 2009 and 2008:

	Gross 2009	Allowance 2009	Gross 2008	Allowance 2008
Not yet due	28,279	133	59,035	120
Past due 0-90 days	63	-	-	-
More than one year	76	-	-	-
Total	**28,418**	**133**	**59,035**	**120**

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

	2009	2008
Allowance at the beginning of the year	120	84
Charged to expenses	31	36
Amounts written off	(18)	-
Allowance at the end of the year	**133**	**120**

in EUR '000s

(21) Short-term Borrowings

Telekom Austria Group's short-term borrowings include:

At December 31,	2009	2008
Current portion of long-term debt	674,630	804,642
Short-term debt	160,032	9,932
Liabilities due to related parties	-	6,925
Current portion of lease obligations and cross border leases	11,366	22,001
Multi-currency notes program	9,986	117,994
Short-term borrowings	**856,014**	**961,494**

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).

As of December 31, 2008, the liability due to related parties amounting to EUR 6,925 was due to Infotech and resulted from a payment from Infotech that was offset against dividends to be received (see Note (25)).

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, 2009 and 2008, multi-currency notes with a nominal value of EUR 10,000 and EUR 119,050, respectively, had been issued.

(22) Provisions and Accrued Liabilities

Provisions and accrued liabilities consist of the following:

	Restruc-turing	Employees	Customer allowances	Asset retirement obligation	Legal	Intercon-nection/ Roaming	Other	Total
Balance at January 1, 2009	617,424	70,503	60,018	111,644	13,266	15,402	31,517	919,774
Additions	81,929	24,984	38,672	5,511	5,110	4,361	21,804	182,370
Changes in estimate	23,655	-	-	(20,124)	-	-	-	3,531
Used	(36,662)	(30,771)	(44,016)	(466)	(2,873)	(1,112)	(18,879)	(134,779)
Released	(99,011)	(6,319)	(4,446)	(3,757)	(3,308)	(4,033)	(2,934)	(123,809)
Accretion expense	35,659	-	-	6,938	-	-	-	42,597
Short-term portion of employee benefit obligations	-	7,509	-	-	-	-	-	7,509
Translation adjustments	-	(228)	-	(3,911)	(454)	-	(306)	(4,900)
Changes in reporting entities	-	109	-	-	-	-	219	328
Balance at December 31, 2009	**622,994**	**65,785**	**50,228**	**95,835**	**11,741**	**14,617**	**31,421**	**892,621**
Thereof long-term								
December 31, 2009	574,032	-	-	95,835	-	-	-	669,868
December 31, 2008	579,769	-	-	111,644	-	-	-	691,413

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 a provision based on the best estimate of the expenditure required to settle the present obligation at the reporting date.

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 business 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

On November 10, 2008, the Supervisory Board approved the comprehensive restructuring program of the Fixed Net operations presented by the Management Board. At December 31, 2009 and 2008, the provision for restructuring comprises 1,062 and 982 employees, respectively, and includes social plans for employees whose employment will be terminated in a socially responsible way, and provisions for the future compensation of civil servants, who will no longer provide services for Telekom Austria Group but who cannot be terminated due to their status as civil servants. For the year ended December 31, 2009 and 2008, the calculation of the provision is based on a discount rate of 5.5% and 6.0%, respectively, and an estimated salary increase that remained unchanged compared to 2008 of 3.1% for employees and 5.0% for civil servants. The addition to provisions was recorded in employee cost, while the accretion of interest was recorded in interest expense. A part of the provision was released, since a number of employees returned to regular operations and since employees opted for schemes such as golden handshake, maternity leave and early retirement to an extent not foreseeable upon the initial calculation of the provision in 2008.

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 percent would increase the provision by EUR 52,139, an increase in the interest rate of one percent would decrease the provision by EUR 45,937.

Employees

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

Customer allowances

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

Customer retention

The adoption of IFRIC 13 resulted in a reclassification of the respective amounts from provisions to deferred income. The prior-year amount of EUR 20,936 was reclassified accordingly (see Note (24)).

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 situates 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 2009, the discount rate applied in the calculation of asset retirement obligations was changed from 6.0% to 5.5% and the anticipated inflation rate was changed from 3.0% to 2.0% to reflect current market conditions in the individual countries. This change in estimate resulted in a decrease of the asset retirement obligation and a corresponding decrease 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, energy and penalty.

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

At December 31,	2009	2008
Fiscal authorities	55,061	66,527
Social security	11,096	10,505
Stock option plans	648	6,179
Employees	27,589	35,075
Prepayments from customers	6,127	7,008
Government	248	322
Other non-financial liabilities	5,708	3,495
Other current non-financial liabilities	**106,476**	**129,111**
Other current financial liabilities	784,345	103,330
Other current liabilities	**890,821**	**232,441**

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

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

For information on stock option programs, see Note (31). Liabilities to employees mainly relate to salaries payable (including overtime and travel allowance) and to one-time termination benefits.

In 2009 and 2008, other current financial liabilities include roaming credits, liabilities arising from customer deposits and cash in transit. In 2009, the line item additionally comprises derivative financial instruments with a negative fair value (cash flow hedges - see Note (33)) as well as the interest-bearing purchase price liability relating to the acquisition of SBT in 2007 amounting to EUR 645,543. This liability is due in the fourth quarter of 2010 and therefore is reported as other current financial liability (see Note (2)).

(24) Deferred Income

At December 31,	2009	2008
Unearned income	131,954	148,733
Customer loyalty programmes	19,066	20,936
Unamortized balance on sale of tax benefits	3,973	14,496
	154,994	**184,165**
Less non-current portion	(2,649)	(9,055)
Deferred income, current portion	**152,345**	**175,111**

Deferred 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 revenue until redeemed or forfeited. The adoption of IFRIC 13 resulted in a reclassification of the respective amounts from provisions to deferred income. The prior-year amount of EUR 20,936 was reclassified accordingly.

For details on the realization of the unamortized balance on the sale of tax benefits allocated 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 were as follows:

		At December 31, 2009				At December 31, 2008			
Currency	Year of maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds									
EUR	2013	fixed	5.00%	750,000	764,367	fixed	5.00%	750,000	758,052
EUR	2010	fixed	3.375%	500,000	500,988	fixed	3.375%	500,000	500,251
EUR	2017	fixed	4.25%	500,000	495,465	fixed	4.25%	500,000	494,825
EUR	2016	fixed	6.375%	750,000	743,085	-	-	-	-
				2,500,000	**2,503,905**			**1,750,000**	**1,753,128**
Promissory Notes									
EUR	2012	fixed	6.08%	100,000	99,871	fixed	6.08%	100,000	99,821
EUR	2012	variable	2.18%	200,000	199,742	variable	6.20%	200,000	199,642
				300,000	**299,613**			**300,000**	**299,463**
Bank debt guaranteed by federal government									
EUR	2010-2011	variable	3.63%	8,721	8,721	variable	4.88%	13,081	13,081
EUR	2010-2011	variable	3.15%	727	727	variable	5.33%	1,090	1,090
				9,447	**9,447**			**14,171**	**14,171**
Bank debt without guarantee by federal government									
EUR	2009	-	-	-	-	variable	3.24%	180,000	180,000
EUR	2009	-	-	-	-	fixed	4.94%	236,128	236,777
EUR	2009	-	-	-	-	variable	5.68%	59,032	59,194
EUR	2009	-	-	-	-	fixed	4.58%	150,000	150,000
EUR	2010	variable	1.96%	41,250	41,250	variable	5.86%	41,250	41,250
EUR	2010	variable	2.26%	33,750	33,750	variable	6.16%	33,750	33,750
EUR	2011	fixed	2.40%	210,000	210,000	fixed	2.40%	210,000	210,000
EUR	2012	fixed	3.59%	224,000	224,000	fixed	3.59%	224,000	224,000
EUR	2012	variable	1.05%	125,000	125,000	variable	4.25%	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	2016	fixed	5.41%	50,000	50,000	fixed	5.41%	50,000	50,000
				979,000	**979,000**			**1,604,160**	**1,604,971**
Total interest-bearing debt				**3,788,447**	**3,791,965**			**3,668,332**	**3,671,733**
Accrued interest				96,336	96,336			50,312	50,312
Financial debt				**3,884,783**	**3,888,301**			**3,718,643**	**3,722,045**
Current portion of long-term debt				(674,630)	(674,630)			(803,831)	(804,642)
Long-term debt				**3,210,153**	**3,213,671**			**2,914,812**	**2,917,403**

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 and two Eurobonds with face values of EUR 500,000 each, maturities of five and twelve years, and coupons of 3.375% and 4.250%, respectively, in January 2005. In January 2005, the bonds were issued at a discount including issue costs of EUR 3,358 and EUR 7,693, respectively, which are amortized over the related terms. Telekom Austria Group entered into fixed to floating interest rate swap agreements for Eurobonds with a face value of EUR 800,000. The EMTN program ended on December 31, 2008, and was not extended.

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

in EUR '000s

Promissory notes

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

Bank debt guaranteed by the Federal Republic of Austria

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

Bank debt not guaranteed by the Federal Republic of Austria

Bank debt incurred by Telekom Austria Group after its privatization is not guaranteed by the Federal Republic of Austria.

