Telekom Austria Group

Annual Financial Report 2018

according to § 124 Para 1 Stock Exchange Act

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Group Management Report[1)]

General economic environment[2)]

In 2018, economic growth in Europe continued but gradually decelerated. In a forecast published in November of the year under review, the European Commission estimated that economic growth in the European Union would be 2.1% in 2018 and thus decreased its spring forecast from 2.3%. In 2019, growth is expected to be 1.9%. The Austrian economy is expected to record 2.7% growth in 2018. In Bulgaria, the increase in GDP is estimated at 3.5% in 2018. In Croatia, the economy is set to have expanded by 2.8% in the same period. An increase in economic output of 4.0% is expected for Belarus in 2018. Based on European Commission estimates, Slovenia, the Republic of Serbia, and the Republic of Macedonia are expected to have seen an increase in economic output of 4.3%, 4.1%, and 2.1% respectively in 2018.

The European Central Bank (ECB) lowered again the volume of its bond buying program in the year under review. At the beginning of March 2015, the bond buying program amounted to EUR 80 bn per month, but was scaled back in 2017 for the first time. Starting from January, the amount was at EUR 30 bn per month, from October until December 2018 it was EUR 15 bn per month and then discontinued since the beginning of 2019. While the ECB kept its key interest rate unchanged at 0.00% during the year under review, the US Federal Reserve again raised its key interest rate from 1.25–1.50% to 2.25–2.50% in four stages in March, June, September and December 2018.

Development of real GDP in the markets of A1 Telekom Austria Group (in %)

	2017	2018e	2019e
Austria	2.6	2.7	2.0
Bulgaria	3.8	3.5	3.7
Croatia	2.9	2.8	2.8
Belarus	2.4	4.0	3.1
Slovenia	4.9	4.3	3.3
Republic of Serbia	1.9	4.1	3.8
Republic of Macedonia	0.0	2.1	2.8

Sources: IMF for Belarus; European Commission for all other countries

Industry trends and competition

Positive economic development in recent years continued in 2018 in the markets relevant for the A1 Telekom Austria Group. Nevertheless, the market environment in both the fixed-line and the mobile communications markets proved to be highly competitive once again. This was visible in the no-frills segment, as there was sustained pressure on prices due to the aggressive pricing policy of mobile virtual network operators (MVNOs). Furthermore, regulatory provisions continued to negatively impact revenues and earnings. In particular, the abolition of retail roaming in the EU as of June 15, 2017 affected the Group's results. In addition, there was a further termination rate cut in the Republic of Serbia.

The A1 Telekom Austria Group counters these factors through the systematic implementation of its convergence strategy, a clear focus on high-value customers, innovative products and services, as well as strict cost management. As already decided in 2017, the A1 Telekom Austria Group continued to harmonize the brands within the Group which has already happened in Slovenia, Bulgaria, and Croatia.

In Austria, the A1 Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed-line and mobile communications solutions. The latest market report issued by the regulatory authority, which tracked the most recent market data in Austria up to the end of the second quarter of 2018, describes the following average trends across all operators[3)]:

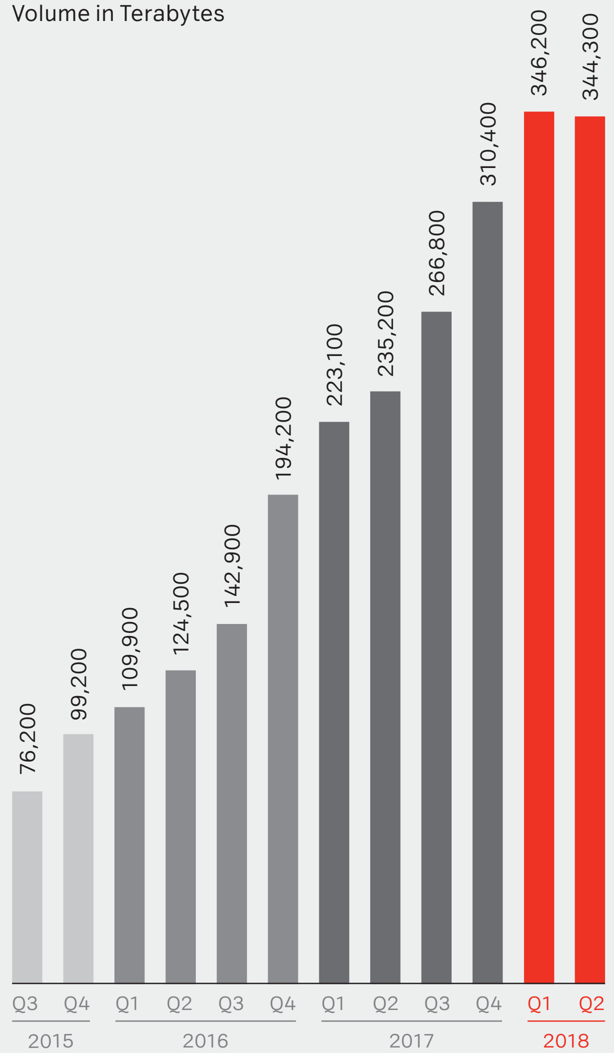
- The number of SIM cards increased by 7.0% year-on-year from 14.6 million in the second quarter of 2017 to 15.7 million in the second quarter of 2018. As previously, strong stimulus for this trend came from smartphone users[4)], where an increase of 13.6% to more than 5.5 million users was recorded. Total retail customer revenues also recorded growth of 0.9% in the same period of time.
- In the Austrian fixed-line market, the number of fixed access lines in the second quarter 2018 decreased by 1.2% year-on-year. The amount of voice minutes via the fixed-line network also decreased by 9.8% in the same period.

1) The following document is a translation from the original German version, which is solely valid.
2) Sources: GDP information for Belarus: IMF https://www.imf.org/~/media/Files/Publications/WEO/2018/October/English/main-report/Text.ashx?la=en , page 64; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Serbia, and Republic of Macedonia: https://ec.europa.eu/info/sites/info/files/economy-finance/ip089_en_0.pdf, dated November 2018, pages 89, 107, 125, 133, 145, 149, 199.
3) https://www.rtr.at/de/inf/telekom-monitor-q22018/RTR_Telekom_Monitor_Q2_2018.pdf; A1 Telekom Austria Group calculations.
4) The significant decrease in mobile broadband as well as the increases in smartphone tariffs are due to changes in query definitions and allocations. (Source: RTR Telekom Monitor Q2 2018).

- At 90 %, NGA (next generation access) coverage in Austria is in the top third of the EU, while the number of accesses above 30 Mbps (27.2 %) is in the lowest third of the EU.[5]
- In Q2 2018, the broadband market recorded 10.1 million mobile and fixed-line broadband connections, with somewhat weaker growth of 3.3 % year-on-year.

Upload and download volumes in Austria

Volume in Terabytes



Source: RTR

- Rapid growth of data volume in overall mobile telecommunications, which consists of pure mobile broadband as well as smartphone users according to the definition of the regulatory authority, also continued in the second quarter of 2018 with an increase of 46.4 % year-on-year.

