TELEKOM AUSTRIA GROUP
Results for the 3rd quarter 2009

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Moderators:

Peter Zydek; Telekom Austria Group; Head of IR
Hannes Ametsreiter; Telekom Austria Group; CEO
Hans Tschuden; Telekom Austria Group ; CFO

Peter Zydek: This is Peter Zydek and I would like to welcome you to today's conference call for Telekom Austria Group's results for the Third Quarter 2009. Hannes Ametsreiter and Hans Tschuden have joined me to present the results and to discuss recent trends in the markets we operate in.

Hannes Ametsreiter: will discuss the operational details of our Mobile Communication and Fixed Net segment while Hans Tschuden will present the financial results for the third quarter and year-to-date of 2009. We will end this presentation with our outlook for the full year 2009. The presentation will be followed by a Q&A section. I will now give the floor to Hannes and Hans for the key developments and an overview of the key financials for the third quarter of 2009.

Hannes Ametscreiter: Good afternoon ladies and gentlemen, this is Hannes Ametsreiter speaking. I would like to highlight the most important developments of the Telekom Austria Group during the third quarter 2009.

For the seventh consecutive quarter, we cut our Fixed Net line loss by 75% with just 7,000 lines lost in 3Q 09. This is a result of stronger customer retention measures and new product bundles that we have been marketed in the last two years.

Moreover, we increased our subscriber base by 1.5 million customers to over 18.5 million in the Mobile Communication segment. Revenues were impacted by weaker FX rates, lower roaming prices and also reductions of mobile termination rates. As a consequence they declined by 7.3% to EUR1.2 billion.

Operating income reflect impairment charges of EUR352.0 million related to the goodwill for the acquisition in Velcom in Belarus and the license of Vip mobile in the Republic of Serbia.

We have adjusted our revenue and EBITDA forecasts due to foreign exchange losses, lower roaming revenues and the impact from weaker economies, whereas we reiterate our 2009 outlook for the operating FCF of 1.1 billion on actual currency basis and also a dividend per share floor of EUR0.75 for 2009-2012. We expect this difficult environment which led to a weaker outlook to prevail also in 2010.

Now I hand over to Hans, who will guide you through the financial overview of our 3Q 09 results.

Hans Tschuden: Thank you Hannes. Ladies and gentleman, in 3Q 09 revenues declined by 7.3% to EUR1,231.7 million and EBITDA decreased by 9% to EUR489.8 million as a result of lower contributions from both segments. The combined impact from weaker foreign exchange rates, price reductions for roaming following the introduction of the second round of roaming regulation and also from cuts of mobile termination rates affect revenues and EBITDA.

Reductions in operating expenses by 3.3% as well as a one-off refund received in the Fixed Net in the amount of EUR10.2 million mitigated the impact of lower revenues and resulted in an EBITDA of EUR489.8 million in 3Q 09 compared to EUR538.2 million in 3Q 08.

Operating free cash flow declined by 5.3% to EUR335.3 million as a result of lower EBITDA, but a reduction of CapEx mitigate the impact on FCF. Earnings per share decreased from EUR0.37 in 3Q 08 to minus EUR0.31 in 3Q 09 reflecting the impairment recorded. Excluding the impact from the impairment charges, earnings per share amounted to EUR 0.28.

Now I will pass back to Hannes, who will go ahead with the Fixed Net results.

Hannes Ametsreiter: Thank you, Hans.

The decline in Fixed Net revenues improved to 5.3% in the third quarter after a reduction of 12.5% in the second quarter. The improvement was mainly driven by the continuing material slowdown in line losses and the deceleration of the dilution of the average revenue per line.

The third quarter of last year included cumulative revenues of EUR10.0 million from eTel Slovensko and Telekom Austria Czech Republic, both of which were sold in November 2008 and therefore distort the comparison. The enhanced operating trend is reflected in all revenue lines.

The decline in operating expenses as well as the one-off reimbursement from the government of EUR10.2 million mitigated the impact of lower revenues and resulted in a decline in EBITDA of 4.9% to EUR157.9 million in 3Q 09 and a stable margin of 33.5%.

Now, let us take a look at the effects of our marketing initiatives.

Hannes Ametsreiter: The slowdown of fixed net access line loss continued for the 7th consecutive quarter, which allowed a reduction in line loss by 75% to 7,000 lines in 3Q 09 compared to 27,700 in 3Q 08. As a consequence, our access line base came closer to stabilization as we last just 1.3% of our subscriber lines.

ARPL declined by 4.4% in 3Q 09 to EUR34.9 compared to EUR36.5 in 3Q 08 marking a significant improvement over the 8.0% decrease in 2Q 09 compared to 2Q 08. The ARPL decline was mainly due to lower voice volumes.

Now let us turn to the Austrian broadband market. You are probably aware of the success of mobile broadband in Austria which contributed to the increase in broadband penetration in Austria to 86.8% at the end of September 09 compared to 72.5% in 3Q 08.