(26) Leases and Cross Border Leases

Lessee

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

Future minimum lease payments for non-cancelable operating leases, finance leases and cross border leases as of December 31, 2009 are:

	Cross border leases	Other finance leases	Operating leases
2010	10,988	425	29,470
2011	9,265	399	25,780
2012	2,031	258	19,636
2013	12,321	-	14,023
2014	-	-	12,285
after 2014	-	-	21,602
Total minimum lease payments	**34,606**	**1,082**	**122,795**
Less amount representing interest	(3,145)	(86)	
Present value of lease payments	**31,461**	**996**	
Less current portion	(10,988)	(378)	
Non-current lease obligations	**20,473**	**619**	

Lessor

Telekom Austria Group receives minimum lease payments for non-cancelable operating lease contracts that mainly relate to private automatic branch exchange equipment (PABX). These payments are recognized as revenue on a straight-line basis over the terms of the contracts. As of December 31, 2009 and 2008, the cost of this equipment amounted to EUR 24,076 and EUR 26,319, accumulated depreciation to EUR 18,980 and EUR 20,732, and the carrying amount to EUR 5,096 and EUR 5,588, respectively. The following table sets forth the future minimum lease payments to be received as of December 31, 2009:

	Operating leases
2010	10,098
2011	6,852
2012	3,510
2013	2,442
2014	1,636
after 2014	2,721
Total minimum lease payments	**27,260**

In Bulgaria, Telekom Austria Group leases mobile handsets to customers classified as finance lease. The lease of indefeasible rights of use in dark fiber, which has a term of 15 years, is also classified as finance lease. The future minimum lease payments as of December 31, 2009 amount to:

	Finance lease
2010	10,131
2011	3,326
2012	429
2013	295
2014	295
after 2014	2,361
Total minimum lease payments	**16,838**
Less amount representing interest	(437)
Present value of finance lease receivables	**16,401**
Less current portion	(9,706)
Non-current finance lease receivables	**6,694**

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

At December 31,	2009	2008
Allowance finance lease receivables, long-term	133	120
Allowance finance lease receivables, short-term	460	390
Allowance at the end of the year	**593**	**510**

Cross border lease transactions

Between August 1998 and November 1999, Telekom Austria Group entered into a series of cross border sale and leaseback arrangements (the "CBLs") of certain digital switching equipment (the "equipment"). Under these arrangements, Telekom Austria Group sold the equipment to various US entities, for the benefit of various US institutional investors, and contemporaneously leased the equipment back for terms between 13 and 16 years, a period considered to be the major part of the remaining useful economic life of the equipment. The CBLs also provided that, at fixed dates (typically after ten to 13 years), Telekom Austria Group has an option to repurchase the equipment for a fixed purchase price.

In 2009 and 2008, these transactions were terminated early and Telekom Austria Group recorded on the one hand an expense of EUR 7,636 and EUR 283, respectively, and on the other hand realized the unamortized balance on the sale of tax benefits allocated to these transactions of EUR 8,842 and EUR 1,761, respectively. As a result, Telekom Austria Group recorded a net interest income of EUR 1,206 and EUR 1,478, for 2009 and 2008, respectively.

In accordance with SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease" and the Framework, the cash deposits, the securities purchased in connection with the Payment Undertaking Agreements ("PUAs") and the upfront payments received for the head lease for the transactions carried out in 1998 and 1999 were not recorded in the statements of financial position. The lease payment obligations are disclosed as contingent liabilities only. As a result of the early termination of transactions, contingent liabilities decreased (see Note (34)).

Additionally, Telekom Austria Group entered into a further CBL with another US investor in the form of lease-in lease-out transaction ("LILO") in December 2001.

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

The major part of the deposits in investment accounts and the lease payment obligations for the 2001 transaction is recorded as assets and liabilities because Telekom Austria Group is able to control the investment account and withhold payments. The cash deposits in connection with the PUAs and the upfront payments received for the head lease and the lease obligations are recorded separately on the statements of financial position. Accordingly, interest income and expenses in the same amount totaling EUR 1,999 and EUR 3,997 were separately recognized in 2009 and 2008, respectively.

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At the inception of the lease-back agreements, Telekom Austria Group entered into PUAs with several counterparties, whereby the counterparties agreed to make lease payments on behalf of Telekom Austria Group in exchange for a deposit. The counterparties in the PUAs related to the 1999 and 1998 transactions received upfront payments totaling EUR 509,285 and EUR 113,763 for a portion of the debt assumed in 1999 and 1998, respectively. Interest accruing on the cash deposits matches interest on the debt portion financed through the deposit. In addition to the cash deposits, Telekom Austria Group purchased debt securities, deposited those securities with a custodian and pledged the securities to one of the counterparties in the PUA; the counterparties in the PUAs related to the 2001 transaction received upfront payments totaling EUR 200,526 for a portion of the debt assumed in 2001. In addition to the PUAs, Telekom Austria Group provided a loan of EUR 66,554 to the U.S.-based trust. Interest accruing on the PUAs and the loan match the interest on the debt portion.

According to SIC 27, the transactions described, in substance, do not represent a lease in accordance with IAS 17. Therefore, Telekom Austria Group maintained the assets on its statements of financial position and did not recognize any gain or loss from the sales transaction. The difference between the cash proceeds from the sale and the present value of the future minimum lease payments represents a gain on the sale of a tax benefit. The net cash effect resulting from these transactions relates to the total gain from the sale of the tax benefits which amounted to EUR 14,547, EUR 44,437 and EUR 7,337 in 2001, 1999 and 1998, respectively. Telekom Austria Group amortizes these amounts over the term of the lease. For information on the recognition of the deferred net cash effect of the tax benefit, which was recorded as interest income, see Note (7).

In 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, additional guarantees had to be supplied for which Telekom Austria Group incurred expenses amounting to EUR 1,115 in 2008. In 2008, TUSD 85,029 serving as collateral for these guarantees were deposited and the currency risk was hedged by a forward exchange contract (see Notes (8) and (33)). In July 2009, this deposit was settled and, to avoid foreign exchange rate risk, EUR 100,000 were deposited, serving as collateral with a term until December 2011.

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

At December 31,	2009	2008
Deposits long-term	22,619	31,155
Deposits short-term	8,842	19,247
Total assets in connection with cross border leases	**31,461**	**50,402**
Cross border lease obligations	31,461	50,402
Of which current	10,988	21,630

(27) Employee Benefit Obligations

Long-term employee benefit obligations consist of the following:

At December 31,	2009	2008
Contractual termination benefits	-	41
Service awards	56,936	52,492
Severance	58,644	55,070
Pensions	6,186	7,070
Other	1,966	2,732
Long-term employee benefit obligations	**123,732**	**117,406**

Contractual termination benefits

In June 2000, Telekom Austria Group offered voluntary retirement incentive programs ("VRIPs") to civil servants, whose contracts of employment cannot be terminated without their consent. The present value of these obligations is determined based on current compensation levels and the respective legal regulations as well as estimated future salary increases of 2.0% in 2009 and 2008 and a discount rate of 5.5% in 2009 and of 6.0% in 2008. VRIPs are not funded. As of December 31, 2009 and 2008, the provision for the VRIPs related to six and 32 employees, respectively. In connection with VRIPs, Telekom Austria Group made payments of EUR 185 and EUR 970 during 2009 and 2008, respectively. Expenses as well as the reversals of provisions are reflected as a component of employee costs and interest cost, respectively. In 2009, the total accrued amount of EUR 21 and in 2008, an amount of EUR 198 was recorded in short-term accrued liabilities (see Note (22)).

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,	2009	2008
Actuarial assumptions:		
Discount rate	5.5%	6.0%
Rate of compensation increase – civil servants	5.4%	5.4%
Rate of compensation increase – other employees	3.1%	3.1%
Rate of increase of pensions	1.6%	1.6%
Employee turnover rate*	0.0% - 7.1%	0.0% - 7.3%

* depending on years of service

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

Service awards

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

The following table provides the components and a reconciliation of the changes in the accrued liability for service awards for the years ended December 31, 2009 and 2008:

	2009	2008
Accrued liability at the beginning of the year	55,480	52,600
Service cost	2,068	2,041
Interest cost	3,377	2,685
Actuarial losses (gains)	2,030	652
Benefits paid	(2,770)	(2,498)
Past service cost	(6)	-
Accrued liability at the end of the year	**60,178**	**55,480**
Less short - term portion	(3,242)	(2,987)
Accrued service award liability long - term	**56,936**	**52,492**

Of the defined benefit obligations for service awards, less than 1% related to foreign subsidiaries as of December 31, 2009 and 2008, respectively.

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

	2009	2008	2007	2006
Defined benefit obligation	60,178	55,480	52,599	50,759
Experience adjustments	360	(3,115)	(343)	(2,604)

Severance

Obligations for employees starting to work for Telekom Austria Group in Austria on or after January 1, 2003 are covered by a defined contribution plan. Telekom Austria Group paid EUR 1,149 and EUR 1,009 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2009 and 2008, 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.

