TELEKOM AUSTRIA GROUP

# Results for the First Half 2011

## Highlights

> Mobile broadband and smartphones drive subscriber numbers in all operations

> Bundle products strategy proves increasingly successful with continued access line growth and further trend towards ARPL stabilization

> Continuation of convergent strategy through A1 single brand relaunch in Austria and B.net acquisition in Croatia

> Strong operational performance in Belarus overshadowed by 54% Ruble devaluation

> Strong revenues and earnings trends in Additional Markets benefit from subscriber growth

> Group revenues and EBITDA comparable decline due to regulatory effects, challenging macroeconomic situation and fierce competition

> Guidance 2011 adjusted for devaluation of Belarus Ruble: Revenues approximately EUR 4.50 bn, EBITDA comparable up to EUR 1.55 bn

> Dividend floor of EUR 0.76 reiterated for the years 2011 and 2012

| in EUR million | Q2 2011 | Q2 2010 | % change | 1-6 M 2011 | 1-6 M 2010 | % change |
|---|---|---|---|---|---|---|
| Revenues | 1,109.3 | 1,168.7 | -5.1% | 2,227.3 | 2,294.7 | -2.9% |
| EBITDA comparable | 380.8 | 416.5 | -8.6% | 777.6 | 843.4 | -7.8% |
| Operating income | 85.0 | 134.2 | -36.7% | 42.7 | 300.5 | -85.8% |
| Net income | 20.0 | 68.7 | -70.9% | -59.2 | 159.9 | n.a. |
| Earnings per share (in EUR) | 0.05 | 0.16 | -71.1% | -0.13 | 0.36 | n.a. |
| Free cash flow per share (in EUR) | 0.35 | 0.45 | -22.4% | 0.42 | 0.85 | -50.1% |
| Capital Expenditures | 156.7 | 160.0 | -2.1% | 277.1 | 296.5 | -6.5% |

| in EUR million | June 30, 2011 | Dec. 31, 2010 | % change |
|---|---|---|---|
| Net Debt | 3,553.8 | 3,305.2 | 7.5% |
| Net Debt/EBITDA comparable (12 months) excluding restructuring program | 2.2x | 2.0x | |

All financial figures are based on IFRS; if not stated otherwise, all comparisons are given year-on-year. EBITDA comparable is defined as net income excluding financial result, income tax expense, depreciation and amortization, restructuring and impairment charges.

# Content

# Interim Management Report

## Group Review

Vienna, 17 August 2011 – Today, the Telekom Austria Group (VSE: TKA, OTC US: TKAGY) announced its results for the first half and the second quarter 2011 ending 30 June 2011.

### Summary

**Year-to-date comparison:**
Against the backdrop of a challenging macro-economic environment, a 54% devaluation of the Belarus Ruble, fierce competition and further regulatory cuts of roaming and interconnection tariffs, total Group revenues declined by 2.9% to EUR 2,227.3 million during first half of 2011 compared to the same period in the previous year. Lower revenues from the Austrian, Bulgarian and Croatian segments were partly offset by revenue growth in the Belarusian and Additional Markets segments. Demand for fixed and mobile broadband solutions as well as for smartphones remained key drivers in almost all markets. In the first half 2011 the negative impact of foreign currency translations on Group revenues amounted to EUR 43.3 million. On a like-for-like basis Group revenues declined by 1.0 %.

Group EBITDA comparable, which does not include restructuring and impairment charges, declined by 7.8% to EUR 777.6 million in the first six months of 2011. A strict focus on cost control mitigated the impact of declining revenues on EBITDA comparable in the Austrian and Croatian segment. In the Bulgarian segment operating expenses increased due to the consolidation of the two fixed line operators as of February 2011 and operating expenses in the Belarusian segment rose following the launch of 3G services in 2010. Benefiting from strong growth rates in the Republic of Serbia and in the Republic of Macedonia EBITDA comparable growth was achieved in the Additional Markets segment. In the first half 2011 the negative impact of foreign currency translations on Group EBITDA comparable amounted to EUR 19.0 million leading to a decline of Group EBITDA comparable by 5.5 % on a like-for-like basis.

Restructuring charges rose from EUR 13.7 million in the first half of 2010 to EUR 218.6 million in the first half of 2011 and contributed to the decline in operating income from EUR 300.5 million to EUR 42.7 million during the same period.

The financial result increased from a negative amount of EUR 96.0 million to a negative amount of EUR 107.1 million due to higher foreign exchanges losses following the devaluation of the Belarus Ruble. Net income turned from EUR 159.9 million in the first half of 2010 to a net loss of EUR 59.2 million in the first half of 2011.

Capital expenditures were reduced by 6.5% to EUR 277.1 million as a response to the macro-economic environment in the Croatian and Belarusian segments.

**Quarterly comparison:**
Ongoing economic headwinds, pricing pressure and a 54% currency devaluation of the Belarus Ruble impacted Group revenues negatively in second quarter of 2011 and led to a decline of 5.1% to EUR 1,109.3 million. Revenue growth in the Additional market segment could only partly compensate the revenue decline in the other segments. Smartphones and broadband solutions continued to dominate the environment in all markets. Intensified pressure led to lower pricing levels, particularly in the Austrian and Bulgarian segment. Regulatory cuts on roaming and interconnection tariffs further weighed on revenues. The negative impact of foreign currency translations on Group revenues amounted to EUR 38.3 million and revenues declined by 1.8 % on a like-for-like basis.

In the second quarter of 2011 Group EBITDA comparable, which does not include restructuring and impairment charges, declined by 8.6% to EUR 380.8 million. Higher results from the Additional markets segment could partly compensate the EBITDA comparable decline from the other segments. In the Austrian, Bulga-

The presentation for the conference call and key figures of the Telekom Austria Group in Excel format (“Fact Sheet Q2 2011”) are available on our website at www.telekomaustria.com.

Results for the third quarter 2011 will be announced on 14 November, 2011.

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rian and Croatian segment declining revenues negatively impacted EBTIDA comparable. In the Belarusian segment a strong operational performance was offset by foreign currency translations due to the devaluation of the Belarus Ruble. In the Additional Markets segment all markets delivered rising contributions and Vip operator in the Republic of Macedonia achieved break-even on EBITDA comparable basis in the second quarter 2011. The negative impact of foreign currency translations on Group EBITDA comparable amounted to EUR 17.2 million. On a like-for-like basis Group EBITDA comparable declined by 4.4% in the second quarter 2011.

A restructuring charge in the amount of EUR 34.6 million related to the employee restructuring in the Austrian segment was recorded in the second quarter 2011 compared to EUR 12.8 million in second quarter 2010. This added to the decline of Group operating income from EUR 134.2 million in the second quarter 2010 to EUR 85.0 million in the second quarter of 2011.

Consequently net income declined to EUR 20.0 million in the second quarter of 2011 compared to a net income of EUR 68.7 million in the second quarter of 2010.

Group capital expenditures declined by 2.1% to EUR 156.7 million primarily due to lower investments in the Belarusian and Croatian segments.

## Operating Segments – Change in Reporting Structure

In 2010, the Telekom Austria Group has realigned its management structure due to the increasing demand for convergent products. As a result, segment reporting is now based on geographical markets, instead of the segmentation in fixed and mobile businesses. The Telekom Austria Group reports separately on the five operating segments Austria, Bulgaria, Croatia, Belarus and Additional Markets.

## Market Environment

Telekom Austria Group operates in a highly competitive environment both in the fixed line and mobile communication market as competitive pressure continues to impact pricing levels negatively in all segments. Furthermore, regulatory measures, particularly on termination and roaming, impact domestic as well as the international businesses negatively. A clear customer focus with innovative products, the improvement of productivity as well as the continuous assessment of cost structures are essential for the success of Telekom Austria Group.

Following the merger of the fixed and mobile businesses in Austria the single brand "A1" was relaunched on 14 June 2011, offering a broad portfolio of fixed- and mobile products as well as convergent bundles. While competition in the mobile communication market intensified with focus on smartphones and mobile data tariffs, continued strong demand for fixed broadband and convergent services remains the main driver in the fixed line market. The loss of fixed line minutes due to the fixed-to-mobile substitution as well as the persistent pricing pressure are key challenges and characteristics of the Austrian market.

In CEE, the macro-economic environment remains challenging, particularly in Belarus, Croatia and Bulgaria. In Belarus, despite a 54% devaluation of the Belarus Ruble versus the Euro in May 2011, liquidity in the foreign exchange markets remains limited. In Croatia, a 6% telecom specific tax stays in place. In the Republic of Serbia a similar fiscal burden was abandoned at the beginning of the first quarter of 2011. Continued strong demand for smartphones and mobile broadband as well as a clear trend towards convergent bundles increasingly shape the competitive environment in CEE.

## Telekom Austria Group outlook for full year 2011: Operations on track, adjustments for FX developments

The operating environment of Telekom Austria Group remains affected by several negative external factors, such as the unabated fixed-to-mobile substitution and the ongoing price pressure. In addition, regulatory induced lower roaming prices as well as fixed and mobile termination rates will continue to impact the Group's results in 2011. Taxes levied on mobile communication services in Croatia pose an additional burden.

While in the medium term the macro-economic environment is expected to recover, in the short run economic headwinds are anticipated to remain strong in Telekom Austria Group's major markets in the CEE region. The Telekom Austria Group continues to anticipate a delayed positive impact of such improvements on its results by approximately three to four quarters. In addition, structurally challenged markets, such as Belarus, may continue to exhibit increased foreign exchange volatility.

Nevertheless, the refined outlook for the full year 2011 reflects the Group's confidence of its ability to mitigate these challenges through clear customer focus, intensified marketing of innovative products and strict cost management. This outlook includes the anticipated negative effects of the devaluation of the Belarus Ruble on full year 2011 results.

Minimum DPS of EUR 0.76 until 2012

For the financial year 2011, revenues are expected to amount to approximately EUR 4.50 billion. Focus on cost control will mitigate the impact from lower revenues and is anticipated to result in an EBITDA comparable, which does not include impairment and restructuring charges of up to 1.55 billion. Capital expenditures of the Telekom Austria Group are forecasted to reach EUR 0.75 – 0.80 billion and do not include investments for license or spectrum acquisitions. Operating free cash flow* remains the primary focus of management and is expected to amount to up to EUR 0.80 billion.

The Telekom Austria Group intends to distribute 55% of free cash flow** to its shareholders as dividends. For the years 2011 and 2012, management confirms the intended minimum dividend of EUR 0.76 per share. Maintaining a stable investment grade rating of at least BBB (stable outlook) remains central to the Group's financial profile.

A leverage corridor of 2.0x – 2.5x Net debt/EBITDA comparable provides increased flexibility to balance share buybacks with growth projects. Hence, the start of share buybacks depends on the volume of potential growth projects. However, cash will always be returned to shareholders via share buybacks if leverage falls below 2.0x Net debt/EBITDA comparable. A stable business and currency environment remains a prerequisite for share buybacks.

This outlook reflects market expectations*** for the development of the Belarus currency until year end and a constant currency basis for all other markets.

| Telekom Austria Group | Outlook 2011 as of 30 June 2011 | Outlook 2011 as of 11 May 2011 |
|---|---|---|
| Revenues | approximately EUR 4.50 bn | up to EUR 4.60 bn |
| EBITDA comparable | up to EUR 1.55 bn | up to EUR 1.60 bn |
| Capital Expenditures | EUR 0.75 - 0.80 bn | up to EUR 0.80 bn |
| Operating Free Cash Flow* | up to EUR 0.80 bn | appoximately EUR 0.80 bn |
| Dividend | 55% of free cash flow**, DPS of EUR 0.76 minimum | 55% of free cash flow**, DPS of EUR 0.76 minimum |

* Operating Free cash flow = EBITDA comparable minus capital expenditures in existing business
** Free cash flow = Cash flow from operating activities minus capital expenditures in existing business
*** Expected EUR/BYR exchange rate for year end 2011 of 8,700, source: RCB

## Year-to-Date Comparison
### Revenues

**Revenues**

| in EUR million | 1-6 M 2011 | 1-6 M 2010 | % change |
|---|---|---|---|
| Austria | 1,469.4 | 1,538.9 | −4.5% |
| Bulgaria | 263.9 | 277.2 | −4.8% |
| Croatia | 190.8 | 210.8 | −9.5% |
| Belarus | 162.8 | 159.9 | 1.8% |
| Additional Markets | 183.6 | 149.4 | 22.9% |
| Corporate & Holding, Eliminations | −43.1 | −41.4 | 4.0% |
| **Total** | **2,227.3** | 2,294.7 | −2.9% |

Group revenues decline by 2.9%

In the first half of 2011 Group revenues declined by 2.9% to EUR 2,227,3 million as lower revenues from the Austrian, Bulgarian and Croatian segments were only partially offset by revenue growth in the Belarusian and Additional Markets segments. Group revenues were negatively impacted by foreign currency translations in the amount of EUR 43.3 million.

In the Austrian segment the revenue decline of 4.5% to EUR 1,469.4 million was primarily driven by lower Monthly Fee and Traffic revenues as well as Interconnection revenues. A higher number of mobile subscribers could not compensate the revenue decline caused by roaming regulation, lower prices and mobile customers migrating to package tariffs. The continued loss of fixed line voice minutes by 12.6% year-on-year added to the revenue decline. Continued strong demand for convergent services drove product bundles and translated into a further stabilization of fixed service revenues. In the first half of 2011 Monthly Fee and Traffic revenues include the negative impact of a reclassification of EUR 7.4 million from Other OPEX. Interconnection revenues declined due to further regulatory cuts of national and international termination rates and due to lower volumes. Equipment revenues increased as a result of the ongoing strong demand for smartphones. In the first half of 2010 Monthly Fee and Traffic revenues included a negative one-off effect of EUR 10.0 million, which was offset by a positive one-off effect in the same amount included in Wholesale (including roaming) revenues.