In this environment the Fixed Net segment increased its retail broadband market share to roughly a third of the total market. The rising number of retail broadband lines further grew by 21% and outgrew the growth of the total market including mobile broadband, which grew by around 19%.

Broadband net adds almost tripled in 3Q 09 compared to 3Q 08 and reached 24,200 driven by our product bundles and fixed 3G bundles.

Now, I would like to give you an update about our network upgrading activities. In order to improve the availability of high-speed Internet also in rural areas we are upgrading 400 central offices with VDSL2 technology to provide up to 30 megabits per second, as announced on July 3, 2009.

This will allow us to differentiate effectively against mobile broadband operators.

This selective rollout involves relative low incremental investments because high-speed Internet is accessible up to a radius of approximately 800 meters of the central offices without additional digging.

By the end of November 09, we will have connected 275,000 households and our aim is to reach 365,000 households by January 2010. This is equivalent to a coverage of about 10% households.

GigaBooster 30, our latest product supporting these data rates, can be combined with our aonKombi packages or aonBreitband Duo, our DSL and 3G-product bundle.

Monthly costs amount to EUR14.90 on top of the price of the DSL connection.

The next slide I will pass to Hans.

Hans Tschuden: Thank you, Hannes.

Let us finish the Fixed Net segment with this slide about the restructuring program and an update on the execution of this initiative. 565 employees had agreed to accept the social plan as of September 2009 and 520 have already left the company. The acceptance of the social plan continues to be stronger than expected allowing us not only to over-achieve the target of 400, but also a year ahead of time.

By the end of Q3 09, 687 FTE were released from work and their salaries will be funded with the restructuring provision accrued last year.

As announced in November 2008 restructuring measures are expected to lead to a reduction of 1,250 employees in 2009. This target is achieved as the number of employees released from work and these who have agreed to the social plan have already exceeded the 1,250 mark. Now, let us move to the Mobile Communication segment.

Hannes Ametsretier: A rising number of contract subscribers in all mobile operations drove the growth of the customer base in the Mobile Communication segment by 8.6% to 18.5 million subscribers as of September 30, 2009.

Revenues in the Mobile Communication segment fell by 7% to EUR832 million in 3Q 09 primarily driven by foreign currency translation, lower international roaming and interconnection revenues as well as lower prices for voice and data. Foreign currency translation impacted revenues negatively by EUR27.5 million. On a local-currency basis, revenues decreased by 4.1%.

Mobile Communication EBITDA declined by 10.4% to EUR337.5 million in 3Q 09 mainly due to lower contributions from Austria, Bulgaria and Croatia. The negative impact from foreign currency translation amounted to EUR8.6 million. On a local-currency basis, EBITDA declined by 8.1%.

Let us now have a look at the performance of mobilkom austria. The subscriber base of mobilkom austria, the leading mobile operator, grew by more than 8% to 4.7 million subscribers at the end of September 2009despite fierce competition in the domestic mobile market. This growth was mainly driven by our no-frills brand bob and aonMobil as well as the sale of additional SIM cards for mobile broadband.

mobilkom austria’ revenues declined by 6.4% to EUR393.1 million compared to 3Q 08 due to lower prices for voice, data, roaming and interconnection services. Roaming revenues were impacted by tariff cuts mandated by the European Union of 7% for retail-active and wholesale tariffs, and of 14% for retail-passive prices as of July 1, 2009. Mobile termination rates were reduced to EUR0.04 as of July 1, 2009 compared to EUR0.0572 in the previous year, a reduction by 30%.

This development had an impact on EBITDA which decreased by 12.6% to EUR139.1 million in 3Q 09 compared to 3Q 08, as it was impacted by lower revenues while operating expenses were cut by 2.0%.

Let us turn to mobilkom austria’s key operational figures on the next slide. mobilkomaustria maintained its market leadership with an almost stable market share of 42.4% at the end of 3Q 09 compared to 42.5% at the end of 3Q 08. The mobile penetration rate in Austria rose to 133% compared to 122.5% in the same period of previous year due to an increasing number of customers with double SIM cards for both mobile broadband and voice services.

mobilkom austria increased its mobile broadband subscriber base by almost 44% and had a 500,000 mobile broadband customers at the end of September 2009 compared to 348,000 mobile broadband customers a year ago. The number of mobile broadband net adds grew to 35.250 in 3Q 09 compared to 22.500 in 3Q 08. Data revenues as a percentage of traffic-related revenues rose from 32% in 3Q 08 to 36.7% in 3Q 09.

Moreover, our network is priced for best quality within the German speaking region according to a ranking of the telco magazine Connect.

Now, let us turn to Mobiltel in Bulgaria. Mobiltel, the leading mobile operator in Bulgaria, increased its customer base by 1% to 5.2 million customers at the end of September 2009 compared to the end of September 2008. Mobiltel's market share remained almost stable at 49.7% at the end of 3Q 09 compared to the end of 3Q 08.