According to Statistics Austria, the share of Austrian households with broadband connections in 2018 remained constant at 88 %, while the share among companies rose from 98 % to 99 %.[6]

In Bulgaria, the trend of the past years continued and the Internet penetration rate across all households increased to 72.1 % in 2018 compared with 67.3 % in 2017.[7]

In Croatia, broadband penetration in the fixed-line business increased to 26.0 % in the third quarter of 2018 (Q3 2017: 25.3 %), while mobile broadband penetration increased slightly from 81.2 % to 83.6 % in the same period.[8]

In Belarus, the ICT market has developed strongly in recent years, which has led to a steady increase in the number of Internet customers, while the number of mobile network users continued to stagnate in 2017. At the end of 2017, the proportion of households with Internet access was 67.2 % (2016: 62.5 %)[9]

In Slovenia, the Internet penetration rate increased from 81.7 % in the previous year to 86.7 % in the year under review. 93.7 % of these users with Internet access also utilized a mobile device to access the web (2017: 85.1 %).[10]

In the Republic of Serbia, the increase in the number of Internet connections continued, with 72.9 % of households having Internet access in 2018 (2017: 68.0 %). Meanwhile, 93.0 % of all Serbian households also own mobile telephones (2017: 90.5 %) and 72.1 % have a computer (2017: 68.1%).[11]

According to the Statistical Office of the Republic of Macedonia, 79.3 % of all Macedonian households had Internet access in the first quarter of 2018 (Q1 2017: 73.6 %), of which 81.0 % also used a mobile device to access the web (Q1 2017: 82.5 %).[12]

5) https://www.rtr.at/de/inf/GlasfaserOe2018/RTR_Glasfaser-Internetanschluesse_Oesterreich_10_2018.pdf.
6) http://www.statistik.at/web_de/statistiken/informationsgesellschaft/index.html.
7) http://www.nsi.bg/sites/default/files/files/pressreleases/ICT_hh2018_en_KV45Z0R.pdf
8) https://www.hakom.hr/UserDocsImages/2018/e_trziste/KVA%20ENG%20Q3%202018%20Fixed%20broadband%20penetration.pdf;
https://www.hakom.hr/UserDocsImages/2018/e_trziste/KVA%20ENG%20Q3%202018%20Mobile%20broadband%20penetration.pdf.
9) http://www.belstat.gov.by/en/ofitsialnaya-statistika/real-sector-of-the-economy/communication-and-ict/communication/annual-data/main-indicators-of-general-use-communications-development/;
Statistical Yearbook of the Republic of Belarus, 2018: http://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/statistical-publications-data-books-bulletins/public_compilation/index_12543/?sphrase_id=474137/, page 342;
Note: Figures for Belarus are available for 2017 only.
10) https://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre_Repozitorij/&lang=1 ; A1 Telekom Austria Group calculations.
11) http://www.stat.gov.rs/en-us/oblasti/upotreba-ikt/upotreba-ikt-domacinstva/;
http://publikacije.stat.gov.rs/G2017/PdfE/G20176006.pdf;
http://data.stat.gov.rs/Home/Result/270101?languageCode=en-US.
12) http://www.stat.gov.mk/PrikaziSoopstenie_en.aspx?rbrtxt=77.

Regulation

The A1 Telekom Austria Group is subject to different regulatory regimes in its markets. In Austria, it is classified as a provider with substantial market power and is therefore subject to the corresponding regulatory measures. These include extensive network access and price regulations. The international subsidiaries of the A1 Telekom Austria Group are also subject to far-reaching regulatory provisions in their respective national markets. Decisions on regulation are made not only at national level, but also increasingly at a European level in order to create harmonized conditions within the EU. This applies for example in the case of the roaming and net neutrality regulations of the European Commission[13], which apply equally to all EU member states.

Fixed-line telecommunication markets

The fifth round of the statutory market review process originally initiated by the Austrian regulatory authority in the spring of 2015 was tentatively completed in mid-2018. The decisions on the key wholesale markets for central and local access in particular basically allowed A1 Telekom Austria AG to roll out vectoring technology in unbundled connection areas also in order to offer broadband connections with higher bandwidths. Virtual unbundling (VULA) was also confirmed as a direct replacement for the physical unbundling of customer lines. This has now quickly established itself as the new, central type of access for alternative operators and will replace traditional physical unbundling in the medium term. The relevant regulation in the fixed-line network now has only a limited impact at retail level.

The processes regarding mobile and fixed-line termination rates have been suspended due to a lack of foundations at the European level (reworking the recommendation on termination rates and developing a uniform cost accounting system). These two processes are still open and expected to continue in 2019. This results in a risk that mobile and fixed-line termination rates may fall further.

Mobile communications markets

As mentioned above, the mobile communications markets of the A1 Telekom Austria Group are subject to various regulatory systems. As members of the EU and the European Economic Area (EEA), their respective regulations apply in Austria, Bulgaria, Croatia, and Slovenia. They define roaming charges and termination rates between individual market players. The regulatory environment in Belarus, the Republic of Serbia, and the Republic of Macedonia are at different stages of development. There are general signs of gradual harmonization with EU statutory provisions in these countries as well.

The new regulation on net neutrality and roaming has been in force in the European Union since 2016. In accordance with the regulation, Internet access service providers must treat all data traffic equally regardless of transmitter, receiver, application, or device. In addition to Internet access services, specialized services can also be offered, although this has certain limitations. However, the regulation on net neutrality establishes few details regarding implementation, which resulted in different interpretations in practice. A1 Telekom Austria AG is currently objecting to two decisions by the regulatory authority regarding net neutrality at the Austrian Federal Administrative Court. The proceedings are not yet complete.

Glide paths for mobile termination rates

	January 2016	July 2016	January 2017	July 2017	Since January 2018
Austria (EUR)	0.008049	0.008049	0.008049	0.008049	0.008049
Bulgaria (BGN)	0.019	0.019	0.014	0.014	0.014
Croatia (HRK)	0.063[1)]	0.063[1)]	0.063[1)]	0.047[1)]	0.047[1)]
Belarus (BYN)	MTS: 0. 025/0.0125 BeST: 0.018/0.009[2)]	MTS: 0.025/0.0125 BeST: 0.018/0.009[2)]	MTS: 0.025/0.0125 BeST: 0.018/0.009[2)]	MTS: 0.025/0.0125 BeST: 0.018/0.009[2)]	MTS: 0.025/0.0125 BeST: 0.018/0.009[2)]
Slovenia (EUR)	0.0114	0.0114	0.0114	0.0114	0.0114
Republic of Serbia (RSD)	3.43	2.75	2.07	2.07	1.43
Republic of Macedonia (MKD)	0.90	0.90	0.63	0.63	0.63

There are currently no further reductions expected.

1) National MTRs stated. International MTRs differ

2) Values that apply to Belarus: prime time/downtime. MTS: Mobile TeleSystems; BeST: Belarus Telecommunications Network

13) Regulation (EU) 2015/2120 of the European Parliament and of the Council of November 25, 2015 establishing measures concerning open Internet access and amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services and Regulation (EU) No. 531/2012 on roaming on public mobile communications networks within the Union.

The contents of the roaming regulation have already been fully implemented in all the companies of the A1 Telekom Austria Group that operate in the EU member countries Austria, Bulgaria, Croatia, and Slovenia and have a long-term negative impact on roaming revenues.

In 2016, the European Commission presented the first draft of a new directive revising the current framework, access, authorization, and universal service directives and introducing a range of new regulations (European Electronic Communications Code – EECC). This initial proposed legislation was negotiated in the European Parliament and at the level of the EU member states. An agreement on this was reached in mid-2018. The European Parliament has again brought forward a previous proposal for the reduction of surcharges for international calls within the EU. It is now included in a package of measures in a somewhat weaker form. The final directive was issued in December 2018. This will involve both legal-regulatory risks as well as financial risks in future. In particular, the reduction in surcharges for international calls to a maximum of 19 Euro cents per minute and a maximum of 6 Euro cents per SMS text message starting May 15, 2019 will have negative financial effects on the entire telecommunications industry.

The frequency allocation of the 3.4–3.8 GHz band is imminent in Austria. The bidding documents were published in September 2018, while the auction itself will take place in the first quarter of 2019. The multi-band auction for 700, 1500, and 2100 MHz is planned for the first quarter of 2020.

