

TELEKOM AUSTRIA GROUP
SECOND QUARTER 2010 RESULTS
CONFERENCE CALL
August 18th, 2010
16:00 C.E.T.

MODERATORS:

MR. MATTHIAS STIEBER, DIRECTOR INVESTOR RELATIONS

MR. HANNES AMETSREITER, CEO, TELEKOM AUSTRIA AG

MR. HANS TSCHUDEN, CFO, TELEKOM AUSTRIA AG

MATTHIAS STIEBER:

Good afternoon ladies and gentlemen, this is Matthias Stieber speaking. Also from my side a very warm welcome to today's conference call for the second quarter 2010. I'm very pleased to have here with me our CEO, Hannes Ametsreiter and our CFO, Hans Tschuden who will lead you through the operation as well as the financial highlights and without any further ado, I would like to handover to Hannes.

HANNES AMETSREITER:

Good afternoon and gentlemen. This is Hannes Ametsreiter speaking. I'm very pleased to present you what we believe was a difficult but successful second quarter. We are in a very challenging, still in a very challenging environment and we still do feel the pressure of regulatory and also some macro-economic headwinds.

What we achieved in the fixed line is that we significantly reduced the line losses from 6,000 in the second quarter '10 versus 12,600 in the second quarter '09 and further Mobile Communication subscriber growth of around 6% to total of 19.2 million customers within the Group.

We had a slowdown of Group revenue declined to minus 1.9% supported by Fixed Net revenue growth, I mean this is after quite a while being achieved from us that we could grow the revenue also in the fixed line and lower revenue reduction in the Mobile Communication segment.

Group EBITDA declines by 7.2% excluding one-off charges due to higher revenue related to Fixed Net expenses and lower mobile revenues cushioned by cost reductions.

Strong free cash flow generation continues amounting to €199.5 million. We are including the impact from the merger of the domestic operation mobile and fixed and we do expect revenues approximately €4.7 billion and EBITDA of €1.60 too and that was a change in our outlook €1.65 billion for the fiscal year of 2010. The DPS floor of 75% is reiterated by the management of Telekom Austria Group.

HANS TSCHUDEN:

So now it's me to takeover, Hans Tschuden speaking ladies and gentlemen. I guide you through more detailed financials as Hannes pointed, our revenues declined only by 1.9%, Group EBITDA by minus 10. If we exclude the 14 million one-off charges, which were in the fixed line segment, this would have been only a decline of minus 7%. So the...we had some higher operating expenses in the fixed line segment plus the one-off charges as well as some low mobile revenues which rolled out aside partly compensated by cost reductions. So overall, EBITDA margin dropped only modestly to 35.7%.

Our G&A declined due to lower investments in the previous periods. Financial results decreased by 15 million as we had lower net interest expenses due to lower interest bearing liabilities and on the other side

also less fixed effects compared to last year that Belarusian Ruble showed a more stable development in the second quarter '10. The net income declined to 16.5% so to 69 million.

If you look now a bit more into the details of revenue trends by country, you will see that first time for a couple of years, I would say, we had an increase in our Fixed Net revenues which showed a success of stabilizing line losses our bundle products, but also wholesale business was driving up our revenue growth. The business of mobilkom austria remained impacted by high competitive pressure, also lower roaming tariffs and MTR cuts negatively influenced the revenue trends.

Nevertheless, with the subscriber base growing by 7% the revenue decline slowed down to only 4.3% year-on-year versus a minus 9.5% in the first quarter '10.

In Bulgaria, the ongoing economic headwinds were a key factor influencing the revenue decline as well as the continuing competitive pressure from the third market player. Particularly this competitor continuously or continues to seek aggressively to gain market share by offering fixed and mobile conversion bundles that are becoming an increasing feature of the competition in Bulgaria.

In addition to that the reduction of MTR's remain a major factor negatively impacting our Bulgarian revenues. Nevertheless, we could increase our

contract subscriber base by close to 11% and cost cutting measures helped to keep our EBITDA margin and we were defending our market position with a market share of 50% in Bulgaria.

We felt also the challenging economic environment in the Croatian market combined with the impact of the regulatory interventions with respect to roaming and interconnection.

On the other side we had a positive development on Velcom, which continued a strong revenue growth with a plus 14% growth rate. This success is based on the one side on handset subscriber growth and a strong pickup of our mobile broadband offering, which we started launching based on our best network in Hutch.

Vip mobile in Serbia contributed positively with a strong revenue growth by 7.5 million, excluding the impact of foreign currency translation revenues would have even grown by 9.4 million.

Now looking to our EBITDA development. EBITDA declined from 450 million minus 10% to 403 million. A big part of this decline is attributable to our Fixed Net segment where the decline was €33 million including €14 million of one-off charges for civil servants, moved to post in government and some people taking up social plans. It also includes 1.2 million on charges related to the integration of our fixed and mobile segment in Austria.

The mobilkom austria connected for a second through the fixed line, we also had higher cost, revenue driven partly due to the effects that you've seen in higher wholesale revenues.

In mobilkom austria, we see a 9 million decline in EBITDA. We could partly offset the decline in revenues by cost reduction measures that had also to stabilize our EBITDA margin at 36.7%.