Mobiltel's revenues declined from EUR179.0 million in 3Q 08 to EUR157.7 million in 3Q 09 mainly due to lower subscription and traffic revenues as well as lower roaming and interconnection revenues following regulation. The economic downturn in Bulgaria impacted both Mobiltel's business and private customer segments. A reduction of mobile termination rates to EUR11.8 cent in 3Q 09 compared to EUR16.4 cent in the previous year led to lower interconnection revenues.

Operating expenses were reduced by 12.0% resulting in a higher profitability and mitigating the EBITDA decline from EUR100.0 million in 3Q 08 to EUR89.6 million in 3Q 09. EBITDA margin increased from 55.9% in 3Q 08 to 56.8% in 3Q 09.

The following slide provides an overview of our Belarusian subsidiary Velcom. At the end of September 2009 Velcom, the second largest mobile operator in Belarus, increased its subscriber base by 12.9% to 4.0 million customers compared to 3.5 million at the end of September 2008 and showed a slightly lower market share of 43.5%.

Revenues fell by 6.4% from EUR82.4 million in 3Q 08 to EUR77.1 million in 3Q 09 due to currency translation effects of EUR20.3 million following the devaluation of the Belarusian Ruble in 2009, which consumed the entire growth. On a local-currency basis, revenue growth was 18.2% mainly due to a larger subscriber base.

In 3Q 09 EBITDA declined by 12.8% to EUR36.0 million compared to EUR41.3 million in 3Q 08 due to currency translation effects. On a local-currency basis, EBITDA increased by 10.6% due to higher revenues.

Now let us turn to our operations in Croatia and Slovenia. Vipnet, the second largest mobile operator in Croatia, increased its subscriber base by 9.9% to 2.6 million customers at the end of September 2009. Revenues declined by 9.5% to EUR142.8 million in 3Q 09 compared to EUR157.8 million in 3Q 08 due to price reductions for voice, data, roaming and termination as well as lower usage while roaming traffic increased. Weaker foreign currency translation had also a negative impact of EUR2.7 million on revenues and of EUR1.2 million on EBITDA. 15% lower termination rates, the negative impact from the newly introduced tax on mobile services and the impact from lower roaming rates account for the remaining decline in EBITDA.

Si.mobil, the second largest operator in Slovenia, increased its subscriber base by 5.1% to 580,300 customers at the end of September 2009. Revenues decreased by 4.0% to EUR48.5 million during 3Q 09 mainly due to lower interconnection revenues resulting from the symmetry of termination rates with the incumbent introduced in April 2009 and lower equipment revenues.

EBITDA decreased from EUR 17.0 million in 3Q 08 to EUR13.7 million in 3Q 09 due to lower revenues partly offset by a reduction in operating expenses by 4.2%.

Our greenfield operations remain on path to breakeven and halved their EBITDA losses. Vip mobile, the third largest mobile operator in the Republic of Serbia, increased its subscriber base by 42.2% to 1.1 million customers at the end of September 2009 from 0.8 million customers at the end of September 2008 and had a market share of 11.5%. Revenues grew by 44% to EUR22.7 million compared to EUR15.8 million last year, as a result of higher subscription and traffic revenues driven by a larger subscriber base as well as higher usage.

The EBITDA loss was more than halved and reached EUR3.9 million compared to EUR9.1 million in 3Q 08. Vip operator, the third largest mobile operator in the Republic of Macedonia, had 265,500 customers in 3Q 09 compared to 250,900 customers in 3Q 08 and showed a market share of 12.9% at the end of 3Q 09 compared to 11.5% in 3Q 08. The company's revenues nearly doubled to EUR 6.2 million in 3Q 09 compared to EUR3.9 million in 3Q 08 driven by the increase in customer base and usage.

The negative EBITDA of the company improved from EUR4.4 million in 3Q 08 to EUR2.9 million in 3Q 09 reflecting a continuing enhancement of the operating performance.

Hans will now give us an overview of key financials.

Hans Tschuden: Thank you Hannes

Our revenues decline by 7.3% to [EUR1.2 billion] compared to 3Q of last year. Impairment charges of EUR352 million impact operating and net income. Despite this fact we hold our EBITDA margin almost stable at a high level. In 3Q 09 net interest expenses increased to EUR54.2 million from EUR51.0 million during 3Q 08 due to the restructuring program, which led to additional non-cash interest expenses.

Income tax expenses turned from minus EUR47.9 million in 3Q 08 to a positive amount of EUR44.8 million in 3Q 09 due to the negative taxable result following the impairment charges of EUR352 million.

At the bottom line this led to a net result of minus EUR136.3 million in 3Q 09 after a net income of EUR162.9 million in 3Q 08. Compared to EUR 0.37 in 3Q 08, basic and diluted earnings per share amounted to minus EUR0.31 in 3Q 09 or plus EUR 0.28 without the impairments.

For the whole of the first nine months net income declined to EUR31.5 million compared to a net income of EUR 388.8 million in the first nine months of 2008 primarily due to the impairments.

Basic and diluted earnings per share amounted to EUR0.07 compared to EUR0.88 in 2008.