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The following table provides the components of the net periodic benefit cost for the years ended December 31, 2009 and 2008:

	2009	2008
Service cost	3,269	4,118
Interest cost	2,867	2,702
Amortization of actuarial losses (gains)	(1,354)	(422)
Net periodic benefit cost	**4,783**	**6,398**

The following table provides a reconciliation of the changes in severance benefit obligations for the years ended December 31, 2009 and 2008:

	2009	2008
Defined benefit obligation at the beginning of the year	45,793	52,426
Change in reporting units	106	(98)
Service cost	3,269	4,118
Interest cost	2,867	2,702
Benefits paid	(4,144)	(4,952)
Past service cost	879	21
Actuarial losses (gains)	4,626	(8,457)
Defined benefit obligation at the end of the year	**53,393**	**45,759**
Unrecognized past service cost	-	(369)
Unrecognized actuarial gain (loss)	5,636	11,617
Accrued liability at the end of the year	**59,030**	**57,007**
Less short - term portion	(1,557)	(1,937)
Accrued severance liability, long - term	**58,644**	**55,070**

Of the defined benefit obligations for severance, approximately 2% related to foreign subsidiaries as of December 31, 2009 and 2008, respectively.

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

	2009	2008	2007	2006
Defined benefit obligation	53,393	45,759	52,425	59,680
Experience adjustments	(2,388)	(3,904)	(20,714)	(5,883)

Pensions

Defined contribution pension plans

In Austria, pension benefits generally are provided by the social security system for employees and by the government for civil servants. Telekom Austria Group is required to assist in funding the Austrian government's pension and health care obligations to Telekom Austria Group’s current and former civil servants and their surviving dependents. Telekom Austria Group is legally obligated to make annual contributions to the Austrian government for active civil servants. In 2009, the rate of contribution amounted to a maximum of 28.3% depending on the age of the civil servants. 15.75% are borne by Telekom Austria Group and the remaining portion is contributed through withholdings by the civil servants. Contributions to the government, net of the share contributed by civil servants, were EUR 41,289 and EUR 43,894 in 2009 and 2008, 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% of the salaries. The annual cost of this plan amounted to EUR 12,104 and EUR 8,742 in 2009 and 2008, respectively. Due to a collective agreement in respect of pension fund contributions for civil servants signed in 2008, no contributions need to be made for certain civil servants. Thus in 2008, an amount of EUR 2,979 was reversed from pension provisions recorded in 2007 and 2006.

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. In conjunction with this method, Telekom Austria Group amortizes actuarial gains and losses using the corridor method.

The pension cost for 2009 and 2008 is set out in the following table:

	2009	2008
Interest cost	382	372
Amortization of actuarial losses (gains)	(399)	(316)
Net periodic pension cost	**(17)**	**57**

The following table provides a reconciliation of the changes of benefit obligations for the years ended December 31, 2009 and 2008:

	2009	2008
Defined benefit obligation at the beginning of the year	6,773	7,489
Interest cost	382	372
Benefits paid	(836)	(817)
Past service cost	-	56
Actuarial losses (gains)	868	(328)
Defined benefit obligation at the end of the year	**7,186**	**6,773**
Unrecognized actuarial gain (loss)	(190)	1,077
Accrued liability at the end of the year	**6,996**	**7,850**
Less short-term portion	(810)	(780)
Accrued pension liability, long-term	**6,186**	**7,070**

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:

	2009	2008	2007	2006
Defined benefit obligation	7,186	6,773	7,489	8,040
Experience adjustments	(610)	(419)	(303)	168

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

At December 31, 2009	4.5%	6.5%
Service awards	65,533	55,454
Severance	64,518	45,163
Pensions	7,763	6,688

(28) Other Non-current Liabilities and Deferred Income

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

At December 31,	2009	2008
Long-term accounts payable - trade	1,026	971
Interest rate swaps - fair value hedges	-	793
Cash flow hedges	12,908	10,286
Other liabilities	1,123	653,517
Other non-current financial liabilities	**15,057**	**665,567**
Unamortized balance on sale of tax benefits	2,649	9,055
Other liabilities	1,558	1,626
Deferred income, other	13,455	1,102
Other non-current non-financial liabilities	**17,662**	**11,782**
Other non-current liabilities and deferred income	**32,719**	**677,349**

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

In 2008, other long-term financial liabilities mainly consist of the interest-bearing purchase price liability relating to the acquisition of SBT in 2007, which will be due in the fourth quarter of 2010, and is therefore reported as other current liability in 2009 (see Note (23)).

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

(29) Stockholders' Equity

Share capital

As of December 31, 2009 and 2008, the common stock of Telekom Austria AG amounted to EUR 996,183 and EUR 1,003,260, respectively, and was divided into 443 and 460 million bearer shares with a par value of zero, respectively.

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 options for a period of five years, ending in 2011. As Telekom Austria Group elected to settle all programs in cash, the capital increase was not carried out.

Retirement of stock

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

The numbers of authorized, issued and outstanding shares and shares in treasury as of December 31, 2009 and 2008 are presented below:

At December 31,	2009	2008
Shares authorized	453,000,000	520,000,000
Shares issued	443,000,000	460,000,000
Shares in treasury	(436,031)	(17,601,778)
Shares outstanding	442,563,969	442,398,222

The following table provides a reconciliation of the changes of number of shares outstanding in the years ended December 31, 2009 and 2008:

	2009	2008
Outstanding as of January 1	442,398,222	442,211,742
Capital reduction	(17,000,000)	-
Retirement of treasury shares	17,000,000	-
Employee Participation Program	165,747	186,480
Outstanding as of December 31	**442,563,969**	**442,398,222**

Dividend payment

At the Annual General Meeting on May 20, 2009, the shareholders approved a dividend distribution of Euro 0.75 per share. The overall payment on May 28, 2009 amounted to EUR 331,799. At the Annual General Meeting on May 20, 2008, the shareholders approved a dividend distribution of Euro 0.75 per share. The overall payment on May 28, 2008 amounted to EUR 331,659.

The net income of Telekom Austria AG according to Austrian GAAP amounts to EUR 356,906 and EUR 222,434, in the years 2009 and 2008, respectively. In accordance with section 126 of the Austrian Stock Corporation Act, the Supervisory Board and the Management Board decided to transfer an amount of EUR 24,650 from net income to retained earnings for the year ended December 31, 2009, and to release an amount of EUR 109,364 from retained earnings for the year ended December 31, 2008, resulting in unappropriated retained earnings of EUR 332,287 and EUR 331,830 for the years 2009 and 2008, 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 Euro 0.75 per share.

Treasury shares

At the Annual General Meeting held on May 20, 2009, the Management Board was authorized to acquire treasury shares up to the maximum extent legally permitted. During a period of 30 months, Telekom Austria AG may acquire treasury shares at a minimum price of Euro 1 and at a maximum price of Euro 30 per share, ending November 2012. The Management Board was empowered (i) to use this treasury stock to satisfy obligations under the stock option plans described in Note (31); (ii) to use it to satisfy obligations resulting from the issuance of convertible bonds; (iii) to use it as consideration for acquisitions; (iv) to retire up to 46 million treasury shares to reduce common stock by a maximum of 10% (EUR 100,326) or (v) to sell it on the stock exchange or through a public offering.

Neither in 2009 nor in 2008 did Telekom Austria Group purchase treasury shares (for information on retirement of stock, see Share capital):

Shares held in treasury as of December 31,	2009	2008
Number of treasury shares	436,031	17,601,778
Average price per share in Euro	18.80	18.80
Deduction in equity	8,196	330,845

In the years 2009 and 2008, Telekom Austria Group used 165,747 and 186,480 treasury shares with a total value of EUR 3,115 and EUR 3,505 respectively, to serve the employee participation program (see Note (31)).

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Additional paid-in capital

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

Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2009 and 2008 are calculated as follows:

	2009	2008
Net income (loss) attributable to owners of the parent	95,129	(48,767)
Weighted average number of common shares outstanding	442,400,038	442,212,761
Basic and diluted earnings per share (in Euro)	**0.22**	**(0.11)**

Due to Management's decision to settle employee stock options granted in the course of the stock option plan in cash, no related dilutive effect occurred in 2009 and 2008 for the Stock Option Plan 2004.

Revaluation reserve and translation adjustment

The development of the revaluation reserve and the translation adjustment are presented in the consolidated statements of comprehensive income. The foreign currency translation adjustment mainly relates to the consolidation of Velcom in Belarus and Vip mobile in Serbia. The devaluation of the Belarusian Ruble resulted in an adjustment of EUR 316,336 in 2009.

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, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Stockholders' Equity.

Telekom Austria Group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximizing the return to stakeholders 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 the group level, the Management of Telekom Austria Group is committed to achieving a net debt/EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) ratio ranging from 1.8 to 2.0, and to keeping the current 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, treasury shares will be purchased in line with the net debt/EBITDA ratio.

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.

There were no changes in Telekom Austria Group's approach to capital management in 2009.

Neither Telekom Austria Group nor its subsidiaries are subject to externally imposed capital requirements, except for one subsidiary which is a bank and therefore has to comply with minimum equity and reserves requirements.