Information on financial reporting

The A1 Telekom Austria Group reports on seven business segments: Austria, Bulgaria, Croatia, Belarus, Slovenia, the Republic of Serbia and the Republic of Macedonia. The “Corporate & other, eliminations” segment performs strategic and management functions for all segments in addition to financing agendas and since the first quarter of 2017 has also included A1 Digital International GmbH. A1 Digital International GmbH focuses on the B2B market and offers digital services to actively support companies in the digitalization process.

As of January 1, 2018, A1 Telekom Austria Group applied IFRS 15 for the first time, deciding in favor of the modified retrospective approach for the initial application in accordance with the transition guidance. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. The following presentation is based on IAS 18 (i.e. without adoption of IFRS 15). In the Selected Explanatory Notes to the Consolidated Financial Statements, a reconciliation from IFRS 15 to IAS 18 is provided. The new revenue recognition accounting standard under IFRS 15 requires accounting for the lifecycle value of contracts by allocating the total revenues from a contract to the different deliverables of the contract based on their relative fair values.

The presentation and analysis of financial information and key performance indicators up to page 19 may differ from the financial information presented in the Consolidated Financial Statements. This is due to the fact that the presentation and analysis are partially based on proforma figures.

EU roaming glide path

Retail (in EUR)	July 2014	April 30, 2016	Since June 15, 2017
Data (per MB)	0.20	domestic tariff + 0.05[1)]	domestic tariff
Voice-calls made (pro Minute)	domestic 0.19	domestic tariff + 0.05[1)]	domestic tariff
Voice-calls received (pro Minute)	0.05	weighted average MTR[1)]	0
SMS (per SMS)	0.06	domestic tariff + 0.02[1)]	domestic tariff

Wholesale (in EUR)	July 2014	April 30, 2016	June 15, 2017	January 1, 2018	January 1, 2019
Data (per MB)	0.05	0.05	0.0077	0.006	0.0045
Voice (per minute)	0.05	0.05	0.032	0.032	0.032
SMS (per SMS)	0.02	0.02	0.01	0.01	0.01

1) The total of the domestic retail price and any surcharge applied to regulated roaming calls made, regulated roaming SMS messages sent or regulated data roaming services must not exceed EUR 0.19 per minute, EUR 0.06 per SMS message and EUR 0.20 per megabyte used. Any surcharge applied for calls received must not exceed the weighted average of mobile termination rates across the Union.

Alternative Performance Measures (APM) are used to describe operational performance. This also includes proforma figures. These present comparison figures for previous periods as if M&A transactions executed between the start of the comparison period and the end of the reporting period had already been fully consolidated in the relevant months of the comparison period. Please therefore also refer to the financial information presented in the Consolidated Financial Statements, which do not contain proforma figures, as well as the reconciliation tables provided on page 20.

The performance indicator EBITDA is reported in order to present operational development of individual business units transparently. EBITDA is defined as the net result excluding financial result, income tax, depreciation, and amortization and, if applicable, impairment losses or reversal of impairments.

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

Revenue and earnings development (proforma, IAS 18)

Proforma view Key financials in EUR million	2018 reported	2017 proforma	Change in %
Total revenues	4,466.4	4,388.5	1.8
EBITDA	1,380.6	1,398.9	-1.3
% of total revenues	30.9 %	31.9 %	–
EBITDA excl. restructuring	1,402.7	1,380.7	1.6
% of total revenues	31.4 %	31.5 %	–
Operating income	424.1	444.5	-4.6
% of total revenues	9.5 %	10.1 %	–

Proforma view Key financials in EUR million	2018 reported	2017 proforma	Change in %
Cost of service	-1,395.6	-1,396.6	0.1
Cost of equipment	-626.9	-584.2	-7.3
Selling, general & administrative expenses	-1,049.3	-996.7	-5.3
Other expenses	-13.9	-12.1	-14.9
Total costs and expenses	-3,085.8	-2,989.6	-3.2
thereof employee costs	-850.6	-795.9	-6.9
thereof restructuring charges	-22.1	18.2	n. m.
Impairment charges	0.0	0.0	n. a.
Depreciation and amortization	-956.5	-954.4	-0.2

Reported view	2018 reported	2017 proforma	Change in %
Net result	242.7	345.5	-29.7
Net cash flow from operating activities	1,232.3	1,174.8	4.9
Earnings per share (in EUR)	0.36	0.48	-24.8
Free cash flow per share (in EUR)	0.58	0.58	-0.1
Capital expenditures [1]	771.0	736.9	4.6
Net debt	2,718.4	2,331.8	16.6

1) Additions to property, plant and equipment and intangible assets, excluding asset retirement obligations.

Revenue and earnings development

The following analysis is based on proforma figures if not stated otherwise[14].

In the 2018 financial year, the A1 Telekom Austria Group continued with the systematic implementation of its convergence strategy as well as maintaining a clear focus on high-value customers, innovative products and services as well as strict cost management. Demand for mobile WiFi routers increased further. Fixed-line business remained strong, with TV content being an increasingly important element in competition. With regard to retail customers, the dynamics in Austria and CEE markets remained largely the same. A1 in Austria is faced with new convergent providers.

In 2017, the A1 Telekom Austria Group decided to harmonize its brands throughout the Group and to roll out the "A1" brand in a gradual manner, depending on local circumstances, in all of its markets. This triggered the amortization of local brand values, which had reached a total of around EUR 350 mn by the end of 2016. The respective companies will amortize the brand values until the phase-out of the old brands. As of December 31, 2018, EUR 319.7 mn have already been amortized, as the rebranding is complete in the Bulgaria, Croatia and Slovenia segments.

The following factors should be considered in the analysis of A1 Telekom Austria Group's operating results:

- Negative effects stemming from the abolition of retail roaming in the EU as of June 15, 2017, derive mostly from Austria, with further impacts in Slovenia, Croatia and Bulgaria.
- The acquisition of the fixed-line operator Metronet in Croatia, consolidated as of February 1, 2017.
- The acquisitions of the fixed-line providers Garant (Gomel), consolidated as of August 1, 2017, and Vitebsk Garant, consolidated as of May 1, 2018, both in Belarus. As the financial impact of Vitebsk Garant on the Belarus segment is marginal, no proforma view is provided on this acquisition.
- Total one-off effects[15] of positive EUR 30.4 mn in revenues and EUR 21.3 mn in EBITDA in 2017 and of positive EUR 5.0 mn in revenues and positive EUR 9.4 mn in EBITDA in 2018, with the following main effects:
    - There were positive EUR 10.6 mn in fixed-line service revenues stemming from the reversal of an accrual for wholesale services and EUR 3.6 mn in other operating income, stemming from the release of an asset retirement obligation in Austria in 2017.
    - In Bulgaria, other operating income was positively affected in 2017 by a one-off effect of EUR 5.8 mn resulting from a legal settlement.
    - A positive one-off effect in the Republic of Serbia in the amount of EUR 3.8 mn in 2017 in other operating income, resulting from changed parameters in the calculation of asset retirement obligations.
    - In Croatia, positive EUR 3.9 mn in 2018 in cost of service resulting from the reimbursement of frequency fees by the government as a result of the reduction of frequency fees in December 2017.
- Total negative FX effects amounted to EUR 30.7 mn in total revenues and EUR 14.9 mn in EBITDA in 2018, stemming entirely from Belarus.
- Restructuring expenses in Austria of EUR 22.1 mn compared to an income of EUR 18.2 mn in 2017. The latter resulted from a revaluation due to changed parameters.