In the Bulgarian segment the revenue decline of 4.8% was primarily driven by a one-off effect in the second quarter 2011. Monthly Fee and Traffic revenues declined due to increased pricing pressure and lower usage. Interconnection revenues declined as a result of lower termination rates. In the first quarter of 2011 the acquisition of two fixed line operators was finalized. Both companies have been consolidated in the Bulgarian segment since February 2011. For the first half of 2011 a total revenue contribution of EUR 8.1 million is attributable to the fixed line business.

In the first half of 2011 revenues in the Croatian segment declined by 9.5% from EUR 210.8 million to EUR 190.8 million. This is predominantly a result of lower Monthly Fee and Traffic revenues due to the challenging macro-economic and competitive environment. Interconnection revenues declined due to further regulatory cuts of termination rates. Foreign currency translations negatively impacted revenues by EUR 3.4 million in the first half of 2011.

Revenues in segment Belarus almost stable despite currency devaluation of 54%

In the Belarusian segment revenues increased by 1.8% to EUR 162.8 million as slightly lower Monthly Fee and Traffic revenues and Interconnection revenues were offset by higher Equipment revenues. A negative foreign currency effect of EUR 39.0 million due to the 54% devaluation of the Belarus Ruble was recorded in the first half of 2011. On a like-for-like basis revenues in the Belarusian segment increased by 26.2% in the first half 2011.

In the Additional Markets segment revenues grew in all markets and increased by 22.9% overall to a total of EUR 183.6 million in the first half of 2011. In Slovenia, effective marketing activities and a tariff portfolio optimization translated into a rise in market share and revenues. Operations in the Republic of Serbia and in the Republic of Macedonia exhibited strong revenue growth driven by a higher number of subscribers and a higher usage.

# EBITDA

## EBITDA comparable

| in EUR million | 1-6 M 2011 | 1-6 M 2010 | % change |
|---|---|---|---|
| Austria | 497.8 | 552.1 | –9.8% |
| Bulgaria | 135.5 | 149.4 | –9.3% |
| Croatia | 52.0 | 64.9 | –19.8% |
| Belarus | 75.4 | 77.0 | –2.0% |
| Additional Markets | 36.0 | 13.4 | 168.0% |
| Corporate & Holding, Eliminations | –19.2 | –13.5 | 42.6% |
| **Total** | **777.6** | 843.4 | –7.8% |

Group EBITDA comparable declines by 7.8%

Group EBITDA comparable declined by 7.8% from EUR 843.4 million to EUR 777.6 million in the first half of 2011. Lower results from the Austrian, Bulgarian and Croatian segments were partly compensated by EBITDA comparable growth in the Additional Markets segment. In Belarus EBITDA comparable declined slightly due to foreign currency translations, which negatively impacted Group EBITDA comparable by EUR 19.0 million in the first six months of 2011. On a like-for-like basis EBITDA comparable declined by 5.5%.

In the Austrian segment EBITDA comparable declined by 9.8% to EUR 497.8 million. Cost reductions in the amount of EUR 22.6 million mitigated the impact of declining revenues on EBITDA comparable. Interconnection expenses declined due to lower tariffs and volumes. A reclassification effect of EUR 4.2 million for energy costs increased Other expenses and reduced costs for Services received in the first half of 2011. Material expenses increased due to a higher number of high-value handsets sold in the first six months of 2011.

In the Bulgarian segment EBITDA comparable declined from EUR 149.4 million to EUR 135.5 million. Total operating expenses were impacted by the consolidation of two fixed line operators since February 2011. Regulatory cuts on termination and roaming rates led to lower interconnection expenses and costs for Service received. Material expenses increased due to the demand for high value handsets and Personnel expenses due to the higher number of FTE following the acquisition of two fixed line operators. Furthermore a higher provision for bad debt was recorded. Total operating expenses increased by EUR 10.3 million. Total EBITDA comparable contribution of the fixed line businesses amounted to EUR 3.3 million in the first half of 2011.

Cost reductions in the Croatian segment mitigated the impact of lower revenues on EBITDA comparable which declined by 19.8% to EUR 52.0 million. Total operating expenses declined by EUR 6.8 million primarily as a result of lower Interconnection expenses due to lower tariffs, a decline in costs for Services received due to lower costs for leased lines and lower costs for bad debt. Personnel expenses increased due to severance payments following the headcount reduction during the second quarter 2011. A negative amount of EUR 0.9 million from foreign currency translations impacted EBITDA comparable.

In the Belarusian segment EBITDA comparable declined by 2.0% to EUR 75.4 million in the first half of 2011. A EUR 5.6 million rise in Operating expenses was driven by higher material expenses due to the strong demand for high value handsets and data cards driven by the launch of 3G in 2010. Foreign currency translations negatively impacted EBITDA comparable by EUR 18.0 million in the first half of 2011. On a like-for-like basis EBITDA comparable increased by 21.3% in the Belarusian segment.

In the Additional markets segment EBITDA comparable improved by EUR 22.6 million to EUR 36.0 million in the first six months of 2011. In Slovenia EBITDA comparable remained almost stable at EUR 22.9 million, as higher revenues bolstered a EUR 8.2 million rise in operating expenses. This was primarily driven by an increase in material expenses due to the strong demand for smartphones and an increase in Other operating expenses. In the Republic of Serbia EBITDA comparable turned from a negative amount of EUR 7.2 million to a positive amount of EUR 11.9 million due to higher revenues and a strict focus on cost control. In the Republic of Macedonia EBITDA comparable achieved break-even in the first half of 2011, as subscriber growth led to higher revenues. A negative amount of EUR 0.1 million for foreign currency translations was recorded in the segment Additional Markets in the first half of 2011.

**EBITDA (incl. Restructuring and Impairment Charges)**

| in EUR million | 1-6 M 2011 | 1-6 M 2010 | % change |
|---|---|---|---|
| Austria | 279.2 | 538.4 | −48.1% |
| Bulgaria | 135.5 | 149.4 | −9.3% |
| Croatia | 52.0 | 64.9 | −19.8% |
| Belarus | 75.4 | 77.0 | −2.0% |
| Additional Markets | 36.0 | 13.4 | 168.0% |
| Corporate & Holding, Eliminations | −19.2 | −13.5 | 42.6% |
| **Total** | **558.9** | **829.7** | **−32.6%** |

Restructuring charge amounts to EUR 218.6 million in the first half of 2011

In the first six months of 2011 Group EBITDA (including restructuring and impairment charges) declined by 32.6 % to EUR 558.9 millions. A restructuring charge of EUR 218.6 million was recorded in the Austrian segment, due to staff reductions. An amount of EUR 24.0 million was related to the transfer of 70 civil servants to the Austrian government, the remainder was related to the acceptance of social plans by 577 full time employees. In the first half of 2010 a restructuring charge of EUR 13.7 million was recorded in the Austrian segment.

## Operating Income

**EBIT**

| in EUR million | 1-6 M 2011 | 1-6 M 2010 | % change |
|---|---|---|---|
| Austria | −31.3 | 204.3 | −115.3% |
| Bulgaria | 37.7 | 64.0 | −41.0% |
| Croatia | 19.6 | 31.1 | −36.9% |
| Belarus | 42.0 | 38.0 | 10.3% |
| Additional Markets | −7.5 | −24.0 | −68.5% |
| Corporate & Holding, Eliminations | −17.8 | −13.1 | 36.1% |
| **Total** | **42.7** | 300.5 | **−85.8%** |

Group EBIT declined from EUR 300.5 million in the first half of 2010 to EUR 42.7 million in the first half of 2011, primarily as a result of restructuring charges that were recorded in the Austrian segment.

As a result of a lower EBITDA comparable operating income declined in the Bulgarian and Croatian segment in the first half of 2011. In the Belarusian segment operating income improved by 10.3%, as a reduction in capital expenditures and the impact of the currency devaluation resulted in lower depreciation and amortization charges in the first half of 2011. In the Additional markets segment operating loss improved from EUR 24.0 million to EUR 7.5 million.

## Consolidated Net Income

Net interest expense remained stable at EUR 97.6 million in the first half of 2011 compared to EUR 97.8 million in the first half of 2010.

Foreign exchange differences turned from a gain of EUR 1.4 million in the first six months of 2010 to a loss of EUR 6.6 million in the first half of 2011 due to the 54% devaluation of the Belarus Ruble.

Income before income taxes declined from EUR 204.5 million to a loss of EUR 64.4 million, mainly due to the above mentioned restructuring charge in the Austrian segment. Hence, income taxes turned from EUR 44.6 million in the first half 2010 into a tax benefit of EUR 5.2 million in the same period of 2011. The effective tax rate declined from 21.8% to 8.0% in the first half of 2011.

Net income turned from a net profit of EUR 159.9 million in the first half of 2010 to a net loss of EUR 59.2 million in the first half of 2011.

Basic and diluted earnings per share turned into a negative amount of EUR 0.13 in the first half of 2011 compared to a positive amount of EUR 0.36 in the first six months of 2010.

## Balance Sheet and Net Debt

As per 30 June 2011 total assets declined by 6.2% to EUR 7,085.0 million compared to EUR 7,555.8 million on 31 December 2010. The decline was driven by adjustments of the Belarusian assets as a consequence of the 54% devaluation of the Belarus Ruble.

In the first six months of 2011 total current assets increased by 6.5% to EUR 1,531.6 million due to a rise in cash and cash equivalents as well as short term investments. Other intangible assets and property, plant and equipment declined by 12.9% and 7.8% respectively, due to the devaluation of the Belarus Ruble as well as higher depreciation and amortization charges than additions.

Current liabilities declined by 3.7% to EUR 1,813.6 million due to a reduction of accounts payable, which was partly offset by an increase of other current liabilities. Furthermore, in the first half of 2011 a payment of EUR 15.8 million for the deferred consideration for the acquisition of velcom was settled. Long term debt rose by 8.3% to EUR 3,333.1 million due to the issuance of new loans for general corporate purposes. Non-current provisions increased by almost 23% to EUR 935.9 million mainly due to the personnel restructuring program in Austria.

Stockholder's equity declined from EUR 1,476.9 million to EUR 754.9 million as of 30 June 2011 mainly due to negative foreign exchange translation adjustments and the distribution of dividends.

### Net Debt

| in EUR million | June 30, 2011 | Dec. 31, 2010 | % change |
|---|---|---|---|
| Net Debt | 3,553.8 | 3,305.2 | 7.5% |
| Net Debt/EBITDA comparable (12 months) excluding restructuring program | 2.2x | 2.0x | |

As of 30 June 2011 Net debt increased by 7.5% to EUR 3,553.8 million mainly due to a rise in long-term debt. Net debt to EBITDA comparable (last 12 months) increased from 2.0x on 31 December, 2010 to 2.2x on 30 June 2011.

## Cash Flow

### Cash Flow

| in EUR million | 1-6 M 2011 | 1-6 M 2010 | % change |
|---|---|---|---|
| Cash generated from operations | 463.1 | 661.7 | –30.0% |
| Cash used in investing activities | –327.9 | –135.6 | 141.8% |
| Cash used in financing activities | –64.8 | –1,073.3 | –94.0% |
| Effect of exchange rate changes | –22.1 | –9.6 | 130.5% |
| Net increase/decrease in cash and cash equivalents | 48.2 | –556.8 | n.a. |

In the first half of 2011 cash flow from operations declined by 30.0% to EUR 463.1 million compared to EUR 661.7 million in the same period of 2010. A rise in working capital due to payments of accounts payable and lower operating earnings led to a reduction of cash flow from operations. Furthermore, a cash outflow of EUR 44.4 million was related to the personnel restructuring program in Austria in the first half of 2011.

Cash used in investing activities increased to EUR 327.9 million as the positive net effect of purchase from investments and proceeds from the sale of investments declined to EUR 17.0 million from EUR 150.4 million capital expenditures declined by 6.5% to EUR 277.1 million and a payment of EUR 68.8 million for two fixed line operators in Bulgaria was settled in January 2011.

Cash outflow from financing activities amounted to EUR 64.8 million compared to EUR 1,073.3 million in the same period of the previous year. The cash outflow in the first half of 2010 was a result of the repayment of a EUR 500 million Eurobond and other bank debt. In the first half of 2011 the cash outflow related to the payment of long term debt was reduced by the issuance of EUR 710.0 million loans.

## Capital Expenditures

**Capital Expenditures**

| in EUR million | 1-6 M 2011 | 1-6 M 2010 | % change |
|---|---|---|---|
| Austria | 192.9 | 189.2 | 2.0% |
| Bulgaria | 30.6 | 26.2 | 16.9% |
| Croatia | 17.4 | 32.5 | –46.3% |
| Belarus | 7.5 | 22.9 | –67.4% |
| Additional Markets | 28.7 | 25.6 | 11.9% |
| Corporate & Holding, Eliminations | 0.0 | 0.0 | n.a. |
| **Total capital expenditures** | **277.1** | **296.5** | **–6.5%** |
| Thereof tangible | 220.2 | 226.6 | –2.8% |
| Thereof intangible | 56.9 | 69.9 | –18.6% |

Capital expenditures decline driven by Croatian and Belarusian segments

Total capital expenditures were reduced by 6.5% to EUR 277.1 million in the first six months of 2011 compared to EUR 296.5 million in the same period of 2010. Reductions in the Croatian and Belarusian segments more than compensated increases in the Austrian, Bulgarian and Additional Markets segments.