(30) Income Taxes

Income tax expense (benefit) attributable to income before income taxes for the years ended December 31, 2009 and 2008 consists of the following:

	2009	2008
Current income tax	67,124	82,666
Deferred income tax	(55,717)	(110,287)
Income tax	**11,406**	**(27,622)**

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

	2009	2008
Continuing operations	11,406	(27,622)
Other comprehensive income	(272)	(2,773)
Total income taxes	**11,134**	**(30,394)**

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

The following table shows the major reconciling items between the reported income tax expense and the amount of income tax expense that would have resulted from applying the Austrian statutory income tax rate of 25% to pre-tax income 2009 and 2008:

	2009	2008
Income tax expense (benefit) at statutory rate	26,578	(19,096)
Foreign tax rate differential	6,888	(11,922)
Non - deductible expenses	8,604	7,661
Tax incentives and tax - exempted income	(2,652)	(4,177)
Tax - free income from investments	(195)	(318)
Change in tax rate	101	261
Tax expense (benefit) previous years	(3,321)	3,258
Deferred tax assets not recognized	322,349	2,923
Impairment of goodwill	72,500	-
Realization of badwill	(913)	-
Impairment of investments in subsidiaries	(417,263)	(6,486)
Other	(1,271)	274
Income tax	**11,406**	**(27,622)**
Effective income tax rate	10.73%	36.16%

The effective income tax rate 2009 cannot be compared to the previous year as a tax benefit was recorded in 2008 due to restructuring expenses.

In 2009 and 2008, non-deductible expenses mainly consist of withholding taxes on dividends and representation expenses as well as, in 2009, tax-exempted expenses related to investments in subsidiaries. Tax incentives and tax-exempted income in 2009 and 2008 essentially consist of research, education and investment incentives as well as other government grants and, in 2008, tax-exempted income related to investments in subsidiaries.

On November 2, 2006, the Slovenian parliament passed an act gradually reducing the corporate income tax rate from 25% to 23% in 2007, to 22% in 2008, to 21% in 2009 and to 20% in 2010, and allowing indefinite carry forward of tax losses. Furthermore, the corporate income tax rate in Hungary will be increased from 16% to 19% in 2010. The changes in the corporate income tax rates resulted in an overall tax expense of EUR 101 and EUR 261 in 2009 and 2008, respectively.

The tax benefit from previous years recorded in 2009 mainly relates to revaluations of fixed assets in Belarus, recorded for tax purposes. In 2008, this effect was overcompensated by tax expense in Serbia, which resulted in an overall tax expense.

Impairments of investments in 2009 relate to write-downs for tax purposes of Velcom and Vip mobile, which are recognized over a period of seven years for tax purposes and on which deferred tax is calculated (according to the respective guidance on "Effects of tax write-downs according to section 12/3/2 of the Austrian Corporate Tax Act on the accounting of income taxes according to IAS 12 in consolidated or single IFRS financial statements" issued by the Austrian Financial Reporting and Auditing Committee).

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

At December 31,	2009	2008
Deferred tax assets		
Goodwill	12,150	24,266
Deferred deduction for impairments of investments in subsidiaries	187,608	11,258
Loss carry-forwards	44,261	142,936
Accounts receivable - trade	4,656	4,647
Deferred income and other liabilities	875	2,519
Other current assets and prepaid expenses	2,011	1,927
Accrued liabilities, long-term	18,412	41,208
Employee benefit obligations	11,342	10,483
Property, plant and equipment	3,363	3,073
Other	9,603	11,990
Deferred tax assets	**294,280**	**254,307**
Deferred tax liabilities		
Goodwill	(9,689)	(9,689)
Property, plant and equipment	(17,023)	(27,518)
Other intangible assets	(180,005)	(221,197)
Accrued liabilities	(386)	(861)
Write down of treasury shares for tax purposes	(964)	(34,746)
Other	(2,722)	(4,951)
Deferred tax liabilities	**(210,789)**	**(298,961)**

At December 31,	2009	2008
Deferred taxes, net	**83,491**	**(44,655)**
Deferred tax assets	227,508	143,432
Deferred tax liabilities	(144,017)	(188,087)

Telekom Austria Group established a tax group in Austria, with Telekom Austria AG as the head of the group. Deferred tax receivables and liabilities for the members of the tax group (currently all significant Austrian subsidiaries) are reported on a net basis since income tax is levied by the same tax authority. Impairments for tax purposes according to section 9/7 of the Austrian Corporate Tax Act are treated as temporary differences related to investments in subsidiaries. According to IAS 12.39, no deferred tax liabilities are recorded in that case.

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

As of December 31, 2009, Telekom Austria Group did not recognize deferred tax assets amounting to EUR 343,863. In 2009, the unrecognized amounts relate to net operating loss carry-forwards amounting to EUR 165,149 and to temporary differences related to impairments of investments in consolidated subsidiaries amounting to EUR 178,714 that will, according to tax planning, not be realized in the near future. As of December 31, 2008, deferred tax benefits on loss carry-forwards amounting to EUR 21,495 were not recorded.

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

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

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

At December 31, 2009, Telekom Austria Group had approximately EUR 1,145,851 of operating loss carry-forwards. The following loss carry-forwards relating to Macedonia, Serbia and the Netherlands will expire in the following years:

Year	Amount
2010	40,807
2011	21,021
2013	1,826
2014	803
2016	1,021
2017	66,144
2018	230,080
Total	**361,702**

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.

At December 31, 2009 and 2008, Telekom Austria Group did not recognize a deferred tax liability for temporary differences related to investments in associates in the amount of EUR 100 and EUR 153, respectively.

At December 31, 2009 and 2008, income taxes receivable relate to tax returns of Austrian and Croatian subsidiaries not yet assessed and income taxes payable relate to foreign subsidiaries.

(31) Stock-based Compensation

Telekom Austria Group's Stock Option Plan 2004, which was approved by the stockholders at the Annual General Meeting, provided stock options in three tranches. In the years 2004 to 2006, one tranche was granted in each year. In 2006, an extension to the Stock Option Plan 2004 ("Stock Option Plan 2004 extended") for another three tranches in the years 2007, 2008 and 2009 was approved.

Stock Option Plan 2004 (2004 plan)

Based on an authorization of the Annual General Meeting, the Supervisory Board of Telekom Austria Group approved the 2004 plan for members of the Management Board and senior members of management on April 16, 2004. Under this plan, Telekom Austria Group may grant a total of 10,000,000 options in three tranches between April 2004 and April 2006. Each tranche has to be approved separately by 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 Management Board determined that all tranches be settled in cash. The exercise price is defined as the average quoted closing price of Telekom Austria AG's stock during a period of twenty trading days ending two days before the granting of options. One option is convertible into one share. To be eligible for options, plan members must hold a continuous investment in Telekom Austria AG shares until the options are exercised. In addition, in order for the stock options to become exercisable, certain performance conditions must be achieved by Telekom Austria Group based on basic earnings per share adjusted for certain effects ("the hurdle"). The plan also provides for the acceleration of options upon a change in control following a successful tender offer, irrespective of whether the granted options have vested or whether the hurdle has been met. Before granting stock options, the hurdle will be determined for each subsequent tranche of options and must be approved by the Supervisory Board. If one year's hurdle is not met, options can still be exercised provided that the hurdle of the next tranche, which it is set higher than the original hurdle, is achieved. In this case, the vesting period is adjusted until the next tranche becomes exercisable.

On January 12, 2006, the third tranche (ESOP 2006+) was offered to the eligible employees under the Stock Option Plan 2004. For every 28 (24) options awarded, an eligible employee (Member of Management Board) must hold one ordinary share until exercise. The fair value of the options as of the grant date amounted to EUR 15,868. The performance condition set for the third tranche was met as of December 31, 2006.

Stock Option Plan 2004 Extension

Based on an authorization of the Annual General Meeting, the Supervisory Board of Telekom Austria Group extended the Stock Option Plan 2004 ("Stock Option Plan 2004 extension") for another three tranches in the years 2007, 2008 and 2009. Each tranche has to be approved separately by the Supervisory Board.

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Following the approval by the Supervisory Board on January 8, 2007, the fourth tranche (ESOP 2007+) was granted to the eligible employees. For every 30 (25) options awarded, an eligible employee (Member of the Management Board) must hold one ordinary share until exercise. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects. The fair value of the options as of the grant date amounted to EUR 10,523. The performance condition set for the fourth tranche was met as of December 31, 2007.

Following the approval by the Supervisory Board on January 7, 2008, the fifth tranche (ESOP 2008+) was granted to the eligible employees. For every 30 (25) options awarded, an eligible employee (Member of the Management Board) must hold one ordinary share until exercise. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects. The fair value of the options as of grant date amounted to EUR 9,198. The performance condition (earnings per share) set for the fifth tranche was neither met as of December 31, 2008, nor as of December 31, 2009. The options granted in 2008 might be exercised in the event that the performance conditions for 2009 or 2010 are met, provided these are not lower than the performance condition for 2008 (retesting). The vesting period was extended by another twelve months in 2008 and by another twelve months in 2009. As of December 31, 2009, it is not probable that the hurdle will be met in 2010 and that the options become exercisable. Thus no liability was recorded for this tranche.

Following the approval by the Supervisory Board on January 14, 2009, the sixth tranche (ESOP 2009+) was granted to the eligible employees. For every 30 (25) options awarded, an eligible employee (Member of the Management Board) must hold one ordinary share until exercise. Vesting of the stock options awarded is based on the performance of basic earnings per share adjusted for certain effects. The fair value of the options as of grant date amounted to EUR 4,923. The performance condition (earnings per share) set for the sixth tranche was not met as of December 31, 2009. The options granted in 2009 might be exercised in the event that the performance conditions for 2010 or 2011 are met, provided these are not lower than the performance condition for 2009 (retesting). The vesting period is therefore extended by another twelve months. As of December 31, 2009, it is not probable that the hurdle will be met in 2010 and 2011 and that the options become exercisable. Thus no liability was recorded for this tranche.