In Bulgaria, cost reductions of more than 8% successfully mitigated the impact of MTR cuts and pricing pressure. Consequently Mobiltel was also able to achieve an EBITDA margin of more than 54%.

In Belarus, Velcom could report strong EBITDA growth of plus 9% despite higher operating expenses related to the launch of our 3G network in the first quarter '10. This year also their fixed effects were quite limited, because we saw a more stable development of the Belarusian Ruble.

In Croatia, the mobile tax and regulatory interventions put EBITDA under pressure and were the major drivers for the decline of minus 11% or 4.4 million EBITDA and whereas some cost management helped to dampen the effect of declining revenues.

Now looking to our cash flow development, as you can see from the slide, the free cash flow generation

remained positive from...on the Group perspective. Free cash flow from operations before working capital adjustments was only slightly down with 1.9% in the second quarter. We needed substantially less cash flow changes in working capital totaled only 24 million, compared to 44 million last year and this compensated higher capital expenditures amounting to 160 million. Last year we spent 149 so that overall the free cash flow ended at €200 million, which is close to 1% up compared to the second quarter of last year and free cash flow per share amounts to 45%.

I now handover back to Hannes who will lead you through the major operational developments for the Group in the second quarter.

HANNES AMETSREITER:

Thank you Hans. I will give you some information about the key trends in Telekom Austria for mobile communication markets. If you have a look at the ARPUs then we can see a stabilization in quite some of our countries, it's even an increase of the ARPUs, so this is a tendency which is definitely a positive trend. We do see a strong growth of mobile broadband in all our countries. The growth rate is between 12% and 74%. So this is definitely an area which is a growth area and we are focusing on that one and we are leveraging and using the opportunity that we increase the penetration of broadband and especially in Eastern European countries, the penetration of fixed line broadband is very low. So it's a good chance for us to penetrate with mobile broad.

We do see a steady increase of contract shares in all our countries. This means that we are focusing on value. This means that we are focusing on ARPU and it is also a positive development, which we have seen in all our countries.

Smartphones, smartphones are presently a key driver for growth. We are not offering at the moment iPhone. We also cannot give you any information on Apple iPhone. At the moment what we are doing is that we are offering iPad in Austria, but what we do see conserving smartphones this is also a very relevant growth opportunities. ARPU is significantly higher of smartphone users than normal device users and this means that this is a great opportunity for further development if we focus on the right place and devices. This is what we've already seen over the last weeks and months.

Some interesting information about the VDSL out of the central office rollout strategy. We are now entering a new phase. We already talked about the fiber trials which we are running in Villach and Klagenfurt in the 15th and 19th District in Vienna and that we are using and connect...using VDSL technology in rural areas to connect many households.

We in Phase 1 planned to connect 570,000 households. We will now in September connect 1.5 million households. It will be the 1st of September in the year

of 2010 that we are using VDSL out of the CO technology. This means it's not the FTTC VDSL, which you might think of, it is just, it's fiber through the [foreign language] to the central office and then using the copper network infrastructure.

So we are now dividing technology, on one hand VDSL@CO that means fiber-to-the-central-office, its fiber-to-the-curb. It's fiber-to-the-building and fiber-to-the-home. This we are using in different aspects Phase 1 information as already given to you for several times. This is not a next step VDSL@CO only. This means that we are making a significant step in the reach of our households. We will jump from 570,000 in June 2010 to 1.5 million in September 2010.

Instead, we will steadily increase until the end of the year adding another 200,000 and further moving on in the future. This means for us that we are able to reach with any of the mentioned fiber technologies upto 1.7 million households in the year of 2010. This is an excellent opportunity for us. If you just remember you need to have 4 megabit for SBTv you need 8 megabit for HDTV. So this gives us a good opportunity to sell [technical difficulty] TV services, Internet et cetera in a very nice bundle to a much broader target group than before. The CapEx is already included in the guidance.

Giving you an update on the integration procedure in Austria, we now have implemented all the operational structures and management appointment of

management level one, two, three so more or less everybody is appointed, 90% of all the positions are filled with managers. So we are up and running. In some areas like the sales, we are still training people until the end of the year, then one sales person will takeover the responsibility for mobile and fixed and will be the central point of interface for the customer.

The focus too in the second half of 2010 is IT systems, sales, customer service as I mentioned, of course the integration of IT and technology systems takes a longer time, but we are working on it and so far we are developing quite well.

Coming to the cost of the integration, efficient integration needs to reduce negative cash flow impact in 2010. We expect an OpEx in 2010 of minus €20 million to minus €25 million. We expect in CapEx of minus €10 million to minus €15 million, total figure €30 million to €40 million. This will be for the year of 2010.

Overall schedule confirmed with better visibility on cash flow effects. We told you in our last conference call that we'll give you some more details about the integration costs. This is now already been given. We follow our plan that breakeven will be in 2012 and we also expect in the years 2014, '15 an additional €100 million per month.