In the Austrian and in the Bulgarian segments the rise in capital expenditures were driven by mobile and fixed line infrastructure investments, which led to an increase of EUR 3.8 million and EUR 4.4 million respectively. In the Croatian and Belarusian segments capital expenditures were reduced to mitigate the impacts of the challenging economic environment as well as from the devaluation of the Belarus Ruble. Furthermore, lower investment needs due to higher investment levels in the previous periods such as the 3G rollout in Belarus and network upgrades in Croatia, led to capital expenditure declines of 46.3% and 67.4% in the Croatian and the Belarusian segment, respectively, in the first half of 2011 compared to the same period last year.

# Quarterly Analysis
## Segment Austria

Note: Detailed data of the segments are shown in the appendix on page 21

### Key Performance Indicators Austria

| in EUR million | Q2 2011 | Q2 2010 | % change |
|---|---|---|---|
| Revenues | 731.1 | 775.0 | –5.7% |
| EBITDA comparable | 238.6 | 259.7 | –8.1% |
| EBITDA (incl. Restructuring and Impairment Charges) | 204.0 | 247.0 | –17.4% |
| EBIT | 45.9 | 77.1 | –40.4% |
| **Fixed Line Market** | | | |
| ARPL (in EUR) | 32.2 | 32.8 | –1.8% |
| Total Access Lines ('000) | 2,323.5 | 2,304.3 | 0.8% |
| Fixed Broadband Lines ('000) | 1,215.8 | 1,089.5 | 11.6% |
| Fixed Line Voice Minutes (in million) | 649.9 | 743.8 | –12.6% |
| **Mobile Communication Market** | | | |
| Mobile Subscribers ('000) | 5,175.8 | 4,967.4 | 4.2% |
| Mobile Market Share | 40.8% | 42.1% | |
| Mobile Penetration | 150.9% | 140.4% | |
| Mobile Broadband Customers ('000) | 702.3 | 586.8 | 19.7% |
| Average monthly revenue per User (in EUR) | 20.5 | 22.4 | –8.5% |

In the second quarter 2011 the Austrian market was characterized by regulatory burdens, a highly competitive environment and the ongoing fixed to mobile substitution. Further regulatory cuts of roaming as well as national and international termination rates increased pressure on revenues. The competitive environment intensified further in the second quarter 2011. Focus remained on smartphones and package offerings as well as a continued trend towards no-frill brands leading to a decline of pricing levels. Furthermore, the loss of fixed line voice minutes remains a key challenge for the Austrian telecommunications market. In line with the ongoing strong demand for product bundles and convergent services out of a single hand A1 Telekom Austria launched its single brand "A1" on 14 June 2011, a logical next step following the integration of the fixed and mobile businesses in Austria.

Access line growth of 1,200 lines

The number of mobile subscribers of A1 Telekom Austria rose by 4.2% to 5.2 million. Backed by the no-frills business the mobile contract subscriber base grew by 7.2% resulting in a contract share of 76.8% in the second quarter of 2011 after 74.7% in the same period of the previous year. The ongoing demand for mobile broadband solutions led to a rise of the number of mobile broadband customers by 19.7% to approximately 702,300 customers. At the same time fixed line broadband solutions boosted the sale of product bundles and led to an increase in fixed access lines by 1,200 lines in the second quarter 2011 compared to an access line loss of 6,000 lines in the second quarter 2010. The total number of product bundles increased to more than 980,800. In the second quarter of 2011 the A1TV (formerly aonTV) subscriber base increased by 41.1% to more than 174,800 customers compared to approximately 123,500 customers in the same period of the previous year.

Revenue decline of 5.7%

In the second quarter 2011 revenues in the Austrian segment declined by 5.7% to EUR 731.1 million, particularly due to further regulatory cuts of roaming and termination rates, lower mobile tariffs and the loss of fixed line minutes. In the second quarter of 2011 Monthly Fee and Traffic revenues declined by 0.9% to EUR 511.5 million, which includes a reclassification effect in the amount of EUR 3.8 million. This reclassification effect reduced Monthly Fee and Traffic revenues and Other OPEX. Furthermore, in the second quarter 2010 Monthly Fee and Traffic revenues included a negative one-off effect in the amount of EUR 10.0 million. Adjusted for the reclassification effect and the one-off Monthly Fee and Traffic revenues declined by 2.0% from EUR 525.9 million to EUR 515.3 million. This was primarily a result of lower pricing levels, roaming regulation and the loss of fixed voice minutes. Mobile service revenues declined by 4.0% to EUR 317.4 million as a higher number of mobile subscribers could not compensate the decline in pricing levels and the decline of mobile minutes. Furthermore, mobile service revenues were impacted by lower roaming and termination rates, whereof the latter accounted for 9.5% of mobile service revenues in the second quarter of 2011. The rise in access lines and the upgrading of customers to higher value bundles almost compensated the 12.6% reduction in fixed voice minutes. Thus a further slowdown of the decline in fixed line service revenues to only 1.2% to an amount of EUR 224.5 million was achieved. An annual SIM-fee and an Internet service fee were introduced in the course of the second quarter 2011 to mitigate the impact of declining prices on revenues.

Data & ICT Solution revenues declined by 4.6% from EUR 51.9 million in the second quarter 2010 to EUR 49.5 million in the second quarter 2011 due to lower charges from data cash services. In addition to lower prices, a positive one-off effect in the amount EUR 10.0 million, which was recorded in the second quarter of 2010 led to a reduction of revenues from Wholesale (incl. Roaming) by 25.0% to EUR 44.3 million.

In the second quarter 2011 Interconnection revenues declined by 17.4% to EUR 86.7 million. The reduction of EUR 18.3 million was driven by further regulatory cuts of national and international mobile termination rates as well as the decline in fixed and mobile minutes and a decline in volume in the transit business.

Equipment revenues declined by 5.9% to EUR 24.1 million due to competition driven lower retail prices for high value handsets as well as higher revenues generated by a netbook offer in the second quarter of 2010.

Other operating income remained almost unchanged and amounted to EUR 23.6 million in the second quarter of 2011 compared to EUR 23.9 million in same period of the previous year.

Slowdown in ARPL decline to 1.8%

In the fixed line market, average revenues per fixed access line (ARPL) declined modestly by 1.8% to EUR 32.2 as a higher number of access lines mostly compensated the loss of fixed line voice minutes. In the mobile communication market, blended average revenue per user (ARPU) declined by 8.5% to EUR 20.5 as a result of an increasing no frills customer base, the ongoing price pressure and lower roaming and termination rates. Data ARPU remained unchanged at EUR 7.0 in the second quarter 2011 as a higher usage compensated lower prices.

In the second quarter 2011 EBITDA comparable in the Austrian segment declined by 8.1% to EUR 238.6 million. The strict focus on cost control and operational excellence allowed a further slowdown in the rate of decline compared to previous quarters. Total cost savings amounted to EUR 23.0 million, resulting in a 4.3% reduction in operating expenses to EUR 516.1 million. This was primarily driven by lower Employee and Interconnection expenses as well as reduced costs for Maintenance and repairs and Services received. Material expenses increased by 9.8% to EUR 62.3 million due to the strong demand for higher priced handsets and a higher number of replacements given an increased focus on customer retention. Employee costs declined by 1.9% to EUR 169.2 million following the lower headcount number as a result of the restructuring program. The reduction of Interconnection expenses by 16.4% to EUR 81.3 million was primarily driven by lower fixed and mobile volumes as well as further regulatory cuts of national and international termination rates. Regulatory measures also impacted roaming costs and led to a reduction by 24.2% to EUR 40.9 million of costs for Services received. In the second quarter of 2011 costs for Services received included a reclassification effect in the amount of EUR 0.6 million for energy costs, which increased Other expenses and reduced Services received.

Mobile subscriber acquisition costs (SAC) increased by 35.8% to EUR 11.7 million as a result of higher subsidies due to a higher share of smartphones. Mobile subscriber retention costs (SRC) increased by 8.8% to EUR 20.5 million and were impacted by higher subsidies for smartphones and a higher number of replacements.

Restructuring charges of EUR 34.6 million

In the second quarter 2011 restructuring charges amounted to EUR 34.6 million comprising an amount of EUR 14.8 million for the transfer of 46 civil servants to the government and an amount of EUR 19.8 million related to the acceptance of social plans by 63 full time employees. In the second quarter of 2010 total restructuring charges amounted to EUR 12.8 million. Operating income, including restructuring and impairment charges, declined by 40.4% to EUR 45.9 million in the second quarter of 2011.

## Segment Bulgaria*

### Key Performance Indicators Bulgaria

| in EUR million | Q2 2011 | Q2 2010 | % change |
|---|---|---|---|
| Revenues | 130.5 | 141.7 | –7.9% |
| EBITDA comparable | 70.8 | 76.9 | –8.0% |
| EBITDA (incl. Restructuring and Impairment Charges) | 70.8 | 76.9 | –8.0% |
| EBIT | 18.9 | 33.5 | –43.5% |
| **Mobile Communication Market** | | | |
| Mobile Subscribers ('000) | 5,295.4 | 5,241.4 | 1.0% |
| Mobile Market Share | 49.3% | 50.2% | |
| Mobile Penetration | 143.2% | 138.4% | |
| Mobile Broadband Customers ('000) | 161.6 | 73.0 | 121.5% |
| Average monthly revenue per User (in EUR) | 7.3 | 8.5 | –14.7% |
| **Fixed Line Market** | | | |
| ARPL (in EUR) | 15.2 | 0.0 | n.a. |
| Total Access Lines ('000) | 101.2 | 0.0 | n.a. |
| Fixed Broadband Lines ('000) | 95.7 | 0.0 | n.a. |

* The reported result includes depreciation and amortization of fair value adjustments resulting from past business combinations and therefore may deviate from the result of the single financial statements.

Mobile broadband customers more than doubled

The results of the second quarter 2011 include the results of two fixed line operators, which were acquired in the first quarter 2011 and which have been consolidated since February 2011.

The Bulgarian market remained impacted by a laggard domestic economy and regulatory cuts. In addition fierce competition spurred by the number three in the market characterized the operational environment. Despite these factors, Mobiltel increased its customer base by 1.0% to almost 5.3 million customers in the second quarter 2011 with a clear focus on the value segment of the market. As a result the share of contract subscribers increased from 62.1% to 66.7%. Mobile market share declined slightly to 49.3% at the end of the second quarter 2011. Continued strong demand for mobile data solutions led to an increase of the mobile broadband subscriber base by 121.5% to more than 161,600 customers. On the back of continued strong demand for fixed broadband solutions fixed broadband lines amounted to more than 95,700 lines. Total fixed access lines amounted to 101,200 lines in the second quarter 2011.

In the second quarter 2011 revenues declined by 7.9% to EUR 130.5 million compared to EUR 141.7 million in the same period of 2010. 50% of the revenue decline was related to an ARPU relevant one-off effect for incentives to speed up revenue collection. Regulation of termination rates led to a decline of Interconnection revenues. A lower postpaid usage as well as an intensified competition throughout the second quarter led to a decline in Monthly Fee and Traffic revenues. Equipment revenues increased slightly due to the ongoing demand for higher priced handsets. In the second quarter 2011 revenues from fixed broadband, IPTV and fixed line solutions and services amounted to EUR 4.8 million. Other operating income increased by EUR 9.4 million due to an extraordinary effect related to warranty issues in the second quarter of 2011.

Reflecting lower prices and a further reduction of mobile termination rates as well as the above mentioned one-off effect average revenue per user (ARPU) declined by 14.7% to EUR 7.3 in the second quarter 2011. Average revenue per line (ARPL) amounted to EUR 15.2.

Total operating expenses increased by 6.6% to EUR 70.2 million leading to an EBITDA comparable decline of 8.0% to EUR 70.8 million. Operating expenses were impacted by the consolidation of two fixed line operators as of February 2011. Higher Personnel expenses, due to a higher number of FTE, higher Marketing expenses as well as higher costs for bad debt were main drivers for the increase in Operating expenses.

In the second quarter 2011 operating income declined by 43.5% to EUR 18.9 million compared to EUR 33.5 million in the second quarter of 2010 due to higher depreciation and amortization charges.

## Segment Croatia*

### Key Performance Indicators Croatia

| in EUR million | Q2 2011 | Q2 2010 | % change |
|---|---|---|---|
| Revenues | 100.5 | 110.5 | −9.1% |
| EBITDA comparable | 27.1 | 36.1 | −24.8% |
| EBITDA (incl. Restructuring and Impairment Charges) | 27.1 | 36.1 | −24.8% |
| EBIT | 11.0 | 19.2 | −42.3% |
| | | | |
| Mobile Subscribers ('000) | 2,065.8 | 2,044.9 | 1.0% |
| Mobile Market Share | 39.2% | 40.0% | |
| Mobile Penetration | 119.6% | 115.9% | |
| Mobile Broadband Customers ('000) | 165.7 | 141.2 | 17.3% |
| Average monthly revenue per User (in EUR) | 13.3 | 14.8 | −10.1% |

* Due to a new definition on prepaid subscribers, the counting method of active prepaid SIM cards was changed from a 15-month rolling average to a 90 day active methodology. Following this implementation historic KPI's have been restated as of Q1 2010.