The next slide provides a detailed overview on the free cash flow generation of our company. During 3Q we continued to employ a strict policy when it came to capital expenditure. This was done with the intention to protect free cash flow. The decline in capital expenditures by 16% to EUR154.5 million during 3Q 09, kept the reduction of the free cash flow at 14.4 % to EUR213.5 million, following 7.4% lower cash generated from operations mainly due to lower results, payments for provisions and an increase in accounts receivables in 2009.

On a nine-month-view, free cash flow decreased by 5% to EUR543.1 million, as capital expenditures were reduced by 21.4 % and cash generated from operations decreased by about 13 % to EUR962.9 million. For more details on CapEx let us move to page 24.

Even though our investment approach was cautious, we saw the fixed net catching up with CapEx in line with our previous communication, while the mobile communication segment requires less CapEx.

On a quarterly comparison, Fixed Net segment capital expenditures increased by 38.6% to EUR67.5 million during 3Q 09, mainly due to a postponement of investments in the access and core net infrastructure from earlier periods.
In the Mobile Communication segment capital expenditures decreased by 35.7% to EUR87.0 million in 3Q 09 primarily as a

result of lower investments into the access infrastructure in Bulgaria and in the Republic of Serbia.

Total cash outflow from investing activities decreased from EUR185.4 million in 3Q 08 to EUR96.9 million in 3Q 09. During the first nine months of 2009, ordinary capital expenditures were reduced by 21.4% to EUR419.8 million following a decline in both business segments. Cash outflows for investing activities decreased to EUR449.6 million compared to EUR531.4 million in the first nine months of 2008.

On the next slide I will discuss the changes in the composition of our balance sheet, which reflects the ongoing deleveraging with net debt decreasing by over 5%.

The reduction in total assets from EUR9 billion as of December 31, 2008 to EUR8,6 billion as of September 30, 2009 was a consequence of lower long-term assets due to the decline in goodwill, other intangible assets, depreciation charges exceeding additions of property, plant and equipment and the devaluation of the Belarusian Ruble.

Current assets increased by 33.1% mainly due to higher cash and cash equivalents following the issue of the EUR750 million bond in January 2009. Current liabilities decreased by 3.4% as lower accounts payable offset higher short-term borrowings and other current liabilities. The increase in noncurrent liabilities was due to higher long-term debt as a result of the bond issuance in January 2009, which was partly offset by the shift of a bond to short-term borrowings.

Stockholders' equity amounted to EUR1.6 billion as of September 30, 2009 after EUR2,2 billion at year-end. The reduction was due to the payment of dividends in the amount of EUR332 million as well as higher currency translation adjustments following the devaluation of the Ruble in Belarus along with impairments relating to our investments in Belarus and in the Republic of Serbia.

Net debt decreased by 5.3% to EUR3.8 billion as of September 30, 2009 as cash flow generation offset the payment of dividends and capital expenditures. Net debt to EBITDA for the last 12 months was 3.2 times at the end of September 2009 compared to 3.1 times at the end of December 2008 as a result of a lower EBITDA. Excluding the restructuring program net debt to EBITDA for the last 12 months remained stable at 2.1 times.

Let me now give you more color on the impairment charges on the next slide. The negative effects of the financial crisis on the Belarusian economy have led to a material devaluation of the Belarusian Ruble of 31% since December 31, 2008, resulting in lower than expected cash flow generation and lower growth assumptions. An impairment charge in the amount of EUR290.0 million for the goodwill from the acquisition of Velcom in Belarus was recorded in Q3 09 and had a negative impact on both operating income and net income.

In addition, an impairment charge for the license of Vip mobile in the Republic of Serbia in the amount of EUR62.0 million was recorded as a result of lower than expected growth due to the economic downturn.

But both impairment charges are cash flow neutral and provide tax shield of approximately EUR90 million. Operating free cash flow for 2009 and dividend distribution remain untouched by this measure.

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But both impairment charges are cash flow neutral and provide tax shield of approximately EUR90 million.

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Now we are coming to the last slide of my presentation which shows the outlook for 2009.

As you may be aware we have shifted our outlook from the constant-currency basis to actual-currency basis because we have now more visibility on the currencies in 2009 in countries we operate in. Weaker FX rates have had and will have a negative impact on our reported results.

Including the impact from declining currencies in our foreign operations, we expect full-year figures for 2009 on an actual currency basis to reach a level of EUR4.8 billion in terms of revenues and EUR1.8 billion in terms of EBITDA compared to previously expected revenues slightly weaker than EUR5.1 billion and an EBITDA of about EUR1.9 billion on a constant-currency basis.

In order to offset the impact of a decline in EBITDA on the free cash flow, capital expenditures might decrease to a level of up to EUR700 million.

Therefore, the Telekom Austria Group remains committed to an operating free cash flow; EBITDA less capital expenditures of EUR1.1 billion for 2009 on an actual currency basis and a distribution of 65% of net income in form of dividends at a minimum floor of EUR75 cents per share.

The main reasons for this weaker outlook include foreign exchange losses, but also lower roaming revenues, declining prices and the impact from weaker economies in our main foreign operations.