In mobile communications, the number of A1 Telekom Austria Group subscribers increased by 1.7 % to 21.0 million subscribers in the year under review. The number of contract customers in all markets rose, while prepaid customer numbers declined. The number of A1 Digital M2M customers also rose. Almost all markets saw strong demand for mobile WiFi routers. The number of revenue-generating units (RGUs) in the Group's fixed-line business increased by 3.7 % year-on-year. The decline in RGUs in Austria, which was driven primarily by voice RGUs, was more than offset by increases in the other markets.

14) Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.
15) As of the beginning of 2018 all one-off effects are accounted for in the calculations. The main effects are explicitly explained. In the Group management report 2017 only the main effects were accounted for in the calculations.

Key figures of the A1 Telekom Austria Group

In the 2018 financial year, the A1 Telekom Austria Group saw an increase in revenues of 1.8 % (reported: +1.9 %). Adjusted for the one-off and FX effects described above, total revenues rose by 3.1% compared to the previous year (reported: +3.2 %). This operational revenue growth was driven by all markets apart from Slovenia. In total, Group service revenues increased by 1.3% (reported: +1.4 %) and rose by 2.2 % (reported: +2.3 %) excluding the above-mentioned one-off effects.

Group total costs and expenses increased by 3.2 % year-on-year in the year under review (reported: +3.4 %). Investments in high-value customers led again to a rise in cost of equipment and higher sales area costs. The cost of service were stable as higher content costs and costs for leased lines were outweighed by lower interconnection and network maintenance costs. Advertising costs rose following the rebranding while bad debt declined. Investments in A1 Digital also led to higher costs. Restructuring, originating entirely from the Austrian segment, resulted in expenses of EUR 22.1 mn in the year under review after an income of EUR 18.2 mn in the previous year.

EBITDA decreased by 1.3 % in the 2018 financial year (reported: –1.2 %). Adjusted for the one-off and FX effects described above as well as restructuring charges, EBITDA increased by 3.6 % (reported: +3.7 %) with growth in all segments except from Slovenia and Belarus. Furthermore, investments in A1 Digital, included in the position “Corporate & other, eliminations”, had a negative impact on Group EBITDA. In total, the EBITDA margin decreased from 31.9 % in the previous year to 30.9 % in the year under review.

Key figures of the A1 Telekom Austria Group (proforma, IAS 18)

(in Mio. EUR)

Proforma view

Total revenues	2018 reported	2017 proforma	Change in %
Austria	2,658.0	2,622.3	1.4
Bulgaria	446.2	431.2	3.5
Croatia	444.5	437.3	1.6
Belarus	389.3	394.1	-1.2
Slovenia	214.1	216.1	-0.9
Republic of Serbia	249.2	230.8	8.0
Republic of Macedonia	119.2	114.0	4.5
Corporate & other, eliminations	-53.9	-57.3	5.9
Total	**4,466.4**	**4,388.5**	**1.8**

EBITDA	2018 reported	2017 proforma	Change in %
Austria	905.7	914.2	-0.9
Bulgaria	138.0	130.1	6.1
Croatia	114.1	109.1	4.6
Belarus	163.8	181.8	-9.9
Slovenia	38.1	40.6	-6.1
Republic of Serbia	47.0	38.4	22.5
Republic of Macedonia	35.4	30.1	17.7
Corporate & other, eliminations	-61.5	-45.3	-35.8
Total	**1,380.6**	**1,398.9**	**-1.3**

Operating income	2018 reported	2017 proforma	Change in %
Austria	473.9	442.1	7.2
Bulgaria	-105.1	-85.6	-22.8
Croatia	7.6	13.0	-41.4
Belarus	87.6	123.0	-28.8
Slovenia	8.9	10.5	-15.2
Republic of Serbia	4.1	-6.8	n. m.
Republic of Macedonia	9.3	-6.0	n. m.
Corporate & other, eliminations	-62.3	-45.8	-36.0
Total	**424.1**	**444.5**	**-4.6**

In the year under review, depreciation and amortization was stable at EUR 956.5 mn (+0.2 %; reported: +0.3 %) in comparison with the previous year. The brand value amortization in Bulgaria, Belarus, Croatia and the Republic of Macedonia in connection with the group-wide rebranding amounted to EUR 197.9 mn in the year under review (2017: EUR 121.8 mn). As a result, operating income declined by 4.6 % to EUR 424.1 mn compared to the previous year (reported: –4.5 %). Excluding the D&A of the brand value amortizations, operating income increased by 9.8 % (reported: +9.9 %).

The following analysis is presented solely on a reported basis.

The A1 Telekom Austria Group recorded a financial result of negative EUR 81.7 mn in the year under review, which means an improvement of 14.4 % compared to the previous year. This was due to the reduction in interest expense and FX differences. The lower interest expense resulted from deferred consideration paid for business combinations in 2017. FX differences amounted to positive EUR 5.1 mn in the reporting year compared to negative EUR 2.6 mn in 2017.

Tax expenses amounted to EUR 99.7 mn in the year under review. In the previous year, tax expenses amounted to EUR 3.0 mn due to the recognition of deferred tax assets on losses carried forward. Overall, the A1 Telekom Austria Group reported a 29.7 % lower net result of EUR 242.7 mn in the 2018 reporting year.

Net assets and financial position

The following analysis is presented solely on a reported basis.

As of December 31, 2018, the balance sheet total declined by 3.3 % compared to December 31, 2017. Current assets remained approximately the same, as the decrease in cash and cash equivalents due to the redemption of the EUR 600 mn hybrid bond on February 1, 2018, was offset by higher receivables and increased installment sales as well as a short-term increase in inventories. Non-current assets decreased, due primarily to the reduction in intangible assets, which was attributable to the brand value amortizations in connection with the group-wide rebranding and to a lesser extent the

Company Key Figures

Reported view

	2018 reported	2017 reported	Change in %
Earnings per share (in EUR)	0.36	0.48	–24.8
Dividend per share (in EUR)	0.21 [1]	0.20	5.0
Free cash flow per share (in EUR)	0.58	0.58	–0.1
ROE [2]	9.1 %	12.1 %	–
ROIC [3]	6.7 %	6.9 %	–

1) Proposal to the 2019 Annual General Meeting, which will take place on May 29, 2019.
2) Ratio of net result to average equity employed; serves as an indicator to measure the yield on equity.
3) Total return on invested capital, calculated as net operating profit after tax (NOPAT) divided by the average capital invested.

Net assets and financial position (reported, IAS 18)

Reported view

Balance sheet structure (in EUR million)	Dec 31, 2018 reported	As % of the balance sheet total	Dec 31, 2017 reported	As % of the balance sheet total
Current assets	1,235.5	16.7	1,226.3	16.1
Property, plant and equipment	2,716.1	36.8	2,627.9	34.4
Goodwill	1,277.9	17.3	1,276.3	16.7
Intangible assets	1,782.7	24.1	2,075.9	27.2
Other assets	376.3	5.1	431.9	5.7
Total assets	**7,388.5**	**100.0**	**7,638.3**	**100.0**
Current liabilities	1,624.8	22.0	1,243.7	16.3
Long-term debt	2,536.8	34.3	2,533.6	33.2
Employee benefit obligation	203.7	2.8	196.8	2.6
Non-current provisions	576.0	7.8	646.9	8.5
Other long-term liabilities	41.3	0.6	79.9	1.0
Stockholders' equity	2,406.0	32.6	2,937.4	38.5
Liabilities and stockholders' equity	**7,388.5**	**100.0**	**7,638.3**	**100.0**

amortization of frequencies. The increase in current liabilities was attributable to the drawings of short-term credit facilities as part of the refinancing of the above-mentioned hybrid bond and higher CAPEX especially in Q4 2018.