Severe economic headwinds, regulatory and fiscal burdens as well as a fierce competition remain the key drivers of the Croatian market. To address the increasing demand for convergent bundles Vipnet announced its intention to acquire 100% of the cable operator B.net on the 8 June 2011. Closing of the transaction took place on 8 August 2011.

Mobile broadband customer growth of 17.3%

Vipnet's mobile subscriber base increased by 1.0% to more than 2.0 million customers in the second quarter of 2011 with the contract share rising from 32.8% to 35.6%. The number of mobile broadband subscribers increased by 17.3% to approximately 165,700 subscribers. Mobile market share declined to 39.2% at the end of the second quarter 2011.

Vipnet's revenues decreased by 9.1% to EUR 100.5 million in the second quarter of 2011. This was mostly due to lower Monthly Fee and Traffic revenues as persistent macro-economic pressure negatively impacted customer usage in the Croatian market. In the second quarter 2011 Roaming revenues remained stable as higher volumes compensated for lower roaming charges. Interconnection revenues declined due to lower volumes and further declines in mobile termination rates.

In the second quarter 2011 average revenue per user (ARPU) fell by 10.1% to EUR 13.3 as a result of lower volumes and lower interconnection rates.

Operating expenses influenced by severance payments in the second quarter 2011

To mitigate the impact of lower revenues on EBITDA comparable Vipnet addressed its personnel structure in the second quarter of 2011. A headcount reduction by approximately 10% resulted in severance payments and caused an increase in personnel costs. Despite these exceptional charges total operating expenses declined by 1.7% to EUR 73.7 million. Lower Material and Interconnection expenses were the main drivers of this positive development. Material expenses declined as a result of a different mix of handsets sold. Lower termination rates as well as lower volumes translated into a reduction of Interconnection expenses. EBITDA comparable declined by 24.8% to EUR 27.1 million in the second quarter 2011.

Vipnet's operating income declined by 42.3% from EUR 19.2 million in the second quarter of 2010 to EUR 11.0 million in the second quarter of 2011.

## Segment Belarus*

### Key Performance Indicators Belarus

| in EUR million | Q2 2011 | Q2 2010 | % change |
|---|---|---|---|
| Revenues | 72.9 | 86.3 | –15.6% |
| EBITDA comparable | 33.4 | 42.2 | –20.9% |
| EBITDA (incl. Restructuring and Impairment Charges) | 33.4 | 42.2 | –20.9% |
| EBIT | 19.8 | 21.7 | –8.4% |
| | | | |
| Mobile Subscribers ('000) | 4,461.4 | 4,144.9 | 7.6% |
| Mobile Market Share | 40.8% | 41.1% | |
| Mobile Penetration | 115.4% | 106.3% | |
| Mobile Broadband Customers ('000) | 275.4 | 55.2 | 398.5% |
| Average monthly revenue per User (in EUR) | 4.9 | 6.4 | –24.1% |

* The reported result includes depreciation and amortization of fair value adjustments resulting from past business combinations and therefore may deviate from the result of the single financial statements.

Currency devaluation of 54% in May 2011

In May 2011 Belarus was hit by a 54% devaluation of the Belarus Ruble as a result of a severe financial and economic crisis. In light of the liquidity crisis in the foreign exchange market repatriation of cash out of Belarus remained severely impeded throughout the second quarter of 2011. Despite this backdrop velcom maintained a strong operational performance throughout the second quarter 2011. In addition, management responded to the above mentioned developments by optimizing the tariff portfolio and the introduction of cost and capital expenditures reductions.

In the second quarter 2011 the mobile subscriber base rose by 7.6% to more than 4.4 million customers on the back of an unabated strong demand for mobile broadband solutions. Thus, mobile broadband subscribers increased to approximately 275,400 customers compared to approximately 55,200 in the second quarter of 2010. Total mobile market share declined modestly to 40.8% at the end of the second quarter 2011 compared to 41.1% at the end of the second quarter of the previous period.

In the second quarter 2011, the continued strong domestic revenue performance could not be translated into Euros. Revenues declined by EUR 13.4 million to EUR 72.9 million due to a negative translation effect of EUR 36.9 million. On a like-for-like basis revenues increased by 27.2% as a higher number of subscribers, higher usage and a new tariff portfolio impacted Monthly Fee and Traffic revenues positively. On a like-for-like basis Interconnection increased as a result of higher volumes and Equipment revenues due to the continued demand for smartphones and mobile data devices.

ARPU declines to EUR 4.9

Average revenue per user (ARPU) declined from EUR 6.4 in the second quarter 2010 to EUR 4.9 in the second quarter 2011 as a result of the currency devaluation. On a like-for-like basis ARPU improved by 14.7%.

On a like-for-like basis, growth in Operating expenses mainly derived from revenue related items, such as Interconnection or Material expenses. However, currency devaluation had an unfavorable impact on costs denominated in hard currency. A strict focus on cost control together with a decreased share of foreign currency operating expenses led to a reduction of Operating expenses of EUR 4.0 million in the second quarter of 2011. EBITDA comparable declined by 20.9% to EUR 33.4 million and was negatively impacted by foreign currency translations in the amount of EUR 17.0 million. On a like-for-like basis EBITDA comparable grew by 19.4% in the second quarter of 2011.

In the second quarter of 2011 operating income declined by 8.4% to EUR 19.8 million. The negative effect for foreign currency translations amounted to EUR 9.3 million.

## Segment Additional Markets

### Slovenia

#### Key Performance Indicators Slovenia

| in EUR million | Q2 2011 | Q2 2010 | % change |
|---|---|---|---|
| Revenues | 47.3 | 42.2 | 12.0% |
| EBITDA comparable | 12.0 | 11.6 | 3.1% |
| EBITDA (incl. Restructuring and Impairment charges) | 12.0 | 11.6 | 3.1% |
| EBIT | 5.9 | 6.4 | –7.9% |
| | | | |
| Mobile Subscribers ('000) | 632.7 | 591.7 | 6.9% |
| Mobile Market Share | 29.9% | 28.2% | |
| Mobile Penetration | 103.7% | 101.9% | |
| Mobile Broadband Customers ('000) | 15.3 | 12.8 | 19.4% |
| Average monthly revenue per User (in EUR) | 20.4 | 20.6 | –1.1% |

Si.mobil customer base grows by 6.9%

In a comparatively benign operational environment, Si.mobil continued its strong focus on the value and the youth segments as well as smartphones in the second quarter 2011. As such, Si.mobil benefited from being the first operator in the Slovenian market to launch the iPhone in the second quarter of 2011. Si.mobil's mobile subscriber base increased by 6.9% to more than 632.700 customers in the second quarter of 2011. Efficient marketing activities led to a rise of the contract subscriber base by 10.5%, driving the share of contract subscribers from 70.0% to 72.3%. Mobile market share improved and increased to 29.9% at the end of the second quarter 2011 as a result of an optimized tariff portfolio.

Revenues increased by 12.0% to EUR 47.3 million as Monthly Fee and Traffic revenues benefited from a higher contract subscriber base and higher usage. Higher fixed fees due to the rising number of contract customers more than compensated for the decline in airtime revenues. This decline was driven by the migration of customers to package tariffs. Wholesale (including roaming) revenues rose due to higher roaming revenues following higher usage. Furthermore, Interconnection revenues increased as a higher subscriber base and higher volumes compensated for declining mobile termination rates. Continued strong demand for smartphones impacted Equipment revenues positively.

In the second quarter 2011 average revenue per user (ARPU) declined modestly by 1.1% to EUR 20.4 compared to EUR 20.6 in the same period of the previous year. A cut in mobile termination rates were the main factor for the decline.

A 15.4% rise in operating expenses was primarily driven by higher material expenses due to a higher number of handsets sold. Higher interconnection expenses were driven by higher usage. EBITDA comparable increased by 3.1% to EUR 12.0 million as higher revenues more than compensated the rise in operating expenses.

In the second quarter of 2011, operating income declined by 7.9% to EUR 5.9 million due to higher amortization and depreciation charges.

## Republic of Serbia

### Key Performance Indicators Republic of Serbia

| in EUR million | Q2 2011 | Q2 2010 | % change |
|---|---|---|---|
| Revenues | 35.5 | 25.9 | 36.9% |
| EBITDA comparable | 7.6 | –2.2 | n.a. |
| EBITDA (incl. Restructuring and Impairment charges) | 7.6 | –2.2 | n.a. |
| EBIT | –6.7 | –13.3 | –49.9% |
| | | | |
| Mobile Subscribers ('000) | 1,506.3 | 1,264.7 | 19.1% |
| Mobile Market Share | 14.7% | 13.0% | |
| Mobile Penetration | 138.4% | 130.6% | |
| Average monthly revenue per User (in EUR) | 7.3 | 6.1 | 19.6% |

Mobile subscriber base grows to more than 1.5 million customers

On the back of continued strong growth in the contract subscriber base, Vip mobile's subscriber number increased by 19.1% to more than 1.5 million customers in the second quarter of 2011. Mobile market share rose to 14.7% compared to 13.0% at end of the second quarter of 2010.

Revenues increased by 36.9% to EUR 35.5 million in the second quarter of 2011. A higher number of customers and a higher usage pushed Monthly Fee and Traffic revenues as well as Interconnection revenues. Foreign currency translations impacted revenues positively and amounted to EUR 0.4 million. The 10% tax levy that was introduced in June 2009 on specific mobile revenues was abolished in January 2011.

ARPU increases by 19.6%

Average revenue per user (ARPU) increased by 19.6% to EUR 7.3 as a result of higher usage as well as an optimized tariff portfolio.

Operating expenses remained stable and amounted to EUR 29.3 million in the second quarter 2011. EBITDA comparable turned from a negative amount of EUR 2.2 million in the second quarter of 2010 to a positive amount of EUR 7.6 million in the second quarter of 2011. Foreign currency translations positively impacted EBITDA comparable by EUR 0.2 million.

Operating loss almost halved from EUR 13.3 million in the second quarter of 2010 to EUR 6.7 million in the second quarter of 2011.

## Republic of Macedonia

### Key Performance Indicators Republic of Macedonia

| in EUR million | Q2 2011 | Q2 2010 | % change |
|---|---|---|---|
| Revenues | 13.2 | 8.4 | 56.9% |
| EBITDA comparable | 0.5 | –1.6 | n.a. |
| EBITDA (incl. Restructuring and Impairment charges) | 0.5 | –1.6 | n.a. |
| EBIT | –2.1 | –3.8 | –43.6% |
| | | | |
| Mobile Subscribers ('000) | 504.9 | 353.2 | 42.9% |
| Mobile Market Share | 22.7% | 17.1% | |
| Mobile Penetration | 108.7% | 101.6% | |
| Average monthly revenue per User (in EUR) | 7.6 | 6.6 | 15.1% |

Vip operator's market share up to 22.7%

In the second quarter of 2011 Vip operator's mobile subscriber base increased by 42.9% to more than 504,900 customers. Mobile market share improved to 22.7% at the end of the second quarter 2011 compared to 17.1% at the end of the second quarter in the previous year.

Revenues continued to exhibit strong growth, rising by 56.9% to EUR 13.2 million. Monthly Fee and Traffic revenues increased as a result of a steadily growing subscriber base and higher usage. Furthermore, Interconnection and Equipment revenues rose due to higher volumes and a higher number of handsets sold. As a result of the rise in revenues average revenue per user (ARPU) increased by 15.1% to EUR 7.6.

Break-even on EBITDA comparable basis

Higher revenues translated into an EBITDA comparable growth which improved from a negative amount of EUR 1.6 million in the second quarter 2010 to a positive EBITDA comparable of EUR 0.5 million in the second quarter 2011. Operating expenses increased by EUR 2.7 million to EUR 12.8 million due to higher material expenses driven by the number of handsets sold and higher personnel expenses as a result of a rising number of FTE. Furthermore interconnection expenses increased as a result of higher volumes.

Operating loss improved from EUR 3.8 million in the second quarter of 2010 to an operating loss of EUR 2.1 million in the second quarter of 2011.

## Consolidated Net Income

In the second quarter 2011 financial result increased by 14.4% from a negative amount of EUR 46.9 million to a negative amount of EUR 53.6 million.

Net interest expense amounted to EUR 49.2 million and remained almost unchanged in comparison to the second quarter of 2010. Foreign exchange differences turned from a gain of EUR 1.5 million in the first quarter of 2010 to a loss of EUR 0.6 million due to the devaluation of the Belarus Ruble.

A decline in EBITDA comparable and higher restructuring charges resulted in a lower income before income tax. Income tax expense declined by 38.5% to EUR 11.4 million in the second quarter 2011 due to lower operating results and hence a lower taxable income. In the second quarter 2011 net income declined to EUR 20.0 million compared to EUR 68.7 million in the same period of the previous year.

Basic and diluted earnings per share fell from EUR 0.16 in the second quarter 2010 to EUR 0.05 in the second quarter 2011.

## Cash Flow and Capital Expenditures

### Cash Flow

| in EUR million | Q2 2011 | Q2 2010 | % change |
|---|---|---|---|
| Cash from operations | 312.5 | 359.6 | –13.1% |
| Cash from investing | –159.2 | –37.8 | 321.2% |
| Cash from financing | –307.9 | –372.8 | –17.4% |
| Effect of exchange rate changes | –30.4 | –7.4 | n.a. |
| **Net increase/decrease in cash and cash equivalents** | **–184.9** | –58.4 | n.a. |

Cash flow from operations declines by 13.1% to EUR 312.5 million

In the second quarter 2011 cash flow from operating activities declined by 13.1% to EUR 312.5 million as a result of lower operating results and a rise in working capital. This change in working capital was driven by accounts receivables, that increased at a lower pace compared to 2010. Inventories turned from a rise into a decline in 2011 and accounts payable remained at a stable level in 2011 compared to a rise in the second quarter 2010. A cash outflow effect of EUR 22.9 million was related to the restructuring program in the second quarter 2011.