We expect this difficult market environment to prevail also in 2010.Thank you for your attention. Now, I will hand over to Peter.

Peter Zydek: Thank you, Hans. Ladies and gentlemen, after this presentation we would like to answer your questions and discuss the trends of the markets that we operate in and of course the results that we have just presented to you. Please go ahead and ask your questions now. Thank you.

Operator: Excuse me. This is the Chorus Call conference operator. We will now begin the question-and-answer session.

The first question is from Andrew Lee of Citi. Please go ahead, sir.

Andrew Lee: Good afternoon, everyone. A couple of questions on your domestic mobile business, if possible. How much of that 13% year-on-year ARPU decrease that we saw this quarter is due to price competition, specifically, and how much therefore is from MTR and roaming cuts?

And then, secondly, we saw that the heavy price promotions introduced in the second quarter by Orange, followed by you and tele.ring were removed in the third quarter. Do you think that's going to help performance in Mobilkom Austria in the fourth quarter, or do you expect price competition to remain aggressive into 2010? So it's basically what I'm asking is, should we see the run rate of revenue decline this quarter as a good guide for performance into 2010? Thank you.

Hannes Ametsreiter: The situation in Austria and you asked for roaming and interconnection impact. Lower roaming and interconnection tariffs hit revenues by EUR12.3 million. That's an absolute number that I can give you.

If we look at the market, we still see very serious competition in the market between now and Christmas season, and we have all the Christmas offers in the market. Extremely aggressive was Orange, mid of this year. They started an aggressive promotion with half of monthly fee.

It is difficult to say when we will see an ease in the market. It is still very competitive and we are still in Austria ht by two major effects. One is roaming, and the other one is interconnection, and this of course is reflected in the results. What you also see in the ARPU development is that we are having offers in the market from mobile broadband, which is a lower price in the average ARPU than voice customers. That's one thing.

The other thing is we also have some no-frills offers in the market. These offer are at significantly lower cost, but also significantly lower ARPU.

Andrew Lee: Okay, can I just ask the ARPU question maybe slightly differently. That 13% decrease, how much -- if we didn't have any MTR or roaming cuts or any mobile broadband dilution, i.e., we only saw the price competition and the usage decline, what would the ARPU decrease have been then, just with price competition and usage decline? Thank you.

Hannes Ametsreiter: I don't have that information at the moment in hand. We will [have to get] that information.

Andrew Lee: Okay, thank you.

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

Hannes Wittig: Yes, good afternoon. I have a question regarding the trend development of your business in terms of the margin in Bulgaria and in Belarus. In Bulgaria, the margin improved slightly despite the negative top line, and in Belarus the margin deteriorated -- I mean, at least on a year-on-year comparison, despite a fairly healthy local revenue trend.

Could you maybe explain what's sort of driving those differences? And the second question is just related to the press release that you have made at lunchtime today related to press rumors about fixed mobile combinations, et cetera, whether this -- what this relates to or whether this is a domestic sort of consideration or whether this may be related to expanding our Eastern Europe footprint into fixed-line operations.

Hannes Ametsreiter: Coming to the first question, considerations about Bulgaria and also Belarus, it is a completely different situation in these countries. In Bulgaria, we have a very strong position of M-Tel is number one in Bulgaria, and what we did there is we had a significant cost-saving program running in this country. We secured and even increased the EBITDA margin.

We are still in a very strong position without any changes of our competitors. So that's the situation in Bulgaria. The margin is about the cost savings and we try to (inaudible - background noise). In Belarus, it's different. There, we are number two.

We have an attacker, challenger in the market that's [Turkish Life], and Life is putting some pressure on the prices, on the tariffs, and also on the margins, of course. And this is where we have seen a different development in these two countries.

The second question is a little more (inaudible - background noise). We are (inaudible - background noise) yesterday. It was a discussion of our strategy, about the future. It was a discussion also about convergence. It was a discussion also about integration. And we now have the clear order from the Supervisory Board that we should check on whether an integration of fixed and mobile in Austria makes sense or not. We'll do our calculations, we'll do our assessments, within the next weeks, and then we'll discuss again with the Supervisory Board. So that's the situation for that on the moment.

If we would add some additional fixed-line assets, as you also mentioned in your question, I mean, this needs to be understood. It also extremely depends on the situation in the market. I would not say in general that this makes sense, but it could be an option if opportunities and assets would be okay, but it's not a hot thing at the moment.

Peter Zydek: Andrew, this is Peter. Just to follow up on your question with the ARPU decrease. Out of the EUR3.5 decline in ARPU, about EUR2 are attributable to interconnection and roaming prices, and the rest is a combination of lower prices, dilution from mobile broadband and also a usage effect

Operator: The next question is for Ulrich Rathe of Societe Generale.

Ulrich Rathe: Thank you. Two questions, please. The first one is regarding your write-off in Velcom. You're citing different reasons there. I was just wondering, roughly, what percentage of the write-down is more to the more technical effects of the FX translation and the cost of capital increases and what percentage is actually down to lower operating expectations, lower free cash flow growth? That would be my first question.