Giving you an outlook on 2010, we are now including the merger. The DPS law is reiterated. We expect an approximate revenue of 4.7 billion, so this is a confirmation. The EBITDA is increased, slightly increased from 1.6 billion to 1.65 billion. CapEx may 800 million now 750 to 800 million. Operating free cash flow at least €800 million dividend confirmed with the DPS of \$0.75 minimum. So this presentation is also more efficient not only the operation. This was a proposal from Matthias and hopefully this will give you all the necessary and relevant information now with our presentation and our explanations to this presentation. Thank you.

HANS TSCHUDEN: Okay. Thank you very much. So please operator, we are now ready to take the questions.

Q&A

OPERATOR: The first question is from Mr. Dimitri Kallianiotis from Citi. Please go ahead sir.

DIMITRI KALLIANIOTIS: Good afternoon. I have got two questions please. The first one is its in terms of the improvement we saw on the top-line in domestic fixed. I just wanted to know what are your expectation is you think this of course you know this is sustainable as an improvement as for the flat top-line in fixed and also, what are your expectation in terms of subscriber acquisition cost because they've gone up quite significantly and I was just thinking should we just expect that to continue

simply because you've got a different mix of services with a lot of bundles and TV products? My second question is on the comment you make in the press release about fierce competition. Is that, do you still see the same level of competition in Austrian Mobile because we saw some improvement in terms of your also top-line and EBITDA and not just revert (Ph) those with Deutsche Telekom? So just trying to get your feeling about the level of competition in mobile as well? Thank you very much.

HANNES AMETSREITER:

Starting with the competition in the mobile segment, what we could see in...it's actually in every country, is the stabilization of ARPU and even in some countries an increase in the ARPU, while becoming from one end it's smartphone development because smartphones are creating an a higher ARPU then normal phones and it is just one sector which is helping and developing in increasing the ARPU. On the other hand, I mean it's an increase of minutes, which we could see is that really sustainable I think that on development with smartphones will be an ongoing increasing minutes not really. So partly this could be a positive development and this could also be...might be also seen in the future. Talking about the revenue growth, which you mentioned in the fixed line, it's too early to say that there is a turnaround in the revenue development as far as we are losing minutes and we are losing minutes up to 12.0% I wouldn't be very confident in a constant development of revenues in the fixed line. I think that first we need to fix two things. One is the customer

base development, which seems to have a positive trend, that's excellent. On the other side, the minute loss is still there and here we are suffering because we are losing high margin revenue and I would be a bit cautious with that development for the moment.

HANS TSCHUDEN: Regarding the question of subscriber acquisition cost, we see it in absolute terms a decline compared to the second quarter on aon and also in subscriber acquisition cost that grows at a decline which is substantial, so I think that that continues or confirms the trend we have seen also already in the past well couple of quarters so we are very cautious on the level of subscriber acquisition costs. Regarding the competition in Austria....

HANNES AMETSREITER: Just we answered to that.

HANS TSCHUDEN: Yes, okay.

HANNES AMETSREITER: I did it already.

DIMITRI KALLIANIOTIS: Thank you very much.

OPERATOR: The next question is from Chris Alliott from RBS. Please go ahead, sir.

CHRIS ALLIOTT: Yeah, good afternoon. Couple of questions if I may, firstly on CapEx in the fixed business going forwards, I wonder if you could just comment on the level of CapEx you expect going forwards as you increase the

VDSL rollout in 2011 and on. And secondly, I wonder if you are able to give any indication of the ARPU uplift coming from TV subscribers in the domestic fixed business? Thanks.

HANNES AMETSREITER: I'm starting with the TV business. So the bundles we are offering a structure reflects the basic kombi package, a basic kombi package. The price for the main offerings is between €20 and €25, sometimes even higher. If you would like to have additional TV then it's another €5 per month. If you are using the video to extend the video-on-demand service then you would pay per video and so we are having a revenue share with our content partner. So these are additional a few euros which needs to be added in that bundling. If you would like to have higher speed of a bandwidth at 16 or 30 megabit especially now with...we do see a lot of the CO and this would be another €5 for the 16 and another €15 for the 30 megabit offering.

HANS TSCHUDEN: Regarding CapEx for 2011, we are not yet guiding the year 2011. For this year, we have seen in the first half that we spent more in fixed line, but less in mobile and this trend I think will continue that compared to last year we are spending bit more in fixed line due to the fiber rollouts in the projects as well as the investment for a VDSL rollout.

CHRIS ALLIOTT: Okay. So if I look at the combined CapEx in the domestic business next year something similar to the current year is probably reasonable?

HANS TSCHUDEN: Yes, before we are not yet guiding for our next year's CapEx.

CHRIS ALLIOTT: Okay, thanks.

OPERATOR: The next question is from Hannes Wittig from JPMorgan. Please go ahead, sir.

HANNES WITTIG: Yeah, good afternoon. I just wondered again since you are integrating the fixed and the mobile business in Austria and you have mentioned that the aggression that you see at Bulgaria from fixed mobile combined offerings whether they are, is it a safe need from your side to build fixed assets in your Eastern European operations or acquire such fixed assets or whether you feel you are okay driving this as a mobile only play?