The equity ratio as of December 31, 2018, amounted to 32.6% after 38.5% as of December 31, 2017. The decrease in shareholder's equity was driven primarily by the redemption of the EUR 600 mn hybrid bond, which was classified as equity.

Net debt (reported, IAS 18)

Reported view

Net debt (in EUR million)	Dec 31, 2018 reported	Dec 31, 2017 reported
Long-term debt	2,536.3	2,533.6
Short-term borrowings	245.3	0.6
Cash and cash equivalents, short-term investments	-63.6	-202.4
Net debt	**2,718.4**	**2,331.8**
Net debt/EBITDA (last 12 months)	2.0	1.7

The redemption of the hybrid bond resulted in an increase in net debt and a higher net debt to EBITDA ratio.

Cash flow

The changes in "Working capital and other financial positions" in the reporting period in the amount of EUR 180.8 mn (2017: EUR 204.4 mn) were driven by an increase in receivables, as well as payments of income taxes, an increase in installment sales and payments for restructuring, which were mitigated by an increase in liabilities. Net cash flow from operating activities increased year-on-year.

Cash flow from investing activities remained stable year-on-year as the cash outflow from the acquisition of Metronet in the comparison period was offset by higher CAPEX paid in the reporting period. Regarding cash flow from financing activities the comparison period was characterized by the principal payments on a EUR 500 mn bond and the tap-issuance of an existing bond in the amount of EUR 250 mn. There was also an outflow of funds totaling EUR 120 mn in the comparison year due to exercising of the call option in connection with the acquisition of the Telekom Slovenije Group's 45% stake in Macedonian company one.Vip DOOEL. The financial year 2018 was characterized by the redemption of the EUR 600 mn hybrid bond on February 1, 2018. This cash outflow was partly mitigated by drawings of short-term credit facilities.

Free cash flow[16] was stable year-on-year. This was due to the higher cash flow from operating activities and lower interest payments, which offset the higher CAPEX paid.

Cash flow (reported, IAS 18)

Reported view

Cash flow (in EUR million)	2018 reported	2017 reported	Change in %
Net cash flow from operating activities	1,232.3	1,174.8	4.9
Net cash flow from investing activities	-765.1	-770.4	0.7
Net cash flow from financing activities	-605.0	-659.3	8.2
Adjustment to cash flows due to exchange rate fluctuations, net	-1.0	-0.2	n. m.
Net change in cash and cash equivalents	-138.8	-255.1	45.6

Capital expenditures[17] (reported, IAS 18)

In the 2018 year under review, capital expenditures increased by 4.6% year-on-year to EUR 771.0 mn. Tangible capital expenditures increased by 5.3% to EUR 610.2 mn driven primarily by investments in the fiber rollout and in the data center in Austria. Intangible capital expenditures increased by 2.0% to EUR 160.7 mn. This was attributable to the fact that the capitalization of a long-term IRU (Indefeasible Rights of Use) contract for fiber lines in Slovenia in the previous year was more than offset by higher intangible capital expenditures in Bulgaria, Austria, and Belarus in the reporting year.

16) Free cash flow is calculated as cash flow from operating activities less capital expenditures paid and interest paid plus proceeds from the sale of property, plant and equipment.
17) For detailed figures, please refer to the reconciliation tables and the notes to the consolidated financial statements.

Segment analysis (proforma, IAS 18)

Segment Austria

As there have been no M&A transactions in Austria between the beginning of the comparison period and the end of the period under review, the following analysis is based on reported figures.

In Austria the dynamics compared to the previous year remained mostly unchanged despite the first time launch of convergent offerings by the competition in autumn 2018. In the mobile business A1 continued to follow its multi-brand strategy and aimed for high granularity in market segmentation. In the high-value segment A1 pursued differentiation with attractive services such as Free Stream and the A1 Xplore Music app. Competition in the no-frills segment and the youth segment remained consistently intense in the year under review, which A1 countered by means of targeted offers. In terms of regulation, official photo identification will have to be shown when purchasing a SIM card from January 1, 2019. Existing anonymous SIM cards must be registered by September 1, 2019.

Demand for broadband products with higher speeds and TV options remained strong, especially among existing customers. Next to the traditional fiber infrastructure, the hybrid modem as a combination of the fixed-line and mobile networks remains important to providing fixed-line products with higher band-widths. Beyond that, the Austrian broadband market continued to be shaped by the ongoing high demand for mobile WiFi routers with unlimited data offerings.

Additionally, results profited from the price adjustments for the fixed-line products in the previous year as well as an indexation for existing customers in the mobile business and in the fixed-line business in the year under review.

The total number of mobile subscribers increased in 2018, as the ongoing strong demand for mobile WiFi routers in the contract segment and higher-value tariffs more than outweighed the decline in the prepaid segment.

In the fixed-line business, total revenue generating units (RGUs) decreased in 2018 due mainly to losses of voice RGUs. While demand for fiber upgrades remained continuously strong and TV RGUs also continued to exhibit solid growth, the number of fixed-line broadband RGUs declined slightly year-on-year. This was attributable mainly to substitution by mobile WiFi routers. Overall, this resulted in an increase in the Internet@Home business (pure fixed-line broad-band, hybrid modem, and mobile WiFi router) of 3.0%.

In the Austria segment, total revenues increased by 1.4% year-on-year despite positive one-off effects in the previous year. As mentioned above, these one-off effects in 2017 amounted to positive EUR 10.6 mn in fixed-line service revenues and EUR 3.6 mn in other operating income. Excluding the one-off effects in 2017, total revenues rose by 2.1% and service revenues increased by 1.7%. Fixed-line service revenues increased on the back of the price increases and indexation measures mentioned above. Solid demand for higher bandwidths and TV options likewise drove the fixed-line service revenue increase while fixed-line interconnection revenues declined due to lower volumes. Solutions and connectivity revenues increased due to the completion of several large projects among other reasons. In the mobile business, the negative effects of the stepwise abolition of retail roaming in the EU were outweighed by high demand for mobile WiFi routers and higher-value tariffs as well as the above mentioned indexation measure. Equipment revenues increased due to a higher-value hand-set portfolio.

Costs and expenses in the Austrian segment rose by 2.6% year-on-year. In 2018, restructuring expenses amounted to EUR 22.1 mn whereas an income in the amount of EUR 18.2 mn was posted in the comparative period. Excluding restructuring expenses, costs and expenses were stable (+0.2%). Content and leased lines costs, both driven by more Solutions & Connectivity projects rose. Advertising costs increased due to more campaigns and the brand refreshment compared to previous year. Costs of equipment were higher than in the previous year due to higher average handset costs due to a higher-value portfolio. Inter-connection costs decreased due to lower volumes, and roaming costs declined due mainly to lower inter-operator tariffs while higher own work capitalized due to the subsidized broadband rollout had a positive effect on the costs.

EBITDA excluding one-off effects and restructuring expenses thus increased by 5.4% (reported: –0.9%) amid higher service revenues, a better equipment margin, and stable total costs and expenses. Depreciation and amortization decreased by 8.6% in the period under review compared to the same period last year. This decline resulted from the end of amortization of software investments and the YESSS! customer base in 2017. All in all, operating income in Austria increased by 7.2% year-on-year.