The following table sets forth details of the stock option plans as of December 31, 2009:

	Sixth trance 2009	Fifth tranche 2008	Fourth tranche 2007	Third tranche 2006
Exercise price in Euro	11.06	19.39	20.34	18.91
Options granted	4,923,090	4,401,130	4,047,472	3,908,468
Thereof Management Board	360,000	360,000	240,000	360,000
Vesting period in months from the grant day	24	36	12	12
Earliest exercise date	February 23, 2011	February 23, 2011	February 27, 2008	March 8, 2007
Expected expiry date	May 31, 2013	May 31, 2012	May 31, 2011	March 31, 2010
Options outstanding	4,465,241	3,010,035	2,242,891	1,962,116

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

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

	2009	2008
First tranche 2004	-	(204)
Second tranche 2005	(153)	(2,075)
Third tranche 2006	(1,143)	(5,188)
Fourth tranche 2007	(1,593)	(4,167)
Fifth tranche 2008	(2,478)	2,647
Sixth tranche 2009	-	-
Expense (Benefit)	**(5,367)**	**(8,987)**

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

	2009	2008
Expected average dividend per share in Euro	0.75 – 0.77	0.75 – 0.94
Expected volatility	50%	55%
Risk - free interest rate range	0.410 % - 2.993%	2.750 % - 3.354 %
Stock price at December 31 in Euro	9.95	10.3
Fair value per option third tranche in Euro	0.01	0.44
Fair value per option fourth tranche in Euro	0.28	0.62
Fair value per option fifth tranche in Euro	0.51	0.75
Fair value per option sixth tranche in Euro	1.00	-

Changes to the major parameters used in the calculations could have a material effect on the fair value per option and on the obligation and expense (income) recognized. A change in the expected volatility of five percentage points would result in the following fair values per option:

Expected volatility	45%	55%
Fair value per option third tranche in Euro	0.00	0.01
Fair value per option fourth tranche in Euro	0.20	0.36
Fair value per option fifth tranche in Euro	0.42	0.60
Fair value per option sixth tranche in Euro	0.97	1.03

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	2009	2008
Outstanding as of January 1	10,623,576	7,231,626
Granted	4,923,090	4,401,130
Forfeited	(3,539,883)	(909,280)
Exercised	-	(99,900)
Expired	(326,500)	-
Outstanding as of December 31	**11,680,283**	**10,623,576**
Of which exercisable as of December 31	4,205,007	6,550,892

Weighted - average exercise price	2009	2008
Outstanding as of January 1	19.45	18.20
Granted	11.06	19.39
Expired / forfeited	18.24	19.17
Exercised	-	13.74
Outstanding as of December 31	**16.31**	**19.42**
Of which exercisable as of December 31	19.67	19.45

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

At December 31,	2008	2008
Outstanding options		
Weighted average remaining contractual term (in years)	2.2	2.4
Exercisable options		
Total intrinsic value (in '000 EUR)	-	-

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The weighted average share price at the exercise date was Euro16.69 per share in 2008. No stock options were exercised in 2009.

Employee Participation Program

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

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

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

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

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

(32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

	2009	2008
Cash paid for		
Interest	142,555	170,506
Income taxes	69,144	80,656
Cash received for		
Interest	15,206	10,890
Income taxes	-	1

Cash flows relating to interest and income taxes are reported in the cash flow from operating activities. The dividends received in 2009 and 2008 (see Note (7)) had already been settled in cash as of December 31.

In 2009 and 2008, the item "Other", which is part of the reconciliation of net income (loss) to the cash flow from operating activities, amounted to EUR 12,209 and EUR 19,733, respectively. It mainly consists of interest and the hedging expenses relating to the purchase price liability of SBT as well as the recognition of the badwill related to the acquisition of CRI in 2009 (see Note (2)).

Cash and cash equivalents acquired in acquisitions totaled EUR 1,093 and EUR 155 in 2009 and 2008, respectively. Cash and cash equivalents sold in the course of the disposal of subsidiaries totaled EUR 2,961 in 2008. For the acquisition and disposal of subsidiaries, see Notes (2) and (15).

(33) Financial Instruments

Financial risk management

Overview
Telekom Austria Group is exposed to market risks, including liquidity risk, interest rate and foreign currency exchange rate risk and credit risk associated with underlying 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 and have been approved by Management. Telekom Austria Group does not hold or issue derivative financial instruments for trading or speculative purposes.

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

The chief financial officers of the holding company and of the two segments have overall responsibility for the implementation and oversight of Telekom Austria Group's risk management and are responsible for monitoring Telekom Austria Group's risk management process.

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

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

The analysis of the dynamic liquidity risk is conducted by means of liquidity planning. The given monthly liquidity requirement based on the forecasted liquidity planning is juxtaposed against the existing financing or available lines of credit and liquid financial assets. The difference between the two will result in either a liquidity gap, which will be financed, or excess liquidity, which, if necessary, will be invested. On the basis of the existing business plan, a rolling monthly liquidity plan is drawn up for Telekom Austria Group as well for the segments Fixed Net and Mobile Communication. 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 Chief Financial Officer (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.

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

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

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

As of December 31, 2009 and 2008, Telekom Austria Group had total credit lines of EUR 1,090,000 and EUR 1,188,000, respectively. These credit lines were not utilized. The credit line commitments will expire between March 2010 and July 2013.

Exposure to liquidity risk

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

	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, 2009						
Financial liabilities						
Bonds and Multi - Currency Note Program	3,181,433	595,938	37,500	106,824	1,031,926	1,409,244
Bank debt without guarantee	1,567,152	239,392	28,588	248,979	994,699	55,495
Bank debt guaranteed	9,927	5,097	-	4,830	-	-
Accounts payable - trade	533,380	527,960	4,417	381	225	396
Lease obligations	1,082	212	212	399	258	-
Other financial liabilities	832,194	154,995	676,077	-	-	1,123
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	(35,900)	(10,077)	(12,105)	(6,913)	(6,804)	-
Variable to fixed IRS	16,536	(2,257)	9,349	5,685	3,759	-
Forward exchange contracts						
Notional amount in EUR	640,141	(13,495)	653,636	-	-	-
Notional amount in USD	(952,800)	-	(952,800)	-	-	-
Notional amount in HRK	99,126	99,126	-	-	-	-
Notional amount in BYR	26,228,710	-	26,228,710	-	-	-
At December 31, 2008						
Financial liabilities						
Bonds and Multi - Currency Note Program	2,281,550	154,675	40,000	575,625	926,250	585,000
Bank debt without guarantee	2,129,386	476,184	214,479	126,792	1,253,693	58,238
Bank debt guaranteed	15,603	5,452	50	5,222	4,879	-
Accounts payable - trade	590,130	558,209	31,037	40	554	289
Lease obligations	1,569	392	81	446	650	-
Other financial liabilities	821,113	134,819	32,777	652,319	-	1,198
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	(21,454)	6,066	(2,240)	(14,333)	(10,947)	-
Variable to fixed IRS	12,586	(6,130)	7,572	4,576	6,569	-
Forward exchange contracts						
Notional amount in EUR	600,659	9,016	(65,993)	657,636	-	-
Notional amount in USD	(879,438)	(13,467)	84,029	(950,000)	-	-

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

in EUR '000s

Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect Telekom Austria Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. All financial transactions are carried out within the Treasury Guideline approved by Telekom Austria Group's Management. For derivative financial instruments used for risk management purposes, Telekom Austria Group generally applies hedge accounting in accordance with IAS 39.

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

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

Interest rate risk

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

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

Exposure to interest rate risk

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

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

Short-term liabilities with exposure to interest rate risk	2009	2008
Short-term borrowings		
Fixed and variable rate carrying amount	160,032	9,932
Average interest rate in %*	1.49%	4.96%
Multi-currency notes program		
Fixed rate carrying amount	9,986	117,994
Average interest rate in %*	0.90%	4.04%

* 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 3.245% in 2009 and 2.40% in 2008. 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 remain 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 (amounts in brackets represent decreases in financial liabilities):

		Change of financial portfolio	
At December 31,	Capital amounts	100 bps increase	100 bps decrease
2009			
Fixed and variable rate financial liabilities	3,958,465		
Sensitivity at 3.245%		(128,452)	128,452
2008			
Fixed and variable rate financial liabilities	3,796,257		
Fair value sensitivity at 2.40%		(90,958)	90,958

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. Amounts in brackets represent positive effects on the consolidated statement of operations.

At December 31,	Capital amounts	100 bps increase	100 bps decrease
2009			
Variable rate financial liabilities	569,480		
EMTN bond with interest rate swap (variable leg)	800,000		
Sensitivity		**13,695**	**(13,695)**
2008			
Variable rate financial liabilities	653,203		
EMTN bond with interest rate swap (variable leg)	800,000		
Sensitivity		**14,532**	**(14,532)**

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.

In 2003, Telekom Austria AG and Telekom Finanzmanagement GmbH (a fully consolidated financing subsidiary of Telekom Austria AG) initiated a Euro Medium-Term Note ("EMTN") Program.