HANNES AMETSREITER: I think we carefully have to watch the different markets. We see in Austria now with the integration, which we are focusing on, but of course we have to watch the markets. We are in all sides of Austria and we are appropriate and immediately will of course carefully see what the developments are and how we can address those strengths. So nothing to ask you for a time being, but of course we have to watch this markets where we are in order not to miss any trends. Hello.

HANNES WITTIG: Yeah, thank you very much.

HANNES AMETSREITER: Okay.

OPERATOR: The next question is from Jacob Bluestone from Merrill Lynch. Please go ahead sir.

JACOB BLUESTONE: Hi there. I've got two questions please. Firstly just trying to understand a little bit better, what your VDSL over copper actually allows you to do and so you are basically saying that you will be able to offer up to 30 megabit, is that actually for most of the customers in the footprint or is that only a very small number who would actually have to receive those towards the services. I'm just trying to understand, you know how much of your footprint will be able to receive a substantial improved service? And then secondly, on your working capital, I mean obviously it's been improving, I guess despite the network push and can you may be just give us a little bit of a steer towards whether we should be looking for further improvements in working capital going forward or will some of this reverse out later in the year? Thanks.

HANNES AMETSREITER: The VDSL model is a very simple one. So as I mentioned before it's fiber to the central office and then using the network. The speed and terms that we will be able to offer to the customers is depending on the distance. The customers heading from the central office up to 1000 meter...radius of 1000 meter around central office, the speed will be 30 megabit and it's getting slower. So these 1.5 million households in Austria, they would be able to use the 16 megabit and

around 30 to 40% of them would be able to use the 30 megabit bandwidth and speed.

JACOB BLUESTONE: That's very clear. Thanks and on the working capital?

HANS TSCHUDEN: Yes, I just wanted to address it.

JACOB BLUESTONE: Okay.

HANS TSCHUDEN: We have seen...

HANNES AMETSREITER: I think the half years figures, because just looking at one quarter might be misleading. So after six months, we have seen an improvement in our overall working capital with €17 million out of which 8 million are real operational improvements. So we look at the operational working capital, which includes accounts payable, accounts receivable and inventory. So there we have improved with 8 million, 62 million improvement were coming from changes in other assets and other liabilities, for instance, we have seen and with action of tax receivables on the one side. On the other side, in another country we had seen an increase in our tax payables and our liabilities versus social security which helped of course the working capital overall. So my best guess for the time being is that for the rest of the year, I would not see a reversal of those improvements, but I would also not expect a further improvement overall.

JACOB BLUESTONE: That's very clear. Thank you.

OPERATOR: The next question is from Graeme Pearson from Nomura. Please go ahead, sir.

GRAEME PEARSON: Well, thanks. You've done a good job on cost reduction across the Group over the last few quarters, but they...if I strip out the exceptionals the clean Group EBITDA is still falling about 7% in the quarter, which is actually a bit worse than the previous quarter, I think, so I'm just wondering if you could talk through the next steps on cost reduction at the EBIT Group level. And then second, you mentioned that the third players in both Bulgaria, I think Belarus are also getting a bit more aggressive, just wondering if you can talk a bit more about the competitive environments in those two countries in particular? Thank you.

HANNES AMETSREITER: I'm starting with the second one. Talking about the competitive environment in Bulgaria and Belarus especially we have a situation in Bulgaria that third player Vivacom is aggressively offering bundle services in the market. This can be counteracted by our and collaboration in Bulgaria, because if you look at the market share, we are pretty stable at plus percent 60% situation and position and we do not really enter new fields, but we need to be very cautious about further developments at the moment. We are still pretty comfortable, because in Bulgaria we kept the market share on one hand.

On the other hand, we increased the EBITDA margin by 0.4% points, which is also a good development and they could take along the side. In Belarus, the Turkish operation is aggressive, but that needs to be aggressive as a third player. So I mean that's not really a surprise to us that they are trying to aggressively enter the market. The good thing is that they are normally, after as they captured the customer, they are increasing prices. So and then it seems to get a bit more normal also in Belarus who is the first player.

HANS TSCHUDEN: Regarding cost reductions we have had a big program in 2009 which was finalized; part of this program will only have its full impact in 2011. So we do expect some further cost reductions kicking in throughout the rest of '10 and into '011. Of course, it's almost a focus, but and then critically to be reviewed from the local management, but we have no dedicated cost reduction program for the time being in place which was finalized, the last one in 2009.

GRAEME PEARSON: Could I just follow up on that, I guess this is nearly the end of August now, so have you seen any big changes in the trends in Eastern Europe since the end of June in any of the big...in any of the markets?

HANNES AMETSREITER: I mean we've shown you the ARPU development, which is a positive one. Otherwise, I would not say that there is any big change in the situation in the Eastern countries.

GRAEME PEARSON: Great. Thank you.

OPERATOR: The next question is from Ulrich Rathe from Société Générale. Please go ahead sir.