The second question is just a clarification on your answer on this EUR12.3 million impact from roaming and MTR cuts. Is that a number calculated at constant underlying volumes, so simply calculating the mechanic effect of the cuts, of the rate cuts, or is that the net effect after you consider the volume changes that might be underlying the roaming and the MTR? Thank you.

Hannes Ametsreiter: Regarding the write-off in Velcom, 98% of it is attributable to the changes in the currency and to higher cost of capital due to the increasing country risk which has to be applied in the discount rates for the cash flows and only the remainder, which is 2%, is due to changes for the outlook for the performance of the country. So it's more or less all of it linked to FX and higher cost of capital.

Operator: The next question is from Justin Funnell of Credit Suisse.

Hannes Ametsreiter: Just before, regarding the question of MTR cuts, it's the net effect.

Ulrich Rathe: Thank you.

Operator: Mr. Funnell, please go ahead.

Justin Funnell: Yes, thank you. CapEx, just wondering to what degree CapEx has been cut this year because of sort of lower growth outlook in places like Eastern Europe and to what degree it's a sort of timing effect of cutting CapEx to hit free cash flow. Fixed line is going up mobile is going down. I guess somebody growth outlook's worsened a bit. Can this lower CapEx of 700 be sustained going forward or is it also going to have to go up?

And a sort of sub-question on that, as you understand it, mobile networks are becoming increasingly congested in Austria. Does that also mean a rising mobile CapEx to sales. That's a bit of an old chestnut, that question, but I thought I'd ask it again.

Second question, if I may, just wondering if you could describe in a bit more detail how the economy is affecting your customers in Bulgaria. Is it still a kind of business customer effect or are you seeing consumer effects, as well, please.

Hannes Ametsreiter: I think with the last question it's an effect on both segments, business segment and also residential segment. We do see an unemployment rate of over 10% in Bulgaria, so that affects total country and all people and all companies. So, I mean, there is a big difference between the segments hit by this macroeconomic environment in Bulgaria.

Talking about the contraction of the mobile network in Austria, there we see a development that their volume is increasing significantly, and what we are doing is that we are combining with fixed line and trying to have somehow what we call WiFi offloading, using fixed line at home and mobile network for mobility. Talking about CapEx -- and we are the only ones being able to do so.

Talking about CapEx, it really depends on the countries. We're really trying to only focus all the technological IP, et cetera, equipment which is necessary, and we've seen two effects. On the one hand, reducing some investments, but not endangering any further development. On the other hand, I mean, where we didn't see the growth, we also didn't invest, so it's a combination of different activities which we did, and I believe that we found a decent rate of investments, but this does not mean that this level can be kept forever.

Justin Funnell: So it will sort of ultimately go up at some point, but there's no guessing on the timing of that.

Hannes Ametsreiter: I believe it depends on -- for instance, if you look at the fixed line, you can of course expect if we would make some further steps in the fiber area, then this would also mean further investments, but this at the moment is not a topic. We only are running our trial. This trial we described already in very detailed with our fiber cities with our VDSL rollout. And additionally, this would mean of course additional CapEx.

For the mobile environment, we now need to fully understand processes for digital dividend LTE in the future for the next years. This will not come early, but for the next years. That's something of course which we need to discuss on a local basis. This differs from country to country.

Justin Funnell: Thank you very much.

Operator: The next question is from Luis Prota of Morgan Stanley. Please go ahead.

Luis Prota: Yes, good afternoon. I have two questions. The first is on the seven percentage point sequential improvement in the decline rate in wireline revenues, with big contributors being wholesale on one side and value-added service on the other. So my question is whether you are expecting the fourth quarter a similar decline in wireline revenues around the third quarter levels, and whether there are any [funnels] or seasonality within wholesale and value-added services revenue in your third quarter?

And the second question is now that you have adjusted guidance and made cautious guidance about the 2010 environment, whether you see buybacks more likely, less likely or the same than when you were making the announcement on your intentions about buybacks for this quarter. Thank you.

Hannes Ametsreiter: The decline rate in wireline revenues in the fourth quarter '09 we are experiencing our (inaudible - background noise) in the third quarter, so we do not see a big difference there in this development.

Hans Tschuden: Regarding our view to share buybacks, it has not changed, so our view is still that there is potential in 2010, but it needs stable environment on the markets where we are active, stable foreign exchange rates and no alternative investments, which would give a higher return than the share buyback. And, ultimately, the amount would be limited to one-third of the free cash flow after dividend.

Whether that increases the probability or decreases, it's too early to say it because we are in the budgeting process and the outcome of the budget figures will of course determine also the amount for potential share buyback. But the conditions are unchanged to what we have communicated to the market in the second quarter.

Luis Prota: Okay. Thank you.

Operator: The next question is from Mr. McCaffrey of Goldman Sachs. Please go ahead, sir.