Under this program, Telekom Austria Group issued a total of three bonds with a face value of EUR 1,750,000, coupons between 3.375% and 5.00%, and maturities between five and twelve years. These bonds are described in Note (25). Telekom Austria Group entered into fixed to floating interest rate swap agreements for Eurobonds with a face value of EUR 800,000.

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

in EUR '000s

The following table indicates the types of swaps in use at December 31, 2009 and 2008, 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, 2009 and 2008. This interest rate is applied to the notional amount under the relevant interest rate swap contract to determine the amount of interest that Telekom Austria Group must pay. "Average receive rate" represents the weighted average interest rate applicable at December 31, 2009 and 2008. This interest rate is applied to the notional amount under the relevant interest rate swap contract to determine the amount of interest that Telekom Austria Group receives. The notional amounts under the relevant contracts are the amounts used notionally to calculate the amount of interest to be paid or received as appropriate, and are not actually received by either party and therefore are not repayable under the terms of the contract:

	2009	2008
Variable to fixed swaps in EUR (cash flow hedge)		
Notional amount in EUR	200,000	200,000
Average receive rate	3.09%	6.20%
Average pay rate	5.68%	5.68%
Average maturity in years	2.65	3.65
Fixed to variable swaps in EUR (fair value hedge)		
Notional amount in EUR	800,000	800,000
Average receive rate	3.98%	3.98%
Average pay rate	2.51%	5.18%
Average maturity in years	1.43	2.43

The interest rate swap transactions resulted in a change in effective interest rates of 0.66 percentage points and 1.27 percentage points in 2009 and 2008, 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
2009					
Hedged items	800,000	799,254	818,574	(19,320)	
Hedging instrument (interest rate swap)	800,000	1,501	(17,971)	19,472	
Effectiveness in %					(99.22)%
Effectiveness in EUR					152
2008					
Hedged items	800,000	799,254	812,428	(13,174)	
Hedging instrument (interest rate swap)	800,000	1,501	(10,647)	12,148	
Effectiveness in %					(108.45)%
Effectiveness in EUR					(1,026)

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, 2009 and 2008, the derivative financial liability (including deferred interest) amounts to EUR 15,763 and to EUR 9,879, respectively. The hedged cash flows with respect to the 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 2009 and 2008, an amount of EUR 2,622 and EUR 10,286, respectively, relating to derivative financial liabilities was recognized in other comprehensive income (OCI). In 2009 and 2008, no ineffectiveness was recorded in the consolidated statement of operations.

Exchange rate risk

As of December 31, 2009 and 2008, one variable interest rate liability resulting from the acquisition of SBT in the amount of TUSD 929,969 and TUSD 907,832, respectively, was subject to foreign exchange rate risk. This liability is hedged and is due in 2010.

As of December 31, 2009 and 2008, 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,	2009			2008		
	EUR	USD	Other	EUR	USD	Other
Accounts receivable - trade	13,022	6,769	24,969	6,678	7,649	23,890
Accounts payable - trade	53,132	10,638	10,736	47,127	37,698	12,067

A change of 5% in the exchange rate of EUR into HRK would have increased (decreased) foreign exchange rate differences by EUR 1,825 and EUR 1,647 in 2009 and 2008, respectively. A change of 10% in the exchange rate of BYR into USD would have increased (decreased) foreign exchange rate differences by EUR 23 and EUR 3,012 in 2009 and 2008, respectively. A sensitivity analysis was carried out neither for other accounts receivable, denominated in foreign currencies, nor for accounts payable – trade, denominated in foreign currencies, as there is no substantial risk due to diversification.

The assets and the liabilities relating to the cross border lease transactions are denominated in USD; however, Telekom Austria Group is not exposed to exchange rate risk because the deposits under the cross border lease transactions match the lease obligation. The USD deposit of TUSD 84,029, serving as collateral for the guarantees, was hedged by a forward exchange contract at its inception in 2008. In July 2009, this deposit was settled and, to avoid foreign exchange rate risk, EUR 100,000 were deposited.

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Foreign exchange agreements

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

Telekom Austria Group entered into a series of forward exchange contracts covering TUSD 950,000 serving as hedges of the purchase price payable and of future interest payments related to the acquisition of SBT. Starting with the second quarter of 2008, the forward purchases of USD are designated as hedging instruments (cash flow hedge accounting according to IAS 39). Effective interest, which is composed of the interest component of the forward rate (interest differential) and the interest accretion on the purchase price liability, is recognized in the financial result until the end of the third quarter 2010. As of December 31, 2009 and 2008, the derivative financial asset (netted) amounts to EUR 3,967 and EUR 36,467, respectively. In 2009 and 2008, an amount of EUR 1,263 and EUR 3,938, respectively, was recorded in other comprehensive income (OCI). The difference between the effective interest and contractual interest of the purchase price liability is recognized in the financial result.

As collateral for the guarantees related to the cross border lease transactions (see Note (26)) TUSD 85,029 had to be deposited in 2008. The hedged USD deposit was settled on July 2, 2009. Telekom Austria Group entered into cash flow hedges to reduce its exposure to fluctuations in foreign exchange rates. For this purpose, upon opening the USD deposit, Telekom Austria Group entered into forward exchange contracts with essentially corresponding conditions. As of July 2, 2009 and December 31, 2008, the derivative financial asset amounted to EUR 6,541 and EUR 5,211, respectively. According to cash flow hedge accounting, the interest differential was compounded and recognized in the financial result over the term of the hedging instrument. Due to the distribution of the compounded interest differential, the amount of EUR 172, reported in other comprehensive income (OCI) in 2008, was recognized in the consolidated statement of operations in 2009. In 2009 and 2008, no ineffectiveness occurred.

The following tables indicate the types of foreign exchange agreements in use at December 31, 2009 and 2008, that were accounted for according to hedge accounting (amounts to be received are stated in brackets):

At December 31,	2009	2008
Forward exchange contract - USD long		
Notional amount in EUR	657,636	657,636
Notional amount in USD	(950,000)	(950,000)
Forward exchange rate (weighted)	1.44	1.44
Exchange rate as of the reporting date	1.44	1.39
Longest term of the contracts	September 2010	September 2010

At December 31,	2009	2008
Forward exchange contract - USD short		
Notional amount in EUR	-	(65,993)
Notional amount in USD	-	84,029
Forward exchange rate (weighted)	-	1.27
Exchange rate as of the reporting date	-	1.39
Longest term of the contracts	-	July, 2009

As of December 31, 2009, 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 which were not accounted for according to hedge accounting. 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, 2009 (amounts to be received are stated in brackets):

At December 31,	2009	2008
Forward exchange contract - HRK short		
Notional amount in EUR	(13,495)	-
Notional amount in HRK	99,126	-
Forward exchange rate (weighted)	7.36	-
Exchange rate as of the reporting date	7.30	-
Longest term of the contracts	February, 2010	-

At December 31,	2009	2008
Forward exchange contract - EUR long		
Notional amount in BYR	17,386,300	-
Notional amount in EUR	(4,000)	-
Forward exchange rate (weighted)	4,346.58	-
Exchange rate as of the reporting date	4,106.11	-
Longest term of the contracts	July, 2010	-

At December 31,	2009	2008
Forward exchange contract - USD long		
Notional amount in BYR	8,842,410	-
Notional amount in USD	(2,800)	-
Forward exchange rate (weighted)	3,158.00	-
Exchange rate as of the reporting date	2,863.00	-
Longest term of the contracts	July, 2010	-

Credit risk

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

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

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

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

Accounts receivable - trade and other receivables

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

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

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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, 2008, one guarantee amounting to EUR 200 had been provided to a third party.

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

At December 31,	2009	2008
Available-for-sale financial assets	321,062	76,011
Held-to-maturity investments	-	1,932
Financial investments measured at cost	643	633
Loans and receivables	51,097	42,541
Cash and cash equivalents	730,054	384,762
Deposits under cross border leases	31,461	50,402
Derivatives	113	-
Hedging instruments (fair value hedges)	34,371	11,440
Hedging instruments (cash flow hedges)	7,696	42,353
Carrying amount of financial assets	**1,176,499**	**610,076**

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

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

At December 31,	2009	2008
Domestic	737,624	760,395
Foreign	87,547	106,652
Allowances	(156,531)	(142,756)
Accounts receivable - trade	**668,640**	**724,291**

Accounts receivable – trade from Telekom Austria Group's most significant customer amount to EUR 8,451 and EUR 9,531 as of December 31, 2009 and 2008, respectively. With respect to the aging of accounts receivable – trade and the allowance 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 2009	Fair value 2009	Carrying amount 2008	Fair value 2008
Financial assets				
Cash and cash equivalents	**730,054**	**730,054**	**384,762**	**384,762**
Accounts receivable - trade	668,640	668,640	716,571	716,571
Receivables due from related parties	3,893	3,893	3,234	3,234
Other current financial assets	52,582	52,582	36,010	36,010
Other non-current financial assets	11,023	11,023	11,017	11,017
Loans and receivables	**736,138**	**736,138**	**766,831**	**766,831**
Long-term investments	114,493	114,493	11,197	11,197
Short-term investments	206,570	206,570	64,814	64,814
Available-for-sale investments	**321,062**	**321,062**	**76,011**	**76,011**
Investments at cost	**643**	**643**	**633**	**633**
Deposits cross border leases	31,461	31,461	50,402	50,402
Held-to-maturity investments	**31,461**	**31,461**	**50,402**	**50,402**
Derivatives	113	113	-	-
Hedging instruments (fair value hedges)	34,371	34,371	11,440	11,440
Hedging instruments (cash flow hedges)	7,696	7,696	42,353	42,353
Financial assets carried at fair value	**42,181**	**42,181**	**53,793**	**53,793**