Cash outflow from investing activities increased to EUR 159.2 million in the second quarter 2011 and comprised mainly capital expenditures in the amount of EUR 156.7 million. In the second quarter 2010 cash outflow from investing activities was reduced by proceeds from the sale of investments and amounted to EUR 37.8 million.

Cash outflow from financing activities decreased by 17.4% from EUR 372.8 million to EUR 307.9 million. In the second quarter 2011, the repayment of long term debt almost compensated the issuance of long term debt, which led to a net cash-out flow of long term debt of EUR 6.7 million. In the second quarter of 2010 net cash out flow of long term debt amounted to EUR 75.0 million.

**Capital Expenditures**

| in EUR million | Q2 2011 | Q2 2010 | % change |
|---|---|---|---|
| Austria | 114.6 | 105.6 | 8.5% |
| Bulgaria | 16.7 | 17.6 | –4.8% |
| Croatia | 8.8 | 17.1 | –48.3% |
| Belarus | 4.4 | 10.2 | –57.2% |
| Additional Markets | 12.3 | 9.6 | 27.7% |
| Corporate & Other, Eliminations | 0.0 | 0.0 | n.a. |
| **Total capital expenditures** | **156.7** | **160.0** | **–2.1%** |
| Thereof tangible | 124.3 | 131.4 | –5.4% |
| Thereof intangible | 32.5 | 28.7 | 13.3% |

Total capital expenditures declined by 2.1%

In the second quarter 2011 capital expenditures declined modestly by 2.1% to EUR 156.7 million. Reductions in the Bulgarian, Croatian and Belarusian segments compensated increases in the Austrian and Additional Markets segments which were mainly related to infrastructure investments. In the Croatian segment higher levels of investments in the previous period as well as a strict focus on control of investments led to a decline of 48.3% in capital expenditures.

In Belarus, as response to the macro-economic landscape and a comparatively high level of investments due to the 3G rollout in 2010 capital expenditures more than halved to EUR 4.4 million in the second quarter 2011. In the Additional Markets segment, the 27.7% increase was mainly driven by network investments in the Republic of Serbia.

## Additional Information

### Risks & Uncertainties

The Telekom Austria Group faces various risks and uncertainties that could affect its results. These risks include, but are not limited to, a further reduction of prices for mobile communication services in all of the Telekom Austria Group's markets as well as an acceleration of fixed-to-mobile substitution resulting in a return to access line losses and a further decline in fixed line minutes. The Telekom Austria Group is also subject to risks related to the planned reduction of the number of employees in the Austrian segment. Furthermore, the Telekom Austria Group is subject to intensive regulation.

Through its activities in the Eastern and South-Eastern European region, the company operates in markets that have been experiencing political and economic change. This circumstance has affected and may continue to affect the activities of enterprises operating in this environment. Consequently, operations in the Eastern and South-Eastern European region involve uncertainties, including foreign exchange and tax uncertainties that typically do not exist in other markets. In recent years, the growth of the Telekom Austria Group's business was marked by an expansion to various markets in Eastern and South-Eastern Europe. However, further growth will be affected by a number of factors over which the Telekom Austria Group has no influence. Further organic growth also depends on the growth of the respective economies and individual telecommunication markets in which the Telekom Austria Group operates.

Further impacts of the economic downturn on the Telekom Austria Group's results cannot be ruled out. In the mobile communication business there are uncertainties with regards to lower roaming revenues as a result of regulation. Moreover, customer usage behavior might change as a result of the economic crisis impacting the financial results of the Telekom Austria Group. Since December 31, 2010 no other material risks than those mentioned above occurred. For further details on risks and uncertainties with respect to the Telekom Austria Group please refer to the annual report 2010.

### Personnel

Headcount increased by 503 full-time employees due to acquisition of fixed line operators in Bulgaria

The total number of employees of the Telekom Austria Group increased by 503 to 17,032 employees by the end of June 2011 compared to the same period of the previous year. The increase was due to rise in workforce in the Bulgarian segment due to the acquisition of the fixed line operators in the first quarter of 2011. The workforce in the Austrian segment decreased by 668 to 9,372 full-time equivalents at the end of June 2011.

### Other and Subsequent Events

Please refer to page 35 for further information on Other and Subsequent Events for the Telekom Austria Group.

### Waiver of Review

This financial report of the Telekom Austria Group contains quarterly results which were not audited nor reviewed by a certified public accountant.

# Condensed Consolidated Financial Statements Telekom Austria Group

## Condensed Consolidated Statements of Operations

| in EUR million, except per share information | Q2 2011 unaudited | Q2 2010 unaudited | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited |
|---|---|---|---|---|
| Operating revenues | 1,109.3 | 1,168.7 | 2,227.3 | 2,294.7 |
| Other operating income | 30.3 | 18.2 | 48.7 | 40.3 |
| | | | | |
| Operating expenses | | | | |
| Materials | –99.4 | –93.1 | –203.9 | –173.0 |
| Employee expenses, including benefits and taxes | –211.8 | –205.0 | –421.2 | –410.8 |
| Other operating expenses | –447.6 | –472.3 | –873.4 | –907.8 |
| **EBITDA comparable** | **380.8** | **416.5** | **777.6** | **843.4** |
| | | | | |
| Restructuring | –34.6 | –12.8 | –218.6 | –13.7 |
| Impairment charges | 0.0 | 0.0 | 0.0 | 0.0 |
| **EBITDA incl. restructuring and impairment charges** | **346.3** | **403.8** | **558.9** | **829.7** |
| | | | | |
| Depreciation and amortization | –261.3 | –269.6 | –516.2 | –529.2 |
| **Operating income (loss)** | **85.0** | **134.2** | **42.7** | **300.5** |
| | | | | |
| Financial result | | | | |
| Interest income | 3.4 | 3.5 | 7.2 | 7.4 |
| Interest expense | –52.6 | –52.0 | –104.7 | –105.2 |
| Foreign exchange differences | –0.6 | 1.5 | –6.6 | 1.4 |
| Other financial result | –3.9 | 0.0 | –3.8 | 0.0 |
| Equity in earnings of affiliates | 0.1 | 0.1 | 0.9 | 0.5 |
| **Earnings before income taxes** | **31.4** | **87.2** | **–64.4** | **204.5** |
| | | | | |
| Income taxes | –11.4 | –18.6 | 5.2 | –44.6 |
| **Net income** | **20.0** | **68.7** | **–59.2** | **159.9** |
| | | | | |
| Attributable to: | | | | |
| Owners of the parent | 19.9 | 68.9 | –59.3 | 160.0 |
| Non-controlling interests | 0.0 | –0.2 | 0.0 | –0.1 |
| | | | | |
| **Basic and fully diluted earnings per share** | 0.05 | 0.16 | –0.13 | 0.36 |
| **Weighted-average number of ordinary shares outstanding** | 442,563,969 | 442,563,969 | 442,563,969 | 442,563,969 |

## Condensed Statement of Comprehensive Income

| in EUR million | Q2 2011 unaudited | Q2 2010 unaudited | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited |
|---|---|---|---|---|
| **Net income** | **20.0** | **68.7** | **–59.2** | **159.9** |
| Unrealized result on securities available-for-sale | –0.1 | –0.1 | –0.3 | 0.2 |
| Income tax (expense) benefit | 0.0 | 0.1 | 0.1 | 0.0 |
| Unrealized result on hedging activities | –3.5 | 1.6 | 3.6 | 2.4 |
| Income tax (expense) benefit | 0.9 | –0.1 | –0.9 | 0.2 |
| Foreign currency translation adjustment | –287.8 | 54.4 | –333.0 | 57.8 |
| **Other comprehensive income (loss)** | **–290.5** | **56.1** | **–330.5** | **60.6** |
| **Total comprehensive income (loss)** | **–270.6** | **124.6** | **–389.8** | **220.5** |
| Attributable to: | | | | |
| Owners of the parent | –270.6 | 124.8 | –389.8 | 220.6 |
| Non-controlling interests | 0.0 | –0.2 | 0.0 | –0.1 |

## Condensed Consolidated Statements of Financial Position

| in EUR million | June 30, 2011 unaudited | Dec. 31, 2010 audited |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 168.4 | 120.2 |
| Short-term investments | 155.4 | 127.6 |
| Accounts receivable - trade, net of allowances | 767.6 | 772.2 |
| Receivables due from related parties | 0.1 | 0.1 |
| Inventories | 156.8 | 150.2 |
| Prepaid expenses | 143.9 | 128.4 |
| Income taxes receivable | 47.5 | 40.7 |
| Non-current assets held for sale | 1.0 | 0.0 |
| Other current assets | 90.9 | 98.3 |
| **Total current assets** | **1,531.6** | **1,437.7** |
| **Non-current assets** | | |
| Investments in associates | 4.5 | 4.3 |
| Financial assets long-term | 14.7 | 90.4 |
| Goodwill | 1,408.3 | 1,489.2 |
| Other intangible assets, net | 1,496.7 | 1,718.1 |
| Property, plant and equipment, net | 2,349.8 | 2,549.0 |
| Other non-current assets | 24.3 | 31.2 |
| Deferred tax assets | 255.0 | 235.8 |
| Receivables due from related parties, finance | 0.1 | 0.1 |
| **Total non-current assets** | **5,553.4** | **6,118.1** |
| **TOTAL ASSETS** | **7,085.0** | **7,555.8** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Short-term borrowings | −526.9 | −506.7 |
| Accounts payable - trade | −521.3 | −678.7 |
| Current provisions and accrued liabilities | −273.0 | −258.0 |
| Payables to related parties | −8.0 | −13.1 |
| Income taxes payable | −38.4 | −41.7 |
| Other current liabilities | −289.4 | −221.9 |
| Deferred income | −156.6 | −163.0 |
| **Total current liabilities** | **−1,813.6** | **−1,883.0** |
| **Non-current liabilities** | | |
| Long-term debt | −3,333.1 | −3,077.2 |
| Lease obligations and Cross Border Lease | −0.3 | −13.9 |
| Employee benefit obligation | −132.2 | −131.6 |
| Non-current provisions | −935.9 | −761.8 |
| Deferred tax liabilities | −88.3 | −125.4 |
| Other non-current liabilities and deferred income | −26.8 | −86.1 |
| **Total non-current liabilities** | **−4,516.6** | **−4,195.9** |
| **Stockholders' equity** | | |
| Common stock | −966.2 | −966.2 |
| Treasury shares | 8.2 | 8.2 |
| Additional paid-in capital | −582.9 | −582.9 |
| Retained earnings | 44.8 | −346.3 |
| Fair value reserve | 0.5 | 0.3 |
| Hedging reserve | 4.6 | 7.4 |
| Translation adjustments | 738.2 | 405.1 |
| **Equity attributable to equity holders of the parent** | **−752.7** | **−1,474.4** |
| **Non-controlling interests** | **−2.3** | **−2.5** |
| **Total stockholders' equity** | **−754.9** | **−1,476.9** |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **−7,085.0** | **−7,555.8** |

## Condensed Consolidated Statements of Cash Flows

| in EUR million | Q2 2011 unaudited | Q2 2010 unaudited | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Net Income | 20.0 | 68.7 | –59.2 | 159.9 |
| Depreciation, amortization and impairment charges | 261.3 | 269.6 | 516.2 | 529.2 |
| Employee benefit obligation - non-cash | 5.3 | 2.0 | 4.9 | 3.6 |
| Bad debt expenses | 14.3 | 11.2 | 28.7 | 18.5 |
| Change in deferred taxes | 9.0 | 8.4 | –28.7 | 21.1 |
| Equity in earnings of affiliates - non-cash | –0.1 | –0.1 | –0.2 | –0.5 |
| Stock compensation | –0.3 | 0.9 | 0.4 | 0.5 |
| Asset retirement obligation - accretion expense | 1.6 | 1.3 | 3.3 | 2.7 |
| Provision for restructuring - non-cash | 33.1 | 17.7 | 215.4 | 26.9 |
| Result on disposal / retirement of equipment | 1.7 | 0.6 | 2.5 | –4.2 |
| Other | 4.6 | 3.3 | 3.1 | 11.6 |
| **Gross cash flow** | **350.6** | **383.6** | **686.4** | **769.5** |
| Changes in assets and liabilities | | | | |
| Accounts receivable - trade | –24.5 | –44.9 | –34.6 | –31.0 |
| Receivables due from related parties | 0.0 | –0.7 | 0.0 | 0.6 |
| Inventories | 4.3 | –11.5 | –11.2 | –12.5 |
| Prepaid expenses and other assets | –13.3 | 18.8 | –7.1 | 6.5 |
| Accounts payable - trade | –0.5 | 27.2 | –152.3 | –49.1 |
| Employee benefit obligation | –0.1 | –0.1 | –0.2 | –0.2 |
| Povisions and accrued liabilities | –13.1 | –14.4 | –33.9 | –34.5 |
| Other liabilities and deferred income | 7.8 | 0.7 | 21.2 | 16.7 |
| Payables due to related parties | 1.4 | 0.8 | –5.0 | –4.3 |
| Changes in working capital | –38.0 | –24.0 | –223.3 | –107.8 |
| **Cash flow from operating activities** | **312.5** | **359.6** | **463.1** | **661.7** |
| | | | | |
| **Cash flow from investing activities** | | | | |
| Capital expenditures, including interest capitalized | –156.7 | –160.0 | –277.1 | –296.5 |
| Acquisitions of subsidiaries, net of cash acquired | 0.0 | 0.0 | –68.8 | 0.0 |
| Sale of subsidiary, net of cash | 0.0 | 0.6 | 0.0 | 0.6 |
| Proceeds from sale of equipment | –0.3 | 0.8 | 1.0 | 9.9 |
| Purchase of investments | –1.9 | –50.0 | –1.9 | –221.5 |
| Proceeds from sale of investments | –0.2 | 170.9 | 18.9 | 371.9 |
| **Cash flow from investing activities** | **–159.2** | **–37.8** | **–327.9** | **–135.6** |
| | | | | |
| **Cash flow from financing activities** | | | | |
| Proceeds from issuance of long term debt | 210.0 | 0.0 | 710.0 | 0.0 |
| Principal payments on long-term debt | –216.7 | –75.0 | –221.4 | –579.7 |
| Changes in short-term borrowings | 30.7 | 34.1 | –205.7 | –161.7 |
| Dividends paid | –331.9 | –331.9 | –331.9 | –331.9 |
| Deferred consideration paid for business combinations | 0.0 | 0.0 | –15.8 | 0.0 |
| **Cash flow from financing activities** | **–307.9** | **–372.8** | **–64.8** | **–1,073.3** |
| | | | | |
| **Effect of exchange rate changes** | **–30.4** | **–7.4** | **–22.1** | **–9.6** |
| Change in cash and cash equivalents | –184.9 | –58.4 | 48.2 | –556.8 |
| Cash and cash equivalents at beginning of period | 353.4 | 231.7 | 120.2 | 730.1 |
| Cash and cash equivalents at end of period | 168.4 | 173.3 | 168.4 | 173.3 |