Hugh McCaffrey: Good afternoon, guys, and I just have a couple of questions. Firstly, on fixed voice pricing, is there any progress on flat-rate offers in Austria? And, secondly, and just on headcount, how are the initiatives to reduce headcount going?

Hannes Ametsreiter: I'm sorry, you've been breaking up. Could you please repeat the second part of your question?

Hugh McCaffrey: And the second question was just on headcount initiatives beyond the 1,250. Have you made any further progress on reducing headcount?

Hannes Ametsreiter: Well, answering to that question, if there is any change in the rates and the tariffs in the fixed lines, what we are now trying to drive for is that we get some minutes bundles. We see that as a measure which really could help us in reducing the loss of minutes. We are now trying to get thousands or unlimited minutes for an up charge of EUR4 or EUR5. This is still being discussed.

We hope that we will get that additional tool to help us in the market. This is what we are trying since a few weeks, a month, and I believe that the position could be taken soon, but we don't know really what the outcome would be. We believe that we (inaudible - background noise) offer is already used in other countries, like in Germany. I believe (inaudible - background noise) in Austria to have a better performance on the minute loss side.

Third quarter (inaudible - background noise we have discussion in Austria, around 500 civil servants are being discussed, and there's already media that they could be transferred to the police force. This is an ongoing discussion with some ministries to find the right solution to achieve that. And we are working on that one, that could be an option for our employees to find something there, and it also should be an opportunity which helps us in our development.

Hugh McCaffrey: All right. Thank you.

Operator: The next question is from Markus Remis of Cheuvreux. Please go ahead, sir.

Markus Remis: Yes, good afternoon. Two questions related to the write-down. The first related to Belarus. If there's -- sorry, if there are any implications for the earnout clause for the -- I think it's around 300% after you have written down the goodwill, and then to Serbia, on the one hand, there's not yet, at least from my point of view, a visible impact on the numbers.

You're also confirming the EBITDA breakeven target, so what was the -- what am I missing there as the reason for the write-down.

Hans Tschuden: Regarding the earnout for Velcom, I just explained before that the reason for the write-down was not the operational business judgment or the expectations for the future; it was linked to the currency devaluation and the higher cost of capital. Consequently, we expect to pay out the full earnout. Maybe there will be a postponement of part of the payment beyond 2010, but this still has to be calculated. But, ultimately, we will pay out the earnout in full, because the operation is running according to our expectations.

For Serbia, we have confirmed our target to break even in 2010, but of course afterwards we are maybe a bit more cautious about the positive development than we were in the past, and consequently the discounted cash flow gave a lower revenue. And also, we had to apply a higher WAC and that was the result of the charge, the impairment charge, we took for Serbia.

Operator: The next question is from Jakob Bluestone of Merrill Lynch. Please go ahead, sir.

Jake Bluestone: Hi there. I've got two questions, please. Firstly, you're obviously lowering expectations a little bit in terms of the outlook for 2010, but I just wanted to get a sense, do you still think you can keep EBITDA stable beyond 2009? As for the guidance that you gave at the capital markets day, will you be able to keep it stable at this lower level?

Secondly, just on the implications of the write-down from a tax point of view, can you just talk us through how that will impact your cash flow? I mean, is it basically just that we should reduce your tax paid by EUR90m? Does it come in 2010, or is it going to be spread over a few years? If you can maybe just talk us through the mechanics of that. Thanks.

Hans Tschuden: Let me take the second question first. The EUR90m tax break we have calculated is partly it will be a cash tax saving in 2009 already, in the amount of roughly EUR15m to EUR20m, and the remainder will be split over the next couple of years, because we have in Austria tax units scheme for all our operations and we may use tax losses carried forward from depreciations of participations only to one-seventh of the total write-down per year.

So, consequently, the tax break we calculate today will be split over a couple of years. Regarding the outlook of our 2010, we are going to stick to our policy as in the past to communicate an outlook at the latest with our final results 2009, so that means beginning of next year, but, as we have said already, we are not expecting that the markets are going to improve in 2010.

Jakob Bluestone: Very clear. Thanks.

Operator: The next question is from Soomit Datta of New Street Research. Please go ahead.

Soomit Datta: Yes, good afternoon. Question on the fixed business, please. Over the last few quarters, you've seen access line loss trends get better, but the Internet revenues not materialize as much as we had hoped because fixed broadband is effectively being priced cheaply. And that sort of trend seems to have changed this quarter.

I was just trying to get a sense as to why you think that is. And, possibly, you could talk a little bit about how existing standalone DSL subscribers are migrating onto the economy products, and has that migration slowed and is that why you're confident that the ongoing -- or, rather, the trends that we saw in Q3 can be continued over the next few quarters. Thank you.

Hannes Ametsreiter: Concerning the line loss development, we expect the fourth quarter to be the best quarter this year concerning line loss, so this means we can keep (inaudible - background noise). If we look above the revenue development and the impacts, I think it’s’ a good development on the line loss and it's a trend which we can keep.