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

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

in EUR '000s

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

At December 31,	Carrying amount 2009	Fair value 2009	Carrying amount 2008	Fair value 2008
Financial liabilities				
Liabilities to financial institutions	160,032	160,219	9,932	9,932
Bonds	1,686,618	1,801,300	942,350	861,458
Other current financial liabilities	827,824	827,824	163,348	163,348
Multi-Currency Note Program	9,986	9,986	117,994	117,994
Non-current liabilities to financial institutions	1,288,434	1,329,786	1,919,462	1,950,457
Lease obligations and cross border leases	32,457	32,457	51,740	51,740
Other non-current liabilities	2,149	2,149	654,488	654,488
Accounts payable - trade	523,646	523,646	589,159	589,159
Payables due from related parties	11,446	11,446	13,734	13,734
Accrued interest	95,962	95,962	49,454	49,454
Financial liabilities at amortized cost	**4,638,555**	**4,794,775**	**4,511,661**	**4,454,114**
Bonds - hedged portion	**817,287**	**815,283**	**810,778**	**779,972**
Derivatives	164	164	-	-
Hedging instruments (fair value hedges)	-	-	793	793
Hedging instruments (cash flow hedges)	19,493	19,493	10,286	10,286
Financial liabilities carried at fair value	**19,657**	**19,657**	**11,079**	**11,079**

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

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

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

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

Fair value hierarchy of financial instruments

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

	Level 1	Level 2	Level 3	Total
December 31, 2009				
Available-for-sale & other investments	16,373	304,689	-	321,062
Derivatives	-	113	-	113
Fair value hedges	-	34,371	-	34,371
Cash flow hedges	-	7,696	-	7,696
Financial assets measured at fair value	**16,373**	**346,870**	**-**	**363,243**
Bonds - hedged portion	-	817,287	-	817,287
Derivatives	-	164	-	164
Cash flow hedges	-	19,493	-	19,493
Financial liabilities measured at fair value	**-**	**836,943**	**-**	**836,943**

The levels of fair value hierarchy are determined as follows:

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: Fair values measured using inputs other than quoted prices included within 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 Contingencies

As of December 31, 2009 and 2008, Telekom Austria Group has incurred lease obligations totaling EUR 73,484 and EUR 482,448, respectively, in connection with cross border lease transactions (see Note (26)) which were not recorded as a liability in accordance with SIC 27 and the framework. There are contingent receivables relating to securities and deposits covering the same amount. The letters of credit for the liabilities of Telekom Austria Group resulting from the 1998 and 1999 cross border lease transactions terminated early in 2009 amounted to EUR 45,111 as of December 31, 2008.

As of December 31, 2008, Telekom Austria Group had provided a guarantee to a third party amounting to EUR 200.

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 outcomes are not predictable with certainty. Consequently, Management is unable to ascertain the ultimate aggregate amount of monetary liability or the impact on the financial position of Telekom Austria Group with respect to these matters at December 31, 2009. 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:

	2009	2008
Compensation Management Board	1,002	1,129
Performance - based remuneration	1,318	1,449
Total	**2,320**	**2,578**
Compensation Supervisory Board	173	174

On March 31, 2009, Boris Nemsic, Chief Executive Officer of Telekom Austria Group and Chief Executive Officer of mobilkom Austria AG, resigned. As of April 1, 2009, Hannes Ametsreiter, was appointed by the Supervisory Board as Chief Executive Officer and Chairman of the Board of Telekom Austria Group and as Chief Executive Officer of mobilkom austria AG. Hannes Ametsreiter also remains Head of the Fixed Net segment. Together with Hans Tschuden, who is Vice Chairman of the Management Board and Chief Financial Officer, he manages Telekom Austria Group.

On August 31, 2008, Rudolf Fischer, Vice Chairman of the Management Board of Telekom Austria AG and Chief Executive Officer of Telekom Austria TA AG, resigned. Boris Nemsic, Chairman of Telekom Austria AG and Chief Executive Officer of mobilkom austria AG, took over the agenda of Chief Executive Officer of Telekom Austria TA AG from September 1, 2008 to December 31, 2008. As of January 1, 2009, Hannes Ametsreiter was appointed to the Management Board of Telekom Austria AG and as Chief Executive Officer of Telekom Austria TA AG for a period of five years. As of January 1, 2009, Hans Tschuden was appointed Vice Chairman of Telekom Austria AG.

in EUR '000s

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

(36) Employees

The average number of employees during the years 2009 and 2008 was 16,784 and 17,602, respectively. As of December 31, 2009 and 2008, Telekom Austria Group employed 16,573 and 16,954 employees (full-time equivalents).

(37) Subsequent Events

The Management Board approved the consolidated financial statements on February 12, 2010.

There were no further subsequent events.

(38) Affiliated Companies

Name and company domicile	Share in capital as of December 31, 2009 in %
Fully consolidated companies	
Telekom Finanzmanagement GmbH, Vienna	100.00
Telekom Projektentwicklungs GmbH, Vienna	100.00
Telekom Austria Beteiligungen GmbH, Vienna	100.00
Telekom Austria Personalmanagement GmbH, Vienna	100.00
Telekom Austria TA Aktiengesellschaft, Vienna	100.00
Telekom Austria Finance BV, Amsterdam	100.00
Mass Response Service GmbH, Vienna	100.00
Cable Runner GmbH, Vienna	76.00
Cable Runner Austria GmbH & Co KG, Vienna	76.00
Cable Runner Iberica S.L., Madrid	66.00
Fast Global Telekommunication S.A., Madrid	100.00
mobilkom austria Aktiengesellschaft, Vienna	100.00
mobilkom austria group services GmbH, Vienna	100.00
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00
mobilkom Bulgarien Beteiligungsverwaltungsgmbh, Vienna	100.00
mobilkom Bulgarien Geschäftsentwicklungsgmbh, Vienna	100.00
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom liechtenstein AG, Vaduz	100.00
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00
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
World-Direct eBusiness Solutions GmbH, Vienna	100.00
ÖFEG GmbH, Vienna	100.00
A1 Bank AG, Vienna	100.00
3G Mobile Telecommunications GmbH, Vienna	100.00
Vipnet d.o.o., Zagreb	100.00
Vipnet usluge d.o.o., Zagreb	100.00
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00
Vip mobile d.o.o., Belgrade	100.00
Vip usluge d.o.o., Belgrade	100.00
Vip prodaja d.o.o., Belgrade	100.00
Vip operator DOOEL, Skopje-Zentar	100.00
Vip operator uslugi DOOEL, Skopje-Zentar	100.00
Vip operator prodazba DOOEL, Skopje-Zentar	100.00
Alabin 48 EOOD, Sofia	100.00
Mobiltel EAD, Sofia	100.00
GPS Bulgaria AD, Sofia	90.00
Teleport Bulgaria EAD, Sofia	100.00
SB Telecom Ltd., Limassol	70.00
FE VELCOM, Minsk	100.00
M repair and service EAD, Sofia	100.00
M Support Services EOOD, Sofia	100.00
M Game EOOD, Sofia	100.00

in EUR '000s

Name and company domicile	Share in capital as of December 31, 2009 in %
Affiliated companies consolidated using the equity method	
paybox austria GmbH, Vienna	83.33
Omnimedia Werbegesellschaft mbH, Vienna	26.00
Output Service GmbH, Vienna	25.10
netdoktor.at GmbH, Vienna (formerly Dr. Maté GmbH)	40.00
Marx Media Vienna GmbH, Vienna	25.029

Affiliated company not consolidated *	
Mass Response Deutschland GmbH, Cologne	100.00
eTel GmbH in Liquidation, Eschborn	100.00

* not significant for 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 12, 2010

Hannes Ametsreiter

Hans Tschuden

Independent Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying **consolidated financial statements** of

Telekom Austria Aktiengesellschaft,
Vienna,

for the reporting **period from January 1, 2009 to December 31, 2009.** These consolidated financial statements comprise the statements of financial position as at December 31, 2009 and the statements of operations, statements of comprehensive income, statements of cash flows and statements of changes in stockholders' equity for the year then ended, and the notes.

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

Management is responsible for the accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 entity'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 as well as with the entity's articles of association and present fairly, in all material respects, the financial position of the group as at December 31, 2009 and its financial performance for the period from January 1, 2009 to December 31, 2009 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on Other Legal Requirements (Group Management Report)
Austrian legal requirements require us to verify whether the group management report is consistent with the financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the group. The auditor's report should also include a statement whether the group management report is consistent with the consolidated financial statements and whether the disclosures as required under para 243a Austrian Company Code (UGB) are adequate.

In our opinion, the group management report is consistent with the consolidated financial statements. The disclosures as required under para 243a Austrian Company Code (UGB) are adequate.

Vienna, February 12, 2010

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

Rainer Hassler	Martin Wagner
Wirtschaftsprüfer	Wirtschaftsprüfer

(Austrian Chartered Accountants)

Glossary

Information and Telecommunications Technology Terms

All-IP Network: An InAll-IP Network: An Internet Protocol (IP) based network that combines data communications and voice telephony.