## Condensed Consolidated Statements of Changes in Stockholders´ Equity

| in EUR million (unaudited) | Common stock | Treasury shares | Additional paid-in capital | Retained earnings | Market value reserves | Translation adjustment | Total | Non-controlling interest | Total stockholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2011** | 966.2 | –8.2 | 582.9 | 346.3 | –7.7 | –405.1 | 1,474.4 | 2.5 | 1,476.9 |
| Net income | 0.0 | 0.0 | 0.0 | –59.3 | 0.0 | 0.0 | –59.3 | 0.0 | –59.2 |
| Net unrealized result on securities | 0.0 | 0.0 | 0.0 | 0.0 | –0.2 | 0.0 | –0.2 | 0.0 | –0.2 |
| Net unrealized result on heding activities | 0.0 | 0.0 | 0.0 | 0.0 | 2.7 | 0.0 | 2.7 | 0.0 | 2.7 |
| Foreign currency translation adjustment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –333.0 | –333.0 | 0.0 | –333.0 |
| **Other comprehensive income (loss)** | **0.0** | **0.0** | **0.0** | **0.0** | **2.5** | **–333.0** | **–330.5** | **0.0** | **–330.5** |
| **Total comprehensive income (loss)** | **0.0** | **0.0** | **0.0** | **–59.3** | **2.5** | **–333.0** | **–389.8** | **0.0** | **–389.8** |
| Distribution of dividends | 0.0 | 0.0 | 0.0 | –331.9 | 0.0 | 0.0 | –331.9 | 0.0 | –331.9 |
| Acquisition of non-controlling interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –0.3 | –0.3 |
| **Balance at June 30, 2011** | 966.2 | –8.2 | 582.9 | –44.8 | –5.2 | –738.2 | 752.7 | 2.3 | 754.9 |

| in EUR million (unaudited) | Common stock | Treasury shares | Additional paid-in capital | Retained earnings | Market value reserves | Translation adjustment | Total | Non-controlling interest | Total stockholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2010** | 966.2 | –8.2 | 582.9 | 482.9 | –15.5 | –396.9 | 1,611.4 | 2.7 | 1,614.1 |
| Net income | 0.0 | 0.0 | 0.0 | 160.0 | 0.0 | 0.0 | 160.0 | –0.1 | 159.9 |
| Net unrealized result on securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 |
| Net unrealized result on heding activities | 0.0 | 0.0 | 0.0 | 0.0 | 2.6 | 0.0 | 2.6 | 0.0 | 2.6 |
| Foreign currency translation adjustment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 57.8 | 57.8 | 0.0 | 57.8 |
| **Other comprehensive income (loss)** | **0.0** | **0.0** | **0.0** | **0.0** | **2.7** | **57.8** | **60.5** | **0.0** | **60.5** |
| **Total comprehensive income (loss)** | **0.0** | **0.0** | **0.0** | **160.0** | **2.7** | **57.8** | **220.5** | **–0.1** | **220.5** |
| Distribution of dividends | 0.0 | 0.0 | 0.0 | –331.9 | 0.0 | 0.0 | –331.9 | 0.0 | –331.9 |
| **Balance at June 30, 2010** | 966.2 | –8.2 | 582.9 | 311.0 | –12.8 | –339.1 | 1,500.0 | 2.6 | 1,502.6 |

| | June 30, 2011 | Dec. 31, 2010 | June 30, 2010 |
|---|---|---|---|
| Number of shares of common stock | 443,000,000 | 443,000,000 | 443,000,000 |
| Number of treasury shares | 436,031 | 436,031 | 601,778 |
| Average purchase price of treasury shares | 18.80 | 18.80 | 18.80 |

## Condensed Operating Segments

| in EUR million (unaudited) | 1-6 M 2011 Austria | Bulgaria | Croatia | Belarus | Additional Markets | Corporate & Other | Elimina-tions | Consoli-dated |
|---|---|---|---|---|---|---|---|---|
| External revenues | 1,458.6 | 250.9 | 182.9 | 162.7 | 172.3 | 0.0 | 0.0 | 2,227.3 |
| Intersegmental revenues | 10.8 | 13.0 | 7.9 | 0.1 | 11.3 | 0.0 | –43.1 | 0.0 |
| **Total revenues** | **1,469.4** | **263.9** | **190.8** | **162.8** | **183.6** | **0.0** | **–43.1** | **2,227.3** |
| Other operating income | 45.3 | 11.3 | 1.2 | 3.5 | 2.4 | 9.9 | –24.9 | 48.7 |
| Segment expenses | –1,016.9 | –139.7 | –139.9 | –90.9 | –149.9 | –29.1 | 68.0 | –1,498.5 |
| **EBITDA comparable** | **497.8** | **135.5** | **52.0** | **75.4** | **36.0** | **–19.2** | **0.0** | **777.6** |
| Restructuring | –218.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –218.6 |
| Impairment charges | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **EBITDA incl. restructuring and impairment charges** | **279.2** | **135.5** | **52.0** | **75.4** | **36.0** | **–19.2** | **0.0** | **558.9** |
| Depreciation and amortization | –310.5 | –97.8 | –32.4 | –33.4 | –43.5 | 0.0 | 1.4 | –516.2 |
| **Operating income (loss)** | **–31.3** | **37.7** | **19.6** | **42.0** | **–7.5** | **–19.2** | **1.4** | **42.7** |
| Interest income | 4.9 | 1.1 | 0.5 | 0.7 | 0.9 | 13.0 | –14.0 | 7.2 |
| Interest expense | –28.5 | –3.4 | –0.3 | –0.7 | –0.5 | –85.2 | 14.0 | –104.7 |
| Equity in earnings of affiliates | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 |
| Other | –3.4 | 0.0 | –0.6 | –5.7 | –0.5 | 273.5 | –273.8 | –10.4 |
| **Earnings before income taxes** | **–57.5** | **35.5** | **19.2** | **36.3** | **–7.6** | **182.1** | **–272.4** | **–64.4** |
| Income taxes | | | | | | | | 5.2 |
| **Net income (loss)** | | | | | | | | **–59.2** |
| | | | | | | | | |
| Segment assets | 4,169.5 | 1,677.7 | 447.8 | 505.3 | 744.8 | 7,190.5 | –7,650.5 | 7,085.0 |
| Segment liabilities | –2,717.0 | –290.6 | –133.7 | –91.2 | –127.6 | –4,776.0 | 1,805.9 | –6,330.1 |
| Capital expenditures - intangible | 43.0 | 7.7 | 1.7 | 0.3 | 4.2 | 0.0 | 0.0 | 56.9 |
| Capital expenditures - tangible | 150.0 | 22.9 | 15.8 | 7.2 | 24.5 | 0.0 | 0.0 | 220.2 |
| **Total capital exenditures** | **192.9** | **30.6** | **17.4** | **7.5** | **28.7** | **0.0** | **0.0** | **277.1** |

| in EUR million (unaudited) | 1-6 M 2010 Austria | Bulgaria | Croatia | Belarus | Additional Markets | Corporate & Other | Elimina-tions | Consoli-dated |
|---|---|---|---|---|---|---|---|---|
| External revenues | 1,527.7 | 263.0 | 202.6 | 159.8 | 141.5 | 0.0 | 0.0 | 2,294.7 |
| Intersegmental revenues | 11.2 | 14.1 | 8.2 | 0.1 | 7.9 | 0.0 | –41.4 | 0.0 |
| **Total revenues** | **1,538.9** | **277.2** | **210.8** | **159.9** | **149.4** | **0.0** | **–41.4** | **2,294.7** |
| Other operating income | 52.6 | 1.7 | 0.7 | 2.4 | 1.8 | 9.3 | –28.2 | 40.3 |
| Segment expenses | –1,039.5 | –129.4 | –146.7 | –85.3 | –137.7 | –22.7 | 69.6 | –1,491.6 |
| **EBITDA comparable** | **552.1** | **149.4** | **64.9** | **77.0** | **13.4** | **–13.4** | **0.0** | **843.4** |
| Restructuring | –13.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | –13.7 |
| Impairment charges | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **EBITDA incl. restructuring and impairment charges** | **538.4** | **149.4** | **64.9** | **77.0** | **13.4** | **–13.4** | **0.0** | **829.7** |
| Depreciation and amortization | –334.0 | –85.4 | –33.8 | –38.9 | –37.4 | 0.0 | 0.4 | –529.2 |
| **Operating income (loss)** | **204.3** | **64.0** | **31.1** | **38.0** | **–24.0** | **–13.4** | **0.4** | **300.5** |
| Interest income | 4.3 | 1.0 | 0.2 | 0.5 | 0.8 | 35.5 | –34.9 | 7.4 |
| Interest expense | –31.8 | –0.1 | –0.4 | –0.4 | –0.3 | –107.0 | 34.9 | –105.2 |
| Equity in earnings of affiliates | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 |
| Other | –1.6 | 0.0 | 0.4 | 2.4 | –1.3 | 464.5 | –463.0 | 1.4 |
| **Earnings before income taxes** | **175.7** | **64.9** | **31.3** | **40.6** | **–24.9** | **379.6** | **–462.6** | **204.5** |
| Income taxes | | | | | | | | –44.6 |
| **Net income (loss)** | | | | | | | | **159.9** |
| | | | | | | | | |
| Segment assets | 4,339.4 | 1,574.0 | 481.8 | 940.6 | 702.5 | 7,054.2 | –7,357.9 | 7,734.6 |
| Segment liabilities | –2,733.1 | –92.6 | –116.1 | –90.6 | –106.7 | –4,894.7 | 1,801.9 | –6,232.0 |
| Capital expenditures - intangible | 49.5 | 8.9 | 2.3 | 0.0 | 9.2 | 0.0 | 0.0 | 69.9 |
| Capital expenditures - tangible | 139.7 | 17.3 | 30.2 | 23.0 | 16.5 | 0.0 | 0.0 | 226.6 |
| **Total capital exenditures** | **189.2** | **26.2** | **32.5** | **22.9** | **25.6** | **0.0** | **0.0** | **296.5** |