Key performance indicators Austria

Proforma view (= Reported view)

Key financials in EUR million	2018 reported	2017 reported	Change in %
Total revenues	2,658.0	2,622.3	1.4
Service revenues	2,394.8	2,365.5	1.2
thereof mobile service revenues	1,022.4	1,006.2	1.6
thereof fixed-line service revenues	1,372.4	1,359.4	1.0
Equipment revenues	209.4	198.5	5.5
Other operating income	53.8	58.3	-7.7
EBITDA	905.7	914.2	-0.9
% of total revenues	34.1 %	34.9 %	–
EBITDA excl. restructuring	927.8	896.0	3.5
% of total revenues	34.9 %	34.2 %	–
Operating income	473.9	442.1	7.2
% of total revenues	17.8 %	16.9 %	–

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	3,825.1	3,779.4	1.2
Prepaid subscribers (in '000)	1,538.6	1,555.8	-1.1
Wireless subscribers (in '000)	5,363.7	5,335.2	0.5
thereof mobile broadband subscribers (in '000)	964.3	947.4	1.8
ARPU (in EUR)	16.1	15.6	2.9
Churn (%)	1.6 %	1.7 %	–
Market share	37.8 %	38.8 %	–
Mobile penetration	160.5 %	156.2 %	–

Wireline indicators	2018 reported	2017 proforma	Change in %
RGUs (in '000)	3,327.7	3,390.4	-1.9
thereof fixed broadband RGUs	1,434.8	1,447.3	-0.9
ARPL (in EUR)	30.7	29.1	5.3
Total access lines (in '000)	2,048.3	2,117.5	-3.3
Unbundled lines (in '000)	190.8	220.3	-13.4
Fixed line voice traffic (in million minutes)	1,168.1	1,225.6	-4.7
Mobile and fixed broadband penetration in % of households	141.3 %	139.1 %	–

Costs and expenses

Proforma view (= Reported view)

(in EUR million)	2018 reported	2017 proforma	Change in %
Cost of service	-868.5	-875.2	0.8
Cost of equipment	-261.9	-257.3	-1.8
Selling, general & administrative expenses	-614.6	-568.1	-8.2
Other expenses	-7.3	-7.4	1.5
Total costs and expenses	-1,752.3	-1,708.1	-2.6
thereof employee costs	-622.3	-583.2	-6.7

Segment Bulgaria

As there have been no M&A transactions in Bulgaria between the beginning of the comparison period and the end of the period under review, the following analysis is based on reported figures.

In the year under review, the Bulgarian market was characterized by positive trends, due mainly to growth in the fixed-line business and an improved subsidy level. The positive development in the fixed-line business resulted from corporate solutions as well as successful up- and cross selling residential customers. In addition, the sports channels with exclusive TV content are still making a significant contribution to the positive development of the RGU and ARPL trends. The mobile business continued to improve and grew slightly year-on-year, with active customer retention measures in the mobile residential segment helping to reduce churn. During May 2018, Mobiltel was successfully rebranded into A1 Bulgaria.

The mobile contract segment remained stable in 2018. The total number of mobile subscribers was, however, down year-on-year, which was attributable to the prepaid segment. Total fixed-line revenue generating units (RGUs) increased as the positive trends in TV and broadband were able to offset the decline in fixed-line voice services.

In the Bulgaria segment, total revenues rose by 3.5 % and by 4.8 % excluding one-off effects. Other operating income in 2017 was positively affected by a one-off effect of EUR 5.8 mn. Revenue growth was attributable to the increase in fixed-line service revenues and equipment revenues. Fixed-line service revenues rose, supported by strong demand for the exclusive sports content and higher speeds as well as by customized fixed-line corporate solutions. Equipment revenues grew due to lower subsidies per handset and higher-value devices. Mobile service revenues increased as growth in the business segment more than outweighed the decline in the prepaid segment.

Key performance indicators Bulgaria

Proforma view (= Reported view)

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	446.2	431.2	3.5
Service revenues	372.0	359.0	3.6
thereof mobile service revenues	268.8	267.0	0.7
thereof fixed-line service revenues	103.1	92.0	12.1
Equipment revenues	66.5	59.4	12.1
Other operating income	7.6	12.8	-40.5
EBITDA	138.0	130.1	6.1
% of total revenues	30.9 %	30.2 %	–
Operating income	-105.1	-85.6	-22.8
% of total revenues	-23.6 %	-19.8 %	–

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	3,505.2	3,500.4	0.1
Prepaid subscribers (in '000)	429.1	476.8	-10.0
Wireless subscribers (in '000)	3,934.3	3,977.1	-1.1
thereof mobile broadband subscribers (in '000)	430.0	422.3	1.8
ARPU (in EUR)	5.6	5.5	3.1
Churn (%)	1.6 %	2.2 %	–
Market share	39.4 %	38.7 %	–
Mobile penetration	142.8 %	145.6 %	–

Wireline indicators	2018 reported	2017 proforma	Change in %
RGUs (in '000)	1,029.0	1,005.0	2.4
thereof fixed broadband RGUs	448.3	434.8	3.1
ARPL (in EUR)	12.6	11.6	8.9
Total access lines (in '000)	536.0	531.2	0.9

Costs and expenses rose, amongst other factors, due to higher cost of equipment as a result of the continuous demand for higher-value devices. Interconnection costs also rose due to higher outgoing traffic to other networks. Content costs rose in line with more TV customers and sport content production. Personnel costs also rose due to increased salaries in customer-facing areas while administration, commissions and network maintenance costs were lower.

In the Bulgarian segment, rising total revenues more than offset higher costs and expenses, which led to EBITDA growth of 6.1 % (excluding one-off effects: +8.6 %). Depreciation and amortization increased by 12.7 % due to the brand value amortization in the amount of EUR 144.0 mn (2017: EUR 99.7 mn) in connection with the group-wide rebranding. This again resulted in negative operating income in 2018 in the amount of EUR 105.1 mn (2017: EUR –85.6 mn). Excluding the D&A of the brand value amortization, operating income increased by 175.3 % year-on-year.

Segment Croatia

The following analysis is based on proforma figures if not stated otherwise. [18)]

In 2018, competition in the Croatia segment focused on convergent solutions and heavily discounted offers in order to acquire customers. In addition to upselling measures, the growing demand for mobile WiFi routers developed into a driving factor in the mobile business. As bundles and convergent products with content became increasingly important, Vipnet launched a new sports TV package in June 2018. From October 1, 2018, Vipnet was successfully rebranded into A1 Hrvatska.

Key performance indicators Croatia

Proforma view

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	444.5	437.3	1.6
Service revenues	386.4	381.9	1.2
thereof mobile service revenues	261.7	258.8	1.1
thereof fixed-line service revenues	124.7	123.1	1.3
Equipment revenues	52.0	49.0	6.2
Other operating income	6.0	6.3	-5.5
EBITDA	114.1	109.1	4.6
% of total revenues	25.7 %	24.9 %	–
Operating income	7.6	13.0	-41.4
% of total revenues	1.7 %	3.0 %	–

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	1,043.9	965.2	8.2
Prepaid subscribers (in '000)	789.4	807.5	-2.2
Wireless subscribers (in '000)	1,833.3	1,772.7	3.4
thereof mobile broadband subscribers (in '000)	204.6	173.2	18.2
ARPU (in EUR)	12.0	12.2	-1.3
Churn (%)	2.3 %	2.6 %	–
Market share	36.5 %	36.5 %	–
Mobile penetration	121.5 %	117.5 %	–

Wireline indicators (proforma)	2018 reported	2017 proforma	Change in %
RGUs (in '000)	681.8	654.1	4.2
thereof fixed broadband RGUs	254.0	250.0	1.6

Wireline indicators (reported)	2018 reported	2017 reported	Change in %
ARPL (in EUR)	30.2	29.3	2.9
Total access lines (in '000)	296.9	296.6	0.1

18) Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period. In the Croatia segment, this applies to the acquisition of fixed-line operator Metronet in Croatia, consolidated as of February 1, 2017.