ULRICH RATHE: Thank you. Three questions on fixed, please. The first one is with regards to the fiber rollout I mean you are saying that the regulatory framework has improved. Could you sort of highlight particular issues and rough timeframe, when you expect these issues to be resolved? #2 is again on the fiber trials or rather sort of the Giganet plan overall. What is your targeted take-up when you talk about the footprint, where do you think the take-up could sort of reach based on the trials you are running? And the third question is, if I take a step back and look at fixed business, you are talking about the stabilization of the revenue trend on your bases, but the EBITDA decline has actually accelerated to 14% I think on an underlying basis excluding the one-off. So what has happened this quarter that that caused this, I mean you mentioning some of the items towards the services, content services, in fact your TV shows and all these things. But what have these items do you think are particularly hitting you in Q2 that that may not be in the second half of the year and which of these trends will continue to hurt you in the second half of the year in the fixed business on the cost side? I'm trying to just understand sort of this past opening figures between the top-line development and the EBITDA are getting worse?

HANNES AMETSREITER:

Coming to the development of EBITDA, on one hand it's the one-offs, which we already mentioned in our presentation. On the other hand, it's also a mix of wholesale revenue, which is lower margin than voice revenue. So I mean this is also included and there is another cost factor. This is because we sold TV sets for zero and for instance taking the TV set, we gave it to the customers for zero, but the customer pays on a monthly, easiest monthly fee €10 for 36 months. So it's a contract binding over 36 months and he pays it off in a chunk of €10 per month. I mean this is also cost at the beginning generating revenue and getting the money back from the customer, so this is also a new fact. We had been very successful with our TV campaign. We generated over around 40,000 new customers and this can also be seen in the development of the results. But in total, that's good for the operation, because it reduced a significant data churn. It is an opportunity to cross-sell nicely into the costs for what is the right one. You also asked about the fiber VDSL. It's very simple; I think we've given all the information about our pilot project, wholesale all time. The experience we made in Villach for instance is that the usage is ten-fold. So it's 70 giga for a month per average user versus DSL it's a 7 giga. So I mean its, if you are really feeling you have it going to be used by the customer that's what we are seeing and volume is definitely exploding. We are now adding the video sale out of the CO, which gives us a bigger footprint and gives us the opportunity to further cross-sell our services, pick-up rate, we've seen in Villach for that

that's a rough estimation for the moment that it comes close to from 20 to 30%.

ULRICH RATHE: And on the regulatory framework?

HANNES AMETSREITER: It's still open, I mean Brussels is now working on the regulatory framework for all the countries in Europe and our regulators discussing with them, so I mean it's not very clear at the moment.

ULRICH RATHE: Okay, thank you.

OPERATOR: The next question is from Madeleine King from Credit Suisse. Please go ahead ma'am.

MADELEINE KING: Hi good afternoon. I'm...I was wondering, if you could talk a little bit about funding and obviously your cash balance is pretty low now. And so, I was wondering if you had made a decision about whether to fund the put option and earn-outs in Q4 with bundles or bundle and if you were going to go down the bank route, do you have any idea yet when exactly you'd be likely to draw on the bank line? And secondly, on the balance sheet more generally, we haven't heard from you in a while on your leverage policy. So I wondered if you could give us an update there.

HANS TSCHUDEN: Okay, funding requirements, the net debt position already includes potential requirements for the payment for the remaining shares in Belarus. We for the time being, we think we will utilize existing bank

lines and that will be most probably at the end of October the case. So it will...we will just replay if you think that's versus a Group shareholder by debts versus the bank. So for the time being, we have no intention to tap the bond market, but may be we will do that later on in the year or next year, just to spread again our maturity profile. Regarding our leverage policy, we've always said that we want to have a stable and solid investment credit rating. Currently, we have a split rating from S&P. It's BBB flat and from Standard and Poor's...from Moody's it's A minus. And so, we are comfortable with the ratings we have, I think it allows us even to increase a little bit to leverage if appropriate. Currently we are at 2.1 times net debt-to-EBITDA which is in line with the rating we have.

MADELEINE KING: So you think you could take leverage a little bit higher than the current 2.1 times?

HANNES AMETSREITER: I think we could, if necessary we rather do any trend under rating.

MADELEINE KING: Okay, that's great, thanks.

OPERATOR: The next question is from Markus Remis from Cheuvreux. Please go ahead sir.

MARKUS REMIS: Yeah, three questions if I may. First one, to better understand the slight upward adjustment in the guidance, EBITDA guidance, despite maintaining the slight...sorry the 4.7 variant on the top-line. Could you

elaborate a bit, is that because you see more OpEx savings filtering through or if you could shed more light on that? Then secondly, if you could give us an update on the discussions with the regulator concerning minute bundles? And lastly, on the timing of the integration costs, it was only 1 million spent in Q2, so most of that will come in the second half, if you could give us an idea about the split between Q3 and Q4?

HANS TSCHUDEN:

I'll take the last, the first and the last question. Integration cost will be in the second half for the vast majority as you rightly point out we only spent one million in the first half. So it will shift the rest to the second half. We had no detailed guidance now to which extent it impacts Q3 and Q4. My guess would be, it will be ramping up towards the fourth quarter. So a big part of it already the third part a bit more ramped at in the fourth or...I would include that to make a judgment. I would say 40% of the remainder is Q3 and 60% is in Q4. And for guidance adjustment, we are expecting some effects on the cost side for the second half, but nevertheless I think also the guidance on the revenues. We are around 4.7 billion, which were unchanged. So this does not automatically mean that we were totally different in our assumptions now for the outlook, which we revised.