On the other hand, we still are losing minutes. We are now trying to find some measures like (inaudible - background noise) mentioned against the minutes lost. On the other hand, what now are impacts and eases a little bit that development is that of course at the very beginning the economy package lowered the prices significantly with the old package, which are not anymore competitive in the market. It's now flattening out and we have and see positive effects on one hand on the churn development.

We see positive effects on the line development. And now the average revenue per line flattens out somehow. These are the effects which we are seeing on the market and these are also the trends which I just described.

Soomit Datta: Could I ask a follow-up. So of the new economy you have added this quarter, is an increasing number of those subscribes coming from outside of Telekom Austria? And has the migration from standalone DSL slowed, then?

Hannes Ametsreiter: It's around -- giving you some numbers, its new customers for access in broadband, it's around 55%. It's around 15% of new customers for broadband and it's around 30% of migrations.

Soomit Datta: Okay. Thanks for the help.

Operator: The next question is from Vera Sutedja of Erste Bank.

Vera Sutedja: Yes, good afternoon. I just have a question on the Bulgarian, please. You said that the impairment, actually, due to FX and higher cost of capital, that was for Belarus, how is that actually in Bulgaria? Do you incur a significantly higher cost of capital? I mean, the FX is remaining stable until now, so if you can update us about the cost of capital, and maybe you can update about whether you have any changes of the outlook, based on the current performance.

Hans Tschuden: Regarding the cost of capital, of course cost of capital for foreign countries are going up with the risk premium applied to those countries, but in the other countries where we are active, we do have enough headroom to compensate from the operational cash flow generation for higher cost of capital, so we are not expecting any impairment for the other countries where we are active. And the outlook for the foreign exchange rate, we are talking to our local management and to local politicians, and they confirm to us that they want to do the utmost to keep a stable rate of the level to the euro as long as possible.

So we have no better view than the local politicians on that. So for the time being I think that it remains stable and the risk of devaluation has come down a bit. I think it was the highest shortly after the elections.

Vera Sutedja: And the performance wise, operating performance, is still according to what you had expected before when you bought the company?

Hans Tschuden: In Bulgaria? We bought the company years ago, so up to now overall it was in line with our transaction case, which we made up when we acquired the company.

Vera Sutedja: Okay. Thank you.

Operator: The next question is from Justin Funnell of Credit Suisse. Please go ahead, sir.

Justin Funnell: Yes, I just thought I might ask some follow-up questions, if you don't mind. Just a bit more detail on Bulgaria, the consumer effects. We haven't seen many consumer effects of the economy on mobile, so just sort of understand a bit more. Are people pulling back on usage? I think there's quite a lot of contracts in Bulgaria, so are you seeing people default on contracts? Are there any other phenomena that you would sort of point to in terms of the impact and how it might progress?

Secondly, you mentioned the Croatian tax. Could you remind me, did you pass that on or not? And do you see any risks of tax elsewhere in that way? And then, finally, are there any MTR cuts over the next 12 months that you would want to highlight to us at this stage, please, across the business?

Hannes Ametsreiter: Coming to the first question, we can see the impact on the consumer starting. It is clear that you have an increase in the unemployment rate, that this also somehow is reflected in consumption. This means that some people need to save. It also means that they are very cautious about all the costs they are having.

Cost of telecommunication is very important, which is good, but people are getting cautious about all the expenses they are having. We are now of course tracking all fraud cases. We are tracking if people are paying their invoices. We are checking about developments of prepaid charging, et cetera. I mean, it's a starting development, but we already can see that the product consumption is impacted from the macroeconomic situation in this country.

The second question was on --?

Hans Tschuden: Tax, Croatian tax.

Hannes Ametsreiter: Croatian tax. It is not able to pass that tax onto the consumer. It's due to the competitive situation in this country. We did that already in Serbia, to pass it on, but not in Croatia.

Justin Funnell: Thank you. No other sort of similar tax risks for you on Serbia or in Croatia, like that? There's no debate elsewhere?

Hannes Ametsreiter: That would be a question to the governments in these regions. So far we don't see any such ambitions.

Justin Funnell: And then MTR cuts beyond what we know about already for the next 12 months that you would like to highlight?

Hannes Ametsreiter: I think everything is already communicated. At the moment, there are no changes in the pipeline.

Justin Funnell: Okay. Thank you very much.

Operator: The next question is from Soomit Datta of New Street Research.

Soomit Datta: Hi, yes. Sorry, just a quick follow-up if that's okay. Can I check, you in the fixed business did not pass on the mobile termination rate cuts onto your consumers? And could you sort of say what the kind of regulatory situation is regarding that matter. Maybe there isn't any requirement at all, but perhaps you could just help clarify that, please.

Hannes Ametsreiter: There are discussions with the regulator at the moment of such processes. It seems that processes are now developed in a new way, and it looks like they could be in our favor, but it's not finally decided at the moment

Soomit Datta: Okay. Thanks.

Operator: Gentlemen, there are no more questions at this time. Do you want to make a final comment?

Peter Zydek: Ladies and Gentlemen, if there are no further questions I would like to thank you for attending today’s conference call.

Thank you and goodbye