With regards to regulation, frequency usage fees were cut for the first time in December 2017, and a further reduction was announced in November 2018. In connection with this, the government announced in the third quarter of 2018 that it would reimburse the excess frequency usage fees of EUR 3.9 mn paid.

The higher number of mobile subscribers is attributable to growth in the contract subscriber base. This was due to the solid growth in mobile WiFi routers, the ongoing shift from prepaid to postpaid subscribers and cross selling. Despite the shift toward mobile WiFi routers, the revenue generating units (RGUs) in the fixed-line business increased, which was driven mainly by the strong demand for TV solutions.

In the Croatia segment, total revenues increased by 1.6 % year-on-year (reported: +2.2 %), as the lower revenues from visitor roaming and lower interconnection revenues were compensated by the strong demand for mobile WiFi routers and higher equipment revenues. Revenues from visitor roaming declined as a result of prices within the A1 Group and with other companies were lowered which could not be compensated for with higher data usage. Interconnection revenues fell due to the termination rate cut in July 2017. Equipment revenues rose as a result of higher quantities on the basis of measures to prevent customer churn. Fixed-line service revenues also increased as the shift toward mobile WiFi routers was more than offset by higher solutions and connectivity revenues.

The rise in total costs and expenses in the year under review was attributable to higher costs for equipment driven by higher quantities resulting from churn-prevention activities. Content costs rose due to UEFA Champions League rights. Rebranding costs and commissions as well as higher roaming costs also contributed to the increase, while bad debt expenses and frequency costs decreased. The latter were also influenced by a positive one-off effect of EUR 3.9 mn, which resulted from the reimbursement of frequency fees mentioned above.

The higher costs and expenses were more than offset by revenue growth, which excluding the above mentioned one-off effect led to an EBITDA increase of 0.4 % (reported: +5.7 %). As a result of the higher depreciation and amortization, due primarily to the brand value amortization in the amount of EUR 19.7 mn (2017: EUR 6.9 mn) in conjunction with the group-wide rebranding, this led to 41.4 % lower operating income (reported: –38.6 %). Excluding the D&A of the above mentioned brand value amortization, operating income increased by 36.9 % year-on-year (reported: +41.1 %).

Segment Belarus

The following analysis is based on proforma figures if not stated otherwise.[19]

Macroeconomic improvements in Belarus continued in the year under review, and GDP is expected to have grown by 4.0 %(IMF estimate) in 2018 (2017: +2.4 %). The Belarusian Rouble devalued sharply in April, but the devaluation then slowed and amounted to 9.3 % over the course of the year (period average). In addition, the government continued to be restrictive on price increases in order to stabilize inflation, which came in at 5.6 % year-on-year.

Despite its lack of a 4G license, velcom maintained its superior standard in terms of the coverage and quality of its mobile network. Competition in the mobile business was intense with regard to tariffs based on unlimited data offers. These offers had a negative impact on the sale of data packages. In light of this, velcom deployed unlimited data and voice offers with speed restrictions depending on the chosen tariff. The shift from prepaid offers towards contract offers continued. Meanwhile, demand for expensive devices remained high and the margin on handsets positive. The position in the fixed-line business was strengthened by the acquisition of Vitbesk Garant, consolidated from May 1, 2018. As the financial impact of Vitebsk Garant on the Belarus segment is marginal, no proforma view is provided.

Inflation-linked price increases of 2.9 % and 2.4 % were implemented in the mobile business as of April 1 and September 1, 2018, respectively. In March and October 2018, velcom increased the fixed-line tariffs for existing customers by 9.0 % and 5.0 % respectively.

Total revenues in the Belarus segment decreased by 1.2 % (reported: –0.3 %). Excluding minor positive one-off effects in the reporting and comparison period as well as a negative FX effect of EUR 40.0 mn, they rose by 8.4 % year-on-year (reported: +9.5 %). This increase in local currency resulted from higher equipment revenues. These were due to more expensive devices and higher quantities, which were supported by an attractive smartphone portfolio, advertising campaigns, and installment sales. Service revenues fell as the higher fixed-line service revenues did not compensate for the lower mobile service revenues as a result of the above mentioned decreased data monetization.

19) Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period. In the Belarus segment, this applies to the acquisition of fixed-line operator Garant (Gomel) in Belarus, consolidated as of August 1, 2017.

Total costs and expenses rose on a local currency basis, driven by higher costs of equipment due to more expensive handsets and higher quantities, as well as other costs settled in hard currency and personnel costs. Content costs were also higher. Interconnection expenses increased due to the rise in outgoing traffic.

Excluding FX effects and one-off effects, EBITDA fell by 1.9 % (reported: –1.6 %), mainly as the lower mobile service revenues could not be offset by the higher fixed-line service revenues. Together with higher depreciation in comparison with the previous year as a result of the brand value amortization in the amount of EUR 31.3 mn (2017: EUR 13.0 mn), operating income fell by 28.8 %. Excluding the D&A of the brand value amortization, operating income increased by 12.6 % year-on-year.

Segment Slovenia

As there have been no M&A transactions in Slovenia between the beginning of the comparison period and the end of the period under review, the following analysis is based on reported figures.

In the year under review, the Slovenian telecommunications market was still characterized by fierce competition in the mobile market, with a focus on convergent tariffs with high discounts and competitive mobile tariffs including high data allowances. In order to meet these challenges, A1 Slovenija introduced simplified price plans in the mobile segment and included the use of certain services such as music and chat apps, which can be used without consuming data. However, price increases were also implemented in the mobile and fixed-line business, some of which also applied to existing customers. The price increases were partly due to the higher content costs.

Key performance indicators Belarus

Proforma view

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	389.3	394.1	–1.2
Service revenues	286.9	307.1	–6.6
thereof mobile service revenues	247.0	273.1	–9.5
thereof fixed-line service revenues	39.9	34.0	17.3
Equipment revenues	84.3	71.5	17.8
Other operating income	18.1	15.5	16.5
EBITDA	163.8	181.8	–9.9
% of total revenues	42.1 %	46.1 %	–
Operating income	87.6	123.0	–28.8
% of total revenues	22.5 %	31.2 %	–

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	4,041.1	3,964.5	1.9
Prepaid subscribers (in '000)	832.0	899.7	–7.5
Wireless subscribers (in '000)	4,873.0	4,864.2	0.2
thereof mobile broadband subscribers (in '000)	280.1	303.2	–7.6
ARPU (in EUR)	4.2	4.7	–9.5
Churn (%)	1.5 %	1.7 %	–
Market share	42.0 %	42.5 %	–
Mobile penetration	122.4 %	120.5 %	–

Wireline indicators (proforma)	2018 reported	2017 proforma	Change in %
RGUs (in '000)	657.3	463.4	41.8
thereof fixed broadband RGUs	246.7	212.0	16.4

Wireline indicators (reported)	2018 reported	2017 reported	Change in %
ARPL (in EUR)	5.6	7.3	–22.6
Total access lines (in '000)	451.8	306.4	47.5

Key performance indicators Slovenia

Proforma view (= Reported view)

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	214.1	216.1	-0.9
Service revenues	161.0	167.9	-4.1
thereof mobile service revenues	125.8	132.9	-5.3
thereof fixed-line service revenues	35.1	35.0	0.3
Equipment revenues	47.4	43.8	8.0
Other operating income	5.7	4.3	32.9
EBITDA	38.1	40.6	-6.1
% of total revenues	17.8%	18.8%	–
Operating income	8.9	10.5	-15.2
% of total revenues	4.2%	4.8%	–

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	611.7	605.8	1.0
Prepaid subscribers (in '000)	85.4	97.5	-12.5
Wireless subscribers (in '000)	697.1	703.3	-0.9
thereof mobile broadband subscribers (in '000)	47.7	46.8	1.9
ARPU (in EUR)	15.1	15.6	-3.2
Churn (%)	1.4%	1.7%	–
Market share	28.1%	29.1%	–
Mobile penetration	119.6%	116.0%	–

Wireline indicators	2018 reported	2017 proforma	Change in %
RGUs (in '000)	182.1	183.0	-0.5
thereof fixed broadband RGUs	73.7	70.4	4.8
ARPL (in EUR)	35.7	35.4	1.1
Total access lines (in '000)	73.8	70.5	4.8

In the Slovenia segment, total revenues fell as a result of lower mobile service revenues, while equipment revenues increased. The latter were attributable to more expensive devices and higher quantities. Total costs and expenses increased slightly, driven by higher equipment and interconnection costs while advertising costs and roaming costs decreased. The lower mobile service revenues and higher costs and expenses resulted in an overall decline in EBITDA of 6.1%. Despite the lower depreciation and amortization, operating income declined by 15.2% year-on-year.