HANNES AMETSREITER:

In the minutes bundles it's not really a lot news around it, I mean in channel there would be a lot. The problem is that their needs to be we build the lot by

our competitors that triggers a margin squeeze and makes it difficult for us. So in total that means it doesn't really help us a lot at the moment.

MARKUS REMIS: Okay, thank you.

OPERATOR: The next question is from Justin Funnell from Credit Suisse. Please go ahead sir.

JUSTIN FUNNELL: Thanks very much, you know just a few questions. You know the question of competition in Austrian Mobile is being discussed, but just specifically on Orange/1 it backed off for the €15 offer as far as I'm aware. But do you see any sign that they might reintroduce sort of giving out something fundamental behind the withdrawal of that offer and are we getting closer to a bias of the private equity partners there? Secondly, I just wondered where we were on network congestion in Austrian Mobile whether you are seeing more signs of customers getting fed up with dongles and shifting out it back to you or back to fixed line? And just finally, it doesn't seem to be any huge economy effect anyway, but you mentioned this in Bulgaria, I'm just wondering that you can be a bit more precise what you saw and I presume was it a consumer effect and what was the consumer doing, whether they are becoming more price sensitive, are they using the phone a bit less and can you quantify the impacts of whatever you saw? Thank you.

HANNES AMETSREITER: Concerning competition, we are having Aon Telekom Austria is having the clear lead in the growth of share and so this means that we can keep our market share pretty stable. What Orange or O/1 are planning or doing, they seemed to be a bit less aggressive from the market, I mean this can be seen. They have a totally congested network. So I think they just need to be a bit cautious, what devices they are bringing into the market, how they are leveraging in using the network. For us, I can say you know that we have an excellent network that by far best one in Austria. It really depends on the customers if they prefer to use fixed line at home. At the moment, they are not running into troubles with our network if they are using data sticks.

HANS TSCHUDEN: If you look at the impact of the crisis in Bulgaria and in Croatia, those markets we are seeing that our revenues are declining because the usage is coming down benefiting customers. We grew our customer base, but if you think our customers are using the phone less because their share of wallet is declining, their wallet is declining and consequently we tried to save also on telecommunication cost by using the handset less and less.

JUSTIN FUNNELL: Thank you. Just a follow up on one of your assumptions and thank you again. You are saying customers are not running into trouble with your data sticks and I guess that's no surprise, but in terms of your competitors, do you see signs hopefully for, you

know again the congestion issues are getting worse and is that helping your mobile broadband share, is that actually helping your fixed line business?

HANNES AMETSREITER: I think if you have a look at the development of our share in the mobile broadband then we are the clear leader in that development. As I mentioned before, Orange is having problems with the network, at least that's what we are hearing from customer side. T-Mobile, seem to be okay. Hutchinson, it's more about the configuration and adjustment of the network, which seems to create a perception of the customer that their network is not perfect especially in the handovers, but the coverage in the reach of Hutchinson is not bad.

JUSTIN FUNNELL: Okay, thank you.

OPERATOR: The next question is from David Wright from Deutsche Wright from Deutsche Bank. Please go ahead sir.

DAVID WRIGHT: Yes, David here. If you could just elaborate a little more on the costs and revenues associated with, I think in the TV subsidies you mentioned, may be how much cost there was in the quarter associated to that, may be how much revenue too because given it just looks like a straight financing transaction. It sounds you know, I think perhaps has distorted the EBITDA decline a little and will be distorting revenues moving forward. So could you actually give us an idea of the actual

numbers behind that, obviously if that is a very immaterial and it shouldn't really matter?

HANNES AMETSREITER: Talking about TV we now have over 120,000 users, which is a very nice development, which we have seen. Its definitely positive effect on the churn, if people are using TV services, it's a good opportunity to make some cross selling and if you are referring to what I said before, it's just concerning the device for the TV sets. It's very simple and we are following the rules of the regulator. We are not able to subsidize the TV set that's why we are giving it ex-cost to the customer. This means that the device costs €360 and the customer is having a contract spanning over 36 months and paying €10 a month. So this is a very simple way we are running the promotion.

DAVID WRIGHT: Okay. And that 120,000 users does it...I guess it doesn't tell us somewhere exactly when they rounded. They weren't allotted this quarter, were they or were they...?

HANNES AMETSREITER: No, no, no. That's the total. That's a total number of TV subscribers that we let's say the starting development was in October '07 when we really built our customer base for TV.

DAVID WRIGHT: I understand. That's clear. Thank you.

OPERATOR: The next question is from Bernd Maurer from RCB. Please go ahead sir.

BERND MAURER:

Hello, good afternoon. One question I do have regarding the digital dividend, are the Austrian regulate and the Austrian or at least the Austrian government decided that the respective frequencies will be auctioned either in the end of 2011 or at beginning of 2012. So question one would be, when do you see an auction of the digital dividend in Austria likely? And the question number two which is more important is, do you see regarding price you said regarding behavior of the participants, the German auction which took place this spring is a good property for Austria or do you say there is some different parameters we have to bear in mind?