AllmediaNET: Universal network on All-IP basis, in which backbone and access technologies as well as open media platforms converge to form a single standard for interactive multimedia services. Using the ALLmediaNET all forms of media (voice, Internet, television, video-on-demand, unified messaging) can be transported over a single network, providing highly diverse target groups with a wide range of content.

ARPL: Average Revenues per Fixed Net Broadband Line.

Churn Rate: The number of customers who change to another provider as a percentage of the average subscriber base.

Competence Networks: EURESCOM, ETSI, ITU, BSF, UMTS-Forum, OMA, 3GPP; Cooperations which bundle the various levels of knowledge and experience of companies and institutions in order to achieve progress.

Convergence: The integration of various services and content from fixed net and mobile communication on a joint platform.

Digital Terrestrial Television: Transmission of TV signals via digital technologies based on a terrestrial connection.

DVB-H (Digital Video Broadcasting – Handheld): Transmission standard with which digital broadcasts can be received by stationary and/or mobile receivers.

DVB-T Tuner: Digital Video Broadcasting – Terrestrial: A regular antenna is used to receive digital television signals. The old (analogue) generation of transmission technology is being successively replaced by the new generation. Tuner is the colloquial term for the receiver for analogue or digital high-frequency signals that is integrated in the TV set (or video or DVD recorder).

EDGE (Enhanced Data Rates for GSM Evolution) Network: A mobile communication system based on the existing GSM infrastructure. It is characterized by high transmission rates and designed for video or Internet telephony.

GPRS (General Packet Radio Service): Data carrier service based on GSM that allows data transmission rates between 56 and 114 Kbps.

GSM (Global System for Mobile Communication): Internationally standardized digital radio network that allows both voice and data transmission. Is also known as the second generation of mobile communications technology (2G).

HD Mobile TV (High Definition Mobile Television): Uses a higher transmission rate for video streaming than the one used for normal streaming. This produces a higher image resolution, which is especially optimized for large mobile phone displays.

HSDPA (High Speed Downlink Packet Access): The latest network technology to follow UMTS. Permits the transmission of data or high-speed multimedia services such as mobile Internet at high transmission speeds.

HSUPA (High Speed Uplink Packet Access): Transmission method belonging to the UMTS mobile communication standard which permits higher uplink transfer speeds.

HSPA+ (High Speed Downlink Packet Access): A further evolution of UMTS to achieve even higher data rates than those achieved hitherto with HSDPA and HSUPA upgrades. Typical data rates are currently 21Mbps and 28Mbps based on the MIMO technology.

I-HSPA: Evolved HSPA and LTE try to improve the efficiency and cost structure of network infrastructure by simplifying the network architecture. Functions which in the past were carried over more than one network element are now converged. I-HSPA or Internet HSPA is a Nokia Siemens Networks product concept that has anticipated this step. The flow of data to the Internet is carried through fewer network nodes, reducing latency in comparison to conventional HSPA technology. I-HSPA conforms to the relevant HSPA standards and can be used with conventional UMTS-capable handsets.

ICNIRP (International Committee on Non Ionising Radiation Protection): International Committee on Non-Ionising Radiation Protection.

ICT: Information and Communication Technology.

Interconnection: Interconnection of different telecommunications networks that enables direct or indirect communication between the users of these different networks.

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

ISDN (Integrated Services Digital Network): Digital telecommunications network that allows simultaneous voice and data transmission over an access line (bandwidth 2 x 64 Kbps to 2 Mbps).

Live Stream: Real-time video transmission.

LTE: Long-Term Evolution (LTE) is a mobile communications standard that has been defined as the successor to UMTS. The aim is to increase the transfer rate and further reduce latency with a new air interface and above all to increase spectrum flexibility with new spectrum slices. Of course, improving economic efficiency also plays an important role. By using the spectral efficiency of LTE, the standardization body, 3GPP, aims to exceed HSPA by a factor of 3-4. LTE will allow operators to serve more customers with greater data transfers, enhancing the customer's quality of experience.

MIMO: Transmission systems used in mobile technology with multiple antennas at both the transmitter and receiver to improve performance.

Mobile Connect Card: Card for transferring data for notebooks. The SIM card provides mobile access to the Internet, to the corporate network or e-mail client via HSDPA, HSUPA, UMTS, EDGE or GPRS.

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

Multimedia Messaging Services (MMS): Multimedia SMS service that allows the transmission of sound (voice recordings) and images in addition to text messages.

Mobile Virtual Network Operator (MVNO): Has no mobile communication network of its own and buys network capacity (air time) from competitors but offers its mobile communication services under a brand name of its own.

Prepaid Market: Market for prepaid mobile communication services on the basis of rechargeable mobile phone cards.

Retail: End customer market; the spectrum of customers ranges from individuals to small and medium-sized enterprises and large corporations (key accounts).

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

SDSL (Symmetric Digital Subscriber Line): Technology that allows the same data transmission rate to the customer (download) and from the customer (upload).

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

UMTS (Universal Mobile Telecommunications System): Third-generation (3G) mobile communication standard.

UMTS Coverage: The number of households covered by the UMTS network as a percentage of the total population.

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

Universal Service: Minimum range of public telecommunications services to which all end users must have access at an affordable price irrespective of their place of residence or business location.

VDSL2 (Very High Speed Digital Subscriber Line): Technology that permits significantly higher data transmission rates over conventional telephone lines than, for example, ADSL and which uses copper lines for the final section of the transmission route.

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

VoIP – Voice over IP (Internet Protocol): Transmission protocol used for voice traffic on the Internet. (IP Telephony).

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

WLAN (Wireless Local Area Network): Wireless local network in which license-free frequency blocks from ISM bands (industrial, scientific and medical bands) are used for communicating between the devices connected within the network.

WLL: Wireless Local Loop Technology (WLL) is used where it is impractical or too expensive to connect subscribers using a fixed line (local loop), e.g. in sparsely populated areas.

Stock Exchange & Finance Terms

A3 stable, BBB+ stable rating: Credit rating for issuers and bond quality assigned by Standard & Poor's and Moody's.

ARPU (Average Revenue Per User): Average revenue per customer, commonly used figure in the mobile communication industry.

Asset Backed Securitization Program: Particular form of certificated payment claims in the form of tradable securities. The relevant securities are created by pooling specific financial assets.

Austrian Futures and Options Exchange (ÖTOB): Platform at the Vienna Stock Exchange which organizes the trade in options and futures contracts, carries out the settlement of trades and ensures that the transaction is honored.

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

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

Change of Control Clauses: Rules that apply if there is a change of control at a company.

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

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

Corporate Governance: "Corporate constitution", the Austrian Corporate Governance Code represents a set of rules for the responsible management and control of a company.

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

DAX: German stock index.

Deferred Taxes: Balance sheet item to show fiscal valuation differences. In the case of temporary discrepancies between the group balance sheet and the fiscal balance sheet, both deferred tax assets and deferred tax liabilities are recognized in order to report the tax expenses in accordance with the group financial result.

Directors and Officers (D&O) Insurance: Corporate Reimbursement Insurance that a company concludes for its governing bodies and managing directors to cover damages or defense costs in the event they are sued for wrongful acts while they were with that company.

Director's Dealings: The trading of shares in a publicly listed company by the management of that company.

DJ Stoxx Telecom Index: Index comprising 25 European telecommunications companies.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization): EBITDA is defined as net result excluding interest, taxes, depreciation and amortization, impairment charges, dividend income, equity in earnings of affiliates, other non-operating income and expenses, minority interests and the cumulative effect of the change in accounting principles. This equals operating income before depreciation, amortization and impairment charges.

EBITDA Margin: EBITDA as percentage of revenues.

Effective Tax Rate: Actual tax burden. This is dependent upon how the assessment basis is defined.

Employee Stock Option Program (ESOP): Stock option program for members of the Management Board and other executives who significantly influence the company's business performance (see Stock Option Program).

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

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

FTSE 300 Eurotop: European stock index that includes 300 blue chips in Western Europe and is weighted by market capitalization.

FTSE4Good Index: Group of indices that includes companies that meet international standards for responsibility to the environment and stakeholders (owners, employees, customers, society).

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

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

Investment Grade Rating: Is awarded to companies or bonds that are deemed to have a low risk of default.

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

Net Debt: Debt less cash and cash equivalents.

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

OTC (Over the Counter)-Market: Market where securities are traded directly between dealers outside the stock exchange.

Provision: A present obligation recorded in the balance sheet for future liabilities, whose amount and maturity have not been explicitly defined.

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

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

Stock Option Program: The decision-makers of a company receive options that entitle them to purchase shares at a predefined price provided they meet the agreed performance targets.

Total Shareholder Return (TSR): Total return comprising share price appreciation, share buybacks and dividends.

Whistleblower Directive: Telekom Austria Group' employees may notify their superior or the General Counsel in confidence if they suspect that legally dubious practices are taking place in their working environment.

Company Addresses

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Online Annual Report

The Annual Report 2009 of the Telekom Austria Group is also available in a user-friendly online version on the Internet. This data base-supported online report provides fast access to information, search functions, a sitemap, a glossary, Excel and pdf downloads, linked content, and direct subject access to compile a report for your special interests under:
http://ar2009.telekomaustria.com

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Forward-looking Statements

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

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

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