## Results by Segments

| in EUR million (unaudited) | Q2 2011 | Q2 2010 | % change | 1-6 M 2011 | 1-6 M 2010 | % change |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Austria | 731.1 | 775.0 | –5.7% | 1,469.4 | 1,538.9 | –4.5% |
| Bulgaria | 130.5 | 141.7 | –7.9% | 263.9 | 277.2 | –4.8% |
| Croatia | 100.5 | 110.5 | –9.1% | 190.8 | 210.8 | –9.5% |
| Belarus | 72.9 | 86.3 | –15.6% | 162.8 | 159.9 | 1.8% |
| Additional markets | 97.9 | 78.1 | 25.4% | 183.6 | 149.4 | 22.9% |
| Corporate, Other & Eliminations | –23.5 | –22.9 | 2.6% | –43.1 | –41.4 | 4.0% |
| **Revenues** | **1,109.3** | **1,168.7** | **–5.1%** | **2,227.3** | **2,294.7** | **–2.9%** |
| **EBITDA comparable** | | | | | | |
| Austria | 238.6 | 259.7 | –8.1% | 497.8 | 552.1 | –9.8% |
| Bulgaria | 70.8 | 76.9 | –8.0% | 135.5 | 149.4 | –9.3% |
| Croatia | 27.1 | 36.1 | –24.8% | 52.0 | 64.9 | –19.8% |
| Belarus | 33.4 | 42.2 | –20.9% | 75.4 | 77.0 | –2.0% |
| Additional markets | 20.7 | 8.1 | 154.9% | 36.0 | 13.4 | 168.0% |
| Corporate, Other & Eliminations | –9.7 | –6.5 | 49.3% | –19.2 | –13.5 | 42.6% |
| **EBITDA comparable** | **380.8** | **416.5** | **–8.6%** | **777.6** | **843.4** | **–7.8%** |
| **EBITDA incl. restructuring and impairment charges** | | | | | | |
| Austria | 204.0 | 247.0 | –17.4% | 279.2 | 538.4 | –48.1% |
| Bulgaria | 70.8 | 76.9 | –8.0% | 135.5 | 149.4 | –9.3% |
| Croatia | 27.1 | 36.1 | –24.8% | 52.0 | 64.9 | –19.8% |
| Belarus | 33.4 | 42.2 | –20.9% | 75.4 | 77.0 | –2.0% |
| Additional markets | 20.7 | 8.1 | 154.9% | 36.0 | 13.4 | 168.0% |
| Corporate, Other & Eliminations | –9.7 | –6.5 | 49.3% | –19.2 | –13.5 | 42.6% |
| **EBITDA incl. restructuring and impairment charges** | **346.3** | **403.8** | **–14.3%** | **558.9** | **829.7** | **–32.6%** |
| **Operating income (loss)** | | | | | | |
| Austria | 45.9 | 77.1 | –40.4% | –31.3 | 204.3 | –115.3% |
| Bulgaria | 18.9 | 33.5 | –43.5% | 37.7 | 64.0 | –41.0% |
| Croatia | 11.0 | 19.2 | –42.3% | 19.6 | 31.1 | –36.9% |
| Belarus | 19.8 | 21.7 | –8.4% | 42.0 | 38.0 | 10.3% |
| Additional markets | –2.1 | –10.9 | –80.8% | –7.5 | –24.0 | –68.5% |
| Corporate, Other & Eliminations | –8.6 | –6.3 | 36.4% | –17.8 | –13.1 | 36.1% |
| **Operating income (loss)** | **85.0** | **134.2** | **–36.7%** | **42.7** | **300.5** | **–85.8%** |

## Capital Expenditures

| in EUR million (unaudited) | Q2 2011 | Q2 2010 | % change | 1-6 M 2011 | 1-6 M 2010 | % change |
|---|---|---|---|---|---|---|
| Austria | 114.6 | 105.6 | 8.5% | 192.9 | 189.2 | 2.0% |
| Bulgaria | 16.7 | 17.6 | –4.8% | 30.6 | 26.2 | 16.9% |
| Croatia | 8.8 | 17.1 | –48.3% | 17.4 | 32.5 | –46.3% |
| Belarus | 4.4 | 10.2 | –57.2% | 7.5 | 22.9 | –67.4% |
| Additional markets | 12.3 | 9.6 | 27.7% | 28.7 | 25.6 | 11.9% |
| **Total capital exenditures** | **156.7** | **160.0** | **–2.1%** | **277.1** | **296.5** | **–6.5%** |
| Thereof tangible | 124.3 | 131.4 | –5.4% | 220.2 | 226.6 | –2.8% |
| Thereof intangible | 32.5 | 28.7 | 13.3% | 56.9 | 69.9 | –18.6% |

## Net Debt

| in EUR million | June 30, 2011 unaudited | Dec. 31, 2010 audited |
|---|---|---|
| Long-term debt | 3,333.4 | 3,146.4 |
| Short-term borrowings | 585.5 | 522.6 |
| Cash and cash equivalents, short-term and long-term investments, finance lease receivables | –356.3 | –355.0 |
| Derivative financial instruments for hedging purposes | –8.8 | –8.9 |
| **Net debt *** | **3,553.8** | **3,305.2** |
| **Net debt/EBITDA comparable (last 12 months)** | **2,2x** | **2,0x** |

* Finance lease obligations are included in long-term debt and short-term borrowings. The remaining performance based considerations related to the acquisition of SBT and Megalan/Spectrumnet are included in short-term borrowings and long-term debt. As of December 31, 2010 cross border lease is included in long-term debt and short-term borrowings and deposits for cross border lease are included in short-term and long-term investments.

## Personnel

| | End of period | | | Average of period | | |
|---|---|---|---|---|---|---|
| Personnel (full-time equivalent) | June 30, 2011 | June 30, 2010 | change | Q2 2011 | Q2 2010 | change |
| Austria | 9,372 | 10,040 | –6.7% | 9,506 | 10,090 | –5.8% |
| International Operations | 7,502 | 6,481 | 15.7% | 7,439 | 6,485 | 14.7% |
| **Total** | **17,032** | **16,530** | **3.0%** | **17,106** | **16,569** | **3.2%** |

## Key Data Segment Austria

### Financials - Segment Austria

| in EUR million | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Revenues | 731.1 | 775.0 | –5.7% | 1,469.4 | 1,538.9 | –4.5% |
| EBITDA comparable | 238.6 | 259.7 | –8.1% | 497.8 | 552.1 | –9.8% |
| EBITDA (incl. Restructuring and Impairment Charges) | 204.0 | 247.0 | –17.4% | 279.2 | 538.4 | –48.1% |
| EBIT | 45.9 | 77.1 | –40.4% | –31.3 | 204.3 | n.a. |

| Revenue detail - Austria | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Monthly Fee and Traffic | 511.5 | 515.9 | –0.9% | 1,017.2 | 1,038.3 | –2.0% |
| Data & ICT Solutions | 49.5 | 51.9 | –4.6% | 98.8 | 101.0 | –2.2% |
| Wholesale (incl. Roaming) | 44.3 | 59.1 | –25.0% | 95.8 | 113.6 | –15.7% |
| Interconnection | 86.7 | 104.9 | –17.4% | 174.2 | 209.4 | –16.8% |
| Equipment | 24.1 | 25.6 | –5.9% | 55.3 | 43.3 | 27.8% |
| Other Operating Income | 15.0 | 17.5 | –14.5% | 28.1 | 33.3 | –15.4% |
| **Total revenues Austria** | **731.1** | **775.0** | **–5.7%** | **1,469.4** | **1,538.9** | **–4.5%** |

## Key Data Segment Austria

| Key Data Fixed Line - Austria | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Average revenues per access line (in EUR) | 32.2 | 32.8 | –1.8% | 32.4 | 33.1 | –2.2% |
| Fixed service revenues (in EUR mn) | 224.5 | 227.3 | –1.2% | 450.7 | 458.5 | –1.7% |
| Total voice minutes | 649.9 | 743.8 | –12.6% | 1,343.4 | 1,527.8 | –12.1% |

| Lines (in '000) | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| Access lines (without broadband lines) | 1,107.7 | 1,214.7 | –8.8% |
| Fixed broadband retail lines | 1,171.8 | 1,042.6 | 12.4% |
| Fixed broadband wholesale lines | 43.9 | 46.9 | –6.3% |
| Fixed broadband lines | 1,215.8 | 1,089.5 | 11.6% |
| Total access lines | 2,323.5 | 2,304.3 | 0.8% |
| Lines unbundled | 276.2 | 282.0 | –2.0% |

### Austrian Telecommunications Market

| Broadband Market Shares | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| A1 Telekom Austria Fixed Line Retail | 30.4% | 30.6% | |
| A1 Telekom Austria Fixed Line Wholesale | 1.1% | 1.4% | |
| Mobile broadband A1 Telekom Austria | 18.2% | 17.2% | |
| Mobile broadband other operators | 28.7% | 27.6% | |
| Cable | 14.9% | 15.5% | |
| Unbundled lines | 6.6% | 7.7% | |
| | | | |
| Broadband penetration - Total market | 106.2% | 94.7% | |

| Voice Market Shares | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| Fixed Line A1 Telekom Austria | 11.4% | 12.8% | |
| Fixed Line Others | 6.7% | 7.4% | |
| Mobile | 81.9% | 79.8% | |

| Key Data Mobile Communication | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| Mobile Communication Customers ('000) | 5,175.8 | 4,967.4 | 4.2% |
| Contract share | 76.8% | 74.7% | |
| Mobile Broadband Subscribers | 702,251 | 586,787 | 19.7% |
| Mobile Market Share | 40.8% | 42.1% | |
| Mobile Penetration | 150.9% | 140.4% | |

| | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Average monthly revenue per User (in EUR) | 20.5 | 22.4 | –8.5% | 20.3 | 22.1 | –8.0% |
| Mobile service revenues (in EUR mn) | 317.4 | 330.5 | –4.0% | 627.3 | 650.6 | –3.6% |
| thereof interconnection share | 9.5% | 11.2% | | 9.7% | 11.2% | |
| Data as percentage of traffic-related revenues | 44.9% | 40.6% | | 45.4% | 40.9% | |
| Subscriber acquisition cost (SAC) | 11.7 | 8.6 | 35.8% | 22.2 | 15.8 | 40.8% |
| Subscriber retention cost (SRC) | 20.5 | 18.8 | 8.8% | 40.5 | 36.8 | 10.0% |
| Churn (3 Months) | 3.6% | 3.4% | | 7.6% | 7.1% | |

## Key Data Segment Bulgaria*

### Bulgaria

| in EUR million | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Revenues | 130.5 | 141.7 | –7.9% | 263.9 | 277.2 | –4.8% |
| EBITDA comparable | 70.8 | 76.9 | –8.0% | 135.5 | 149.4 | –9.3% |
| EBITDA (incl. Restructuring and Impairment Charges) | 70.8 | 76.9 | –8.0% | 135.5 | 149.4 | –9.3% |
| EBIT | 18.9 | 33.5 | –43.5% | 37.7 | 64.0 | –41.0% |

| Mobile Communication Market | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| Mobile Subscribers ('000) | 5,295.4 | 5,241.4 | 1.0% |
| Mobile Market Share | 49.3% | 50.2% | |
| Mobile Penetration | 143.2% | 138.4% | |
| Mobile Broadband Customers ('000) | 161,631 | 72,964 | 121.5% |
| Average monthly revenue per User (in EUR) | 7.3 | 8.5 | –14.7% |
| Data as percentage of traffic-related revenues | 28.3% | 17.1% | |
| **Fixed Line Market** | | | |
| ARPL (in EUR) | 15.2 | 0.0 | - |
| Total Access Lines ('000) | 101.2 | 0.0 | - |
| Fixed Broadband Lines ('000) | 95.7 | 0.0 | - |

* The reported result includes depreciation and amortization of fair value adjustments resulting from past business combinations and therefore may deviate from the result of the single financial statements.

## Key Data Segment Croatia*

### Croatia

| in EUR million | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Revenues | 100.5 | 110.5 | –9.1% | 190.8 | 210.8 | –9.5% |
| EBITDA comparable | 27.1 | 36.1 | –24.8% | 52.0 | 64.9 | –19.8% |
| EBITDA (incl. Restructuring and Impairment Charges) | 27.1 | 36.1 | –24.8% | 52.0 | 64.9 | –19.8% |
| EBIT | 11.0 | 19.2 | –42.3% | 19.6 | 31.1 | –36.9% |
| Average monthly revenue per User (in EUR) | 13.3 | 14.8 | –10.1% | 12.8 | 14.5 | –11.5% |
| Data as percentage of traffic-related revenues | 25.4% | 26.1% | | 26.6% | 27.2% | |

| | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| Mobile Communication Subscribers ('000) | 2,065.8 | 2,044.9 | 1.0% |
| Contract share | 35.6% | 32.8% | |
| Mobile Market Share | 39.2% | 40.0% | |
| Mobile Penetration | 119.6% | 115.9% | |
| Mobile Broadband Customers ('000) | 165,691 | 141,210 | 17.3% |

* Due to a new definition on prepaid subscribers, the counting method of active prepaid SIM cards was changed from a 15-month rolling average to a 90 day active methodology. Following this implementation historic KPI's have been restated as of Q1 2010.

## Key Data Segment Belarus*

### Belarus

| in EUR million | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Revenues | 72.9 | 86.3 | –15.6% | 162.8 | 159.9 | 1.8% |
| EBITDA comparable | 33.4 | 42.2 | –20.9% | 75.4 | 77.0 | –2.0% |
| EBITDA (incl. Restructuring and Impairment Charges) | 33.4 | 42.2 | –20.9% | 75.4 | 77.0 | –2.0% |
| EBIT | 19.8 | 21.7 | –8.4% | 42.0 | 38.0 | 10.3% |
| Average monthly revenue per User (in EUR) | 4.9 | 6.4 | –24.1% | 5.5 | 5.9 | –7.2% |

| | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| Mobile Communication Subscribers ('000) | 4,461.4 | 4,144.9 | 7.6% |
| Contract Share | 79.0% | 77.2% | |
| Market Share | 40.8% | 41.1% | |
| Market Penetration | 115.4% | 106.3% | |
| Mobile broadband subscribers ('000) | 275,394 | 55,247 | n.a. |

* The reported result includes depreciation and amortization of fair value adjustments resulting from past business combinations and therefore may deviate from the result of the single financial statements.