HANNES AMETSREITER:

Well, I mean as you said I mean the government and we just can't repeat what government and regulator is saying that may be in 2011, may be in 2012 the auction for a digital dividend would start. This would mean that an implementation and launch of digital dividend will last for quite a while which means 12, 13 may be even later. So I mean this is like the transferring, but that's the only thing we can tell you. Will we all look to Germany, sometimes we do, sometimes fortunately not, so I mean, I think you cannot connect the auction with Germany, because it's much later in Austria than in Germany and it is the decision of the regulator which kind of auction he wants to use. At the moment, there is no decision on what kind of auctions he wants to use.

BERND MAURER: Are you aware of any plans when those parameters will be set up or will it just be some times in the second half of next year?

HANNES AMETSREITER: There is nothing communicated so far. All the information concerning digital dividend was not given the past year.

BERND MAURER: Okay, thank you Mr. Ametsreiter.

OPERATOR: The next question is from Michael Bishop from Barclays Capital. Please go ahead sir.

MICHAEL BISHOP: Hi good afternoon. Just two questions please. Firstly, on the civil servants transferring to the police force, I wonder if you could give us an update on how many are transferred and also how many are in six month probation? And then any updates on sort of the mid-term targets you have transferals? And secondly, roaming revenue had a sort of solid rebound in the second quarter and do you expect this recovery to continue into Q3 in particular in Eastern Europe sort of despite the roaming cuts that are coming? Thanks.

HANNES AMETSREITER: Talking about the civil servants transferred to the police. In total, it's around 105 people, which we have transferred to the police. There is another run now in November. So we will soon start the education process and hopefully we can move another yeah difficult to say, but may be 30 people, because that was this new opportunity we are able to offer some different jobs

which means more high value jobs they are called PT2 and PT3 and this gives some opportunity for us, because the target group is broader for these jobs and therefore it gives...and provides some opportunity for all civil servants to apply for these jobs, these jobs will be in the Finance Ministry.

HANS TSCHUDEN: But if you look at how many have been finally are definitely transferred it's 31 as of end of June and this is also the reason why we will focus one on probation in the second quarter. In total, we have currently 105 people there. Looking at the roaming please bear in mind and we highlighted it also in our notes that there is a one-time effect of approximately €10 million positive one in the roaming revenues for the second quarter. So you have to shift this effect out and then it's more in line with the trends of the last quarters.

MICHAEL BISHOP: Okay, great. Thanks.

OPERATOR: The next question is from Will Milner from Arete Research. Please go ahead sir.

WILL MILNER: Thanks a lot. Just a couple of quick questions, you mentioned smartphones as a key driver for growth, I wonder if you could just give us some data points really around the ARPU uplift you are seeing for a customer transferring from a non-smartphone to a smartphone and in the same context, you also mentioned you are focusing on the right tariff. And I just wonder if you could talk a little bit about what principles you are

hearing to when you are setting smartphone data plans? And then, the second question is just on the fiber in Austria, it seems like right now you are outperforming cable on both revenue and subscriber trends, I mean given the plans to expand the video cell roll-out to urban areas, I'm...I just wondered does this, you know should we [indiscernible] you are more inclined to sort of delay a full fibers-to-home rollout or your fiber-to-the-home and trials going on completely independently of that decision? Thanks.

HANNES AMETSREITER: Starting with the second one, I mean it's clear. The relation is not here, why should we invest a lot of money. So I mean, I think that the VDSL@CO solution will help over the next time. It doesn't cost really any money and gives us the opportunity to reach many many households we've got quite nice offering from cross-selling opportunities. This is why we are doing it. We believe that that's the most cost efficient way we could follow. We would only invest fiber in that areas where we really can have a significant payback on that technology. Talking about smartphones it has of course to stabilize the ARPU and ARPU at the moment in Austria is €22 with smartphones it's somewhere in between offered, it's too early to really clearly say, but somewhere in between 25 and 35.

WILL MILNER: Okay, thanks a lot.

OPERATOR: The next question is from Thomas Friedrich from UniCredit. Please go ahead sir.

THOMAS FRIEDRICH: Yeah. Hi, good afternoon. I want to come back a little bit to the issue of what impacted your ARPU recovery you described into which degree it was actually related to an economic recovery that is taking place on average across your footprint. The question is...so I would assume it is...its part of the driver...drivers behind it and the question is how vulnerable would this development be if there were a kind of scenario where the economies are double dipping or something like that. So the question is, are you vulnerable to economic fluctuations in the next quarters or other factors like smartphones data et cetera strong enough to yeah to keep this development going? Thank you.

HANNES AMETSREITER: That's difficult to answer, because nobody knows what the real development in macro-economic rise in the countries will be, I mean what we are seeing at the moment that we do see some positive trends which we mentioned with the smartphone I mean this definitely has positive impact on the ARPU. On the other side, you are normally having higher subsidies. I mean there is a positive factor, but also negative factor. We've seen some increase in minutes, but I wouldn't say as you said that there is an economic recovery, I mean I think that's too early to say, we still need to focus on our operations to really work hard on further improvement of the companies or I wouldn't say things are getting better and then the things are easing and things are improving and if that's not the case, we are still cautious about the development.