## Key Data Segment Additional Markets

### Slovenia

| in EUR million | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Revenues | 47.3 | 42.2 | 12.0% | 90.0 | 81.7 | 10.1% |
| EBITDA comparable | 12.0 | 11.6 | 3.1% | 22.9 | 23.1 | –0.9% |
| EBITDA (incl. Restructuring and Impairment Charges) | 12.0 | 11.6 | 3.1% | 22.9 | 23.1 | –0.9% |
| EBIT | 5.9 | 6.4 | –7.9% | 11.6 | 12.7 | –8.2% |
| Average monthly revenue per User (in EUR) | 20.4 | 20.6 | –1.1% | 19.8 | 20.0 | –1.2% |
| Data as percentage of traffic-related revenues | 34.2% | 25.2% | | 32.9% | 25.4% | |

| | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| Mobile Communication Subscribers ('000) | 632.7 | 591.7 | 6.9% |
| Contract Share | 72.3% | 70.0% | |
| Market Share | 29.9% | 28.2% | |
| Market Penetration | 103.7% | 101.9% | |
| Mobile broadband subscribers ('000) | 15,300 | 12,819 | 19.4% |

# Key Data Segment Additional Markets

## Republic of Serbia

| in EUR million | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Revenues | 35.5 | 25.9 | 36.9% | 65.6 | 49.1 | 33.6% |
| EBITDA comparable | 7.6 | –2.2 | n.a. | 11.9 | –7.2 | n.a. |
| EBITDA (incl. Restructuring and Impairment Charges) | 7.6 | –2.2 | n.a. | 11.9 | –7.2 | n.a. |
| EBIT | –6.7 | –13.3 | –49.9% | –15.5 | –29.5 | –47.4% |
| Average monthly revenue per User (in EUR) | 7.3 | 6.1 | 19.6% | 6.9 | 5.9 | 17.4% |

| | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| Mobile Communication Subscribers ('000) | 1,506.3 | 1,264.7 | 19.1% |
| Market Share | 14.7% | 13.0% | |
| Market Penetration | 138.4% | 130.6% | |

## Republic of Macedonia

| in EUR million | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Revenues | 13.2 | 8.4 | 56.9% | 24.3 | 15.4 | 58.2% |
| EBITDA comparable | 0.5 | –1.6 | n.a. | 0.0 | –3.1 | n.a. |
| EBITDA (incl. Restructuring and Impairment Charges) | 0.5 | –1.6 | n.a. | 0.0 | –3.1 | n.a. |
| EBIT | –2.1 | –3.8 | –43.6% | –5.1 | –7.5 | –31.4% |
| Average monthly revenue per User (in EUR) | 7.6 | 6.6 | 15.1% | 7.1 | 6.3 | 12.7% |

| | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| Mobile Communication Subscribers ('000) | 504.9 | 353.2 | 42.9% |
| Market Share | 22.7% | 17.1% | |
| Market Penetration | 108.7% | 101.6% | |

## Liechtenstein

| in EUR million | Q2 2011 unaudited | Q2 2010 unaudited | % change | 1-6 M 2011 unaudited | 1-6 M 2010 unaudited | % change |
|---|---|---|---|---|---|---|
| Revenues | 2.1 | 1.7 | 22.6% | 4.0 | 3.4 | 15.1% |
| EBITDA comparable | 0.7 | 0.3 | 117.2% | 1.2 | 0.7 | 65.3% |
| EBITDA (incl. Restructuring and Impairment Charges) | 0.7 | 0.3 | 117.2% | 1.2 | 0.7 | 65.3% |
| EBIT | 0.5 | 0.1 | 325.5% | 0.8 | 0.3 | 150.2% |

| | Q2 2011 unaudited | Q2 2010 unaudited | % change |
|---|---|---|---|
| Mobile Communication Subscribers ('000) | 6.6 | 6.2 | 5.9% |

# Selected Explanatory Notes to the Consolidated Interim Financial Statements (unaudited)

## Basis of Presentation

The consolidated interim financial statements, in the opinion of management, include all adjustments necessary for a fair presentation in accordance with International Financial Reporting Standards (IFRS).

These financial results in accordance with IAS 34 "Interim Financial Reporting" are not audited or reviewed and should be read in connection with the Company's annual consolidated financial statements according to IFRS for the year ended December 31, 2010. The consolidated results for the interim periods are not necessarily indicative of results for the full year.

No major related party transactions, commitments and guarantees occurred since December 31, 2010.

The preparation of the interim financial statements in conformity with IFRS requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

The Company has applied the same accounting policies and methods of computation in the interim financial statements as in the annual financial statements as of and for the year ended December 31, 2010 except for standards/interpretations which became effective during 2010 and as of January 1, 2011:

| | | Effective * |
|---|---|---|
| IAS 24 | Related party disclosures (revised) | January 1, 2011 |
| IAS 32 | Changes regarding classification of rights issue | February 1, 2010 |
| IFRS 1 | Additional exemptions for first time adopters in connection with IFRS 7 | July 1, 2010 |
| IFRIC 19 | Repayments of financial liabilities with equity instruments | July 1, 2010 |
| IFRIC 14 | Minimum funding payments (revised) | January 1, 2011 |
| | Amendmends to IFRS's as result of improvements project 2010 | January 1, 2011 |

* This standard/interpretation is effective for annual periods beginning on or after the presented date (in accordance with IASB).

The Company has adopted these standards/interpretations as of January 1, 2011. The effects of these new Standards/Interpretations, if any, on the consolidated financial statements were insignificant.

Compared to other economic sectors the telecommunications industry is in general less cyclical. Within the telecommunication sector the seasonality of the Company's segments shows the same pattern as other European incumbents, having lower margins in the year-end quarter due to Christmas promotions, equipment provided to customers and increases in sales commissions. However, customer and visitor roaming revenues are above average in the third quarter due to the summer vacation season. In Austria visitor roaming is also above average in the first quarter due to winter sports tourism.

## Format of the Condensed Consolidated Statements of Operations

Telekom Austria Group uses EBITDA comparable and EBITDA (incl. impairment and restructuring charges) to better evaluate trends in the Company's underlying operations. EBITDA comparable comprises EBITDA adjusted for expenses of the restructuring program in the segment Austria and impairment charges, if applicable. The restructuring program includes social plans for employees whose employment will be terminated in a socially responsible way, and expenses for the future compensation of civil servants, who will no longer provide services for Telekom Austria Group but who cannot be terminated due to their status as civil servants. Furthermore expenses for the transfer of civil servants to the Austrian government are adjusted in this line item. Employee expenses for the first half 2010 were adjusted by EUR 13.7 million related to restructuring expenses. For details on restructuring expenses for the first half 2011 see "provisions and accrued liabilities".

## Operating Segments – Change in Reporting Structure

Telekom Austria Group has realigned its management structure due to the increasing demand for convergent products. As a result, reporting on operating segments is based on geographical markets since September 30, 2010, instead of the segmentation in fixed and mobile business. The Telekom Austria Group reports separately on the five operating segments, Austria, Bulgaria, Croatia, Belarus and Additional Markets. Comparative figures for the first half 2010 were adjusted accordingly.

## Business Combinations

On January 25, 2011 Telekom Austria Group purchased 100% shares of the fixed line provider Spectrum Net AD ("Spectrum") through its Bulgarian subsidiary Mobiltel. On February 3, 2011, Telekom Austria Group purchased 80% of another fixed line operator, Megalan Network AD ("Megalan"), and committed to purchase the remaining 20% until March 31, 2012. Therefore Telekom Austria Group consolidates 100% of Megalan, without recognizing a non-controlling interest. The purchase price due for the remaining 20% of the shares is deposited in an ESCROW bank account. Both companies are presented in the segment Bulgaria. The table "Acquisition of Megalan and Spectrum" summarizes the acquisition-date fair value of each major class of asset and liabilities of the acquired companies. Fair values were determined based on the provisional purchase price allocation to assets and liabilities. Acquisition-related costs recognized as expense amounted to EUR 1.0 million. The purchase prices not yet paid are related to premiums, which are contingent to the fulfillment of certain targets of the acquired companies and are recorded as financial liabilities at fair value.

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

Acquisiton of Megalan and Spectrum

| in EUR millions (unaudited) | Fair values on acquisition |
|---|---|
| Property, plant and equipment | 15.3 |
| Intangible assets | 35.4 |
| Other assets and receivables | 5.6 |
| Cash and cash equivalents | 2.2 |
| Loans, bonds and short-term borrowings | –9.2 |
| Deferred tax liabilities | –3.0 |
| Accounts payable - trade | –1.7 |
| Accrued liabilities and other payables | –3.6 |
| **Net identifiable assets and liabilities** | **41.0** |
| Goodwill on acquisitions | 37.1 |
| **Total purchase considerations** | **78.1** |
| Purchase prices not yet paid | –7.1 |
| Cash acquired | –2.2 |
| **Net cash outflow** | **68.8** |

In the first quarter 2011 EUR 15.8 million of the outstanding performance-based deferred consideration for the acquisition of SB Telecom Limited (SBT), the sole owner of FE VELCOM ("velcom"), was paid, since predetermined performance criteria had been fulfilled. As of December 31, 2010 this consideration was recorded in other current liabilities.

## Non-current and current liabilities

In the first half 2011 an amount of EUR 710.0 million of long-term debt was raised and EUR 221.4 million of long term debt was repaid. Short-term borrowings increased slightly mainly due to classifying maturing long –term debt as short-term which was partly offset by repayment of multi-currency notes, short-term debt and current portion of long-term debt.

The decrease in other non-current liabilities is due to the reclassification of the deferred consideration for the acquisition of SBT to other current liabilities, because this deferred consideration is expected to become due in first quarter 2012.

In April 2011 the last existing cross border lease transaction was terminated prior to maturity. The early termination was attractive from both, legal and economic perspectives. The Telekom Austria Group recognized an expense for the termination and on the other hand realized the remaining unrealized balance on the sale of tax benefit allocated to this transaction. As a result net interest income of EUR 0.5 million was recorded.

In 2010 the Telekom Austria Group has introduced a Long Term Incentive Program (LTI). At June 1, 2011 the second tranche of LTI (LTI 2011) was granted. Main conditions remained unchanged compared to LTI 2010.

As of the reporting date a liability measured at fair value for the expected future expense of the LTI program, which is already vested, is recorded. The fair value of the liability is measured based on the expected target achievement and the expected share price, as determined by applying a binomial calculation model generally used for share price analysis, taking into account expected dividends. The liability is recognized over the vesting period. As of June 30, 2011 the liability recorded for LTI 2010 and LTI 2011 amounted to EUR 1.7 million.

## Provisions and accrued liabilities

As of January 19, 2011 the new social plans became effective in the segment Austria, providing for early retirement, special severance packages and golden handshake options. In the first half 2011 a restructuring expense of EUR 194.6 million was recorded. The provision for restructuring amounting to EUR 673.0 million as of December 31, 2010 increased to EUR 842.1 million as of June 30, 2011.

Additionally, a restructuring expense of EUR 24.1 million was recorded for civil servants of the segment Austria who voluntarily changed to the Austrian government to take on administrative tasks. The corresponding provision amounting to EUR 38.2 million as of December 31, 2010 increased to EUR 54.5 million as of June 30, 2011.

## Income Taxes

The effective tax rate for the first half 2011 and 2010 was 8.0% and 21.8%. In the first half 2011 the effective tax rate was less than the Austrian statutory tax rate of 25% mainly due to tax incentives and foreign tax rate differentials.

Net deferred tax assets of EUR 110.4 million as of December 31, 2010 increased to EUR 166.7 million as of June 30 2011 mainly due to the recognition of deferred tax assets relating to operating loss carry-forwards and to impairments in connection with investments in subsidiaries, which was only partly compensated by the recognition of the deferred impairments of investments in subsidiaries for tax purposes over seven years according to Austrian legislation and the reduction of deferred tax liabilities resulting from foreign exchange differences.

## Foreign currency translation adjustment

On May 23, 2011 the Belarusian Ruble was devaluated resulting in in a negative adjustment of EUR 341,6 million in the first half 2011. The appreciation of the Serbian Dinar lead to a positive adjustment of EUR 8.9 million in the first half 2011. In the first half 2010 the appreciation of the Belarusian Ruble resulted in a positive adjustment amounting to EUR 78.5 million whereas the devaluation of the Serbian Dinar lead to a negative adjustment of EUR 26.4 million.

## Impairment Test

The devaluation of the Belarusian Ruble in May was the trigger to perform an impairment test for the cash-generating unit velcom. Key assumptions applied in the value in use calculation are discount rates after tax (WACC) of 29.7% declining to 10.0% for the perpetual annuity (pre-tax 39.1% declining to 13.1%) and a growth rate for the terminal value of 2.0 %. The resulting value in use was compared with the carrying amount of the cash-generating unit velcom including goodwill. As the carrying amount does not exceed the value in use no impairment had to be recorded.

## Subsequent Events

On August 8, 2011 Telekom Austria Group purchased 100% shares of B.net Hrvatska d.o.o. ("B.net"), the largest cable operator in Croatia, through its Croatian subsidiary Vipnet for a purchase price of EUR 70.1 million. B.net is the sole shareholder of Na KVADRAT d.o.o., VOLJAGLAS d.o.o. and NA KUB d.o.o, with its corporate seats in Zagreb. The acquisition of a cable operator will allow Vipnet to participate in the anticipated strong growth of fixed broadband, TV-services and convergent products in the Croatian market and to position itself as a fully integrated operator. The entities will be reported in the Segment Croatia.

On April 18, 2011 the Belarusian Currency Stock Exchange announced the deregulation of the Belarusian Ruble exchange rate due to a shortage of hard currencies. The opening of the so called "alternative trading sessions" has not yet been announced. Since then only limited amounts of hard currency could be exchanged and transferred. The Telekom Austria Group is currently evaluating the impact on the consolidated financial statements.

# Statement of All Legal Representatives

## Declaration of the Management Board according to § 87 Abs 1 Z 4 Börsegesetz

We confirm to the best of our knowledge that the condensed interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the International Financial Reporting Standards (IFRS) and that the group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements and of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Vienna, 17 August 2011

The Management Board

Hannes Ametsreiter

CEO Telekom Austria Group

Hans Tschuden

CFO Telekom Austria Group