THOMAS FRIEDRICH: Okay. And that would then mean that if finally the economies would gain momentum again that would actually be more likely or could be a positive further driver for your development, would you say so?

HANNES AMETSREITER: I mean what we are seeing and that's different from country-to-country to what we saw in Austria is that especially in the business segment some investments didn't really take place, because people they were saving money. They were waiting. And I think that at one time they would have not and further invest in technology I mean this will come, if you ask me when, we don't know. On the other side in the Eastern European countries, we've seen for instance taking those area lots of bankruptcies of especially smaller companies and if they are going bankrupt they are disconnecting Syncapse which hurts our business. With the economy strengthened and improved again, I mean then this could create an environment that new companies are existing, are being founded by some people, of course this will be positive impacts, but when we don't know, at the moment it doesn't really look like it.

THOMAS FRIEDRICH: So it really seems that that the economy is not the major driver across...off most of the trends in Eastern Europe right?

HANNES AMETSREITER: No our industry is a late packing industry. So any impact or any changes in the economic trends are

impacting our business, but with a delay. So we saw that when the downturn came and we also expect that if there is an upturn in the or a stabilization that we will be affected by this with a delay of three to four quarters.

THOMAS FRIEDRICH: Okay, thanks.

OPERATOR: The next question is from Hugh McCaffrey from Goldman Sachs. Please go ahead sir.

HUGH McCAFFREY: Good afternoon guys. I've got a couple of questions around mobile broadband in your non-domestic operations. Firstly, and I notice that even though penetration is going up, it looks like ARPUs on the mobile broadband are going down because the percentage of service revenues from data are going down at the same time as penetration going up, is that being driven by promotional activity or is it just lower tariff across the board? And I'd also be interested to hear to our consumers taking those mobile broadband packages on a daily go basis or is it contractual revenue streams?

HANNES AMETSREITER: If we discuss mobile broadband on one hand we see a constant trend in every country that mobile broadband is a growth area and in growth areas you normally have competition, competition is pressure on price, I mean that's what we are seeing everywhere. So that's one aspect. The other aspect is that especially in Eastern Europe, the fixed broadband is very underdeveloped.

So the penetration rate for fixed broadband in Bulgaria is 10%. This means that this is very significantly under the European average and this means some growth opportunity for us to have the opportunity to sell additional to that smartphone for instance in mobile broadband, so that they can use this laptop notebook with the data stick and creating additional revenue per person. So I mean this is how we are seeing this opportunity with mobile broadband.

HUGH McCAFFREY: Okay, but are you saying it on pay as you go contracts or pay as you go or contract this revenues?

HANNES AMETSREITER: Sorry, we didn't get the question?

HUGH McCAFFREY: So I'll try that again. Are the customers taking it on a monthly contract or are they taking it for 12 months contract whenever they buy your mobile data product?

HANNES AMETSREITER: Depending on a country, in Austria 24 months contract, in other countries it's 12 months. So it's really depending on the country. It's a different situation some of them are using prepaid card, some of them are using postpaid subscriptions, mostly its more postpaid than prepaid, in some other countries it's more prepaid. So it really depends on the country. So in general, we cannot give an answer on this question.

HUGH McCAFFREY: Okay. Thank you.

OPERATOR: The next question is from Vera Sutedja from Erste Bank. Please go ahead ma'am.

VERA SUTEDJA: Yes, good afternoon. Just have one question please. What's your plan actually on the 4G, any plans for future CapEx or coverage may be you can share with us. I know it's a bit early, but considering you've already got have some middle term fiber plan for the fixed and may be you can share about the mobile as well?

HANNES AMETSREITER: Concerning for generations I mean they are more or less two packages to come in the future, one is the package for 2.6 gigahertz. Unfortunately, we are not able to comment in any way because it's forbidden because the process will start in September, so pretty soon, but we cannot give any information. The official information is given by regulatory by RTR. So you could get all the relevant information out at the homepage about the auction and the procedure and everything. For digital-TV band, it's a discussion which is being running since for a while, they now found all that it make sense to give this 800 to 900 megahertz frequency bands to the mobile operator, so that's the only decision which we are having by the government. They are now working on the auction process and also on the bandwidth, which is not fixed and communicated at the moment. So we cannot really give you any more information on that one. Sorry.

VERA SUTEDJA: For the 2.6 gigahertz it's already included in the CapEx right?

HANNES AMETSREITER: Yeah.

HANS TSCHUDEN: It's included in the CapEx guidance, yes.

VERA SUTEDJA: Okay, thank you.

HANS TSCHUDEN: Okay, thank you very much everybody. So well of course there will be the opportunity to ask any further questions in the upcoming road show. Tomorrow we're going to be in London and at 10:30 we have got our Analyst Presentation in the City Center. Thank you very much.

HANNES AMETSREITER: Thank you and bye.

HANS TSCHUDEN: Bye-bye.