Segment Republic of Serbia

As there have been no M&A transactions in the Republic of Serbia between the beginning of the comparison period and the end of the period under review, the following analysis is based on reported figures.

In the segment Republic of Serbia, vip mobile faces a highly competitive mobile market. The company successfully introduced flat tariffs in 2017, and the resulting increase in postpaid subscribers continued in the year under review. Trends were also supported by the high demand for mobile WiFi routers. Since the first half of the year, the competition has also launched flat tariffs, and one competitor introduced a premium price-plan with an unlimited data proposition. Another factor on the competitive landscape is the shift toward more attractive devices with higher subsidies. Termination rates were cut in January 2018.

Total revenue growth in the Serbia segment was attributable to the higher mobile service revenues resulting from the increasing proportion of mobile subscribers in the new tariff portfolio and growth in mobile WiFi routers. In addition, other operating income included a positive one-off effect of EUR 3.8 mn in 2017.

Total costs and expenses rose, driven mainly by higher costs for equipment and higher salesforce costs. The increase in costs for equipment was due to higher quantities as a result of intensive advertising campaigns.

Excluding one-off effects, EBITDA rose by 24.1 % year-on-year (reported: +22.5 %), as the rise in mobile service revenues more than compensated for the lower equipment margins and the higher salesforce costs. Together with somewhat lower depreciation and amortization than in the previous year, this resulted in positive operating income of EUR 4.1 mn (2017: EUR -6.8 mn) in the year under review.

Key performance indicators Republic of Serbia

Proforma view (= Reported view)

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	249.2	230.8	8.0
Service revenues	166.4	145.8	14.1
thereof mobile service revenues	159.7	139.6	14.4
thereof fixed-line service revenues	6.7	6.2	7.8
Equipment revenues	79.9	76.4	4.5
Other operating income	3.0	8.5	-65.1
EBITDA	47.0	38.4	22.5
% of total revenues	18.9 %	16.6 %	–
Operating income	4.1	-6.8	n. m.
% of total revenues	1.6 %	-2.9 %	–

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	1,481.8	1,367.8	8.3
Prepaid subscribers (in '000)	713.4	814.9	-12.5
Wireless subscribers (in '000)	2,195.2	2,182.8	0.6
thereof mobile broadband subscribers (in '000)	174.1	140.2	24.2
ARPU (in EUR)	6.1	5.4	13.4
Churn (%)	3.2 %	3.2 %	–
Market share	23.8 %	24.1 %	–
Mobile penetration	132.3 %	128.6 %	–

Segment Republic of Macedonia

As there have been no M&A transactions in the Republic of Macedonia between the beginning of the comparison period and the end of the period under review, the following analysis is based on reported figures.

In the 2018 financial year, market players in the Macedonia segment focused mainly on customer retention and upselling existing customers. In the mobile as well as the fixed-line markets, customers are still leaning toward multiple-play offers rather than maintaining multiple single-play subscriptions. The number of revenue generating units (RGU) showed a strong increase. In the mobile business, the shift from prepaid to postpaid subscribers continued. As of the end of March 2018, one.Vip increased the data volume in its mobile tariffs to meet customer demands.

Total revenue growth in the Macedonia segment was driven mainly by higher mobile service revenues, which continued to be supported by upselling measures to higher tariffs. Although the synergy effects from the merger into one.Vip are diminishing, the costs and expenses fell slightly year-on-year. This was due mainly to lower bad debts. Altogether, this led to EBITDA growth of 14.1% (excluding minor one-off effects). Depreciation and amortization declined year-on-year due to the end of amortization of licenses in 2017 despite brand value amortization in the amount of EUR 2.9 mn (2017: EUR 1.7 mn). Overall, operating income improved from negative EUR 6.0 mn in 2017 to positive EUR 9.3 mn in 2018.

Key performance indicators Republic of Macedonia

Proforma view (= Reported view)

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	119.2	114.0	4.5
Service revenues	110.5	106.6	3.7
thereof mobile service revenues	84.3	80.6	4.6
thereof fixed-line service revenues	26.2	26.0	0.9
Equipment revenues	7.2	6.7	8.1
Other operating income	1.4	0.7	97.8
EBITDA	35.4	30.1	17.7
% of total revenues	29.7%	26.4%	–
Operating income	9.3	–6.0	n. m.
% of total revenues	7.8%	–5.2%	–

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	660.5	647.4	2.0
Prepaid subscribers (in '000)	396.0	424.9	–6.8
Wireless subscribers (in '000)	1,056.5	1,072.3	–1.5
thereof mobile broadband subscribers (in '000)	2.7	2.6	2.9
ARPU (in EUR)	6.6	6.1	7.5
Churn (%)	1.8%	2.1%	–
Market share	48.9%	47.8%	–
Mobile penetration	104.1%	108.1%	–

Wireline indicators	2018 reported	2017 proforma	Change in %
RGUs (in '000)	383.1	340.7	12.5
thereof fixed broadband RGUs	131.6	114.6	14.8
ARPL (in EUR)	11.6	12.3	–5.4
Total access lines (in '000)	164.4	149.3	10.1

Reconciliation tables – IAS 18 and IFRS 15 reconciliation

As of January 1, 2018, A1 Telekom Austria Group applied IFRS 15 for the first time, deciding in favor of the modified retrospective approach for the initial application in accordance with the transition guidance. Accordingly, the information presented for 2017 has not been restated – i. e. it is presented, as previously reported, under IAS 18 and related interpretations. The following tables provide a reconciliation from IFRS 15 to IAS 18. The new revenue recognition accounting standard under IFRS 15 re-quires accounting for the life cycle value of contracts by allocating the total revenues from a contract to the different deliverables of the contract based on their relative fair values.

Income statement: Full Year 2018 (reported)

in EUR million	1-12 M 2018 IAS 18	1-12 M 2017 IAS 18	% change	1-12 M 2018 IFRS 15
Service revenues	3,828.2	3,775.3	1.4	3,680.8
Equipment revenues	546.2	504.4	8.3	662.6
Other operating income	91.9	102.8	-10.5	91.9
Total revenues	4,466.4	4,382.5	1.9	4,435.4
Cost of service	-1,395.6	-1,394.2	-0.1	-1,395.6
Cost of equipment	-626.9	-584.2	-7.3	-627.9
Selling, general & administrative expenses	-1,049.3	-994.9	-5.5	-1,007.0
Other expenses	-13.9	-11.8	-18.2	-13.9
Total costs and expenses	-3,085.8	-2,985.1	-3.4	-3,044.5
EBITDA	1,380.6	1,397.3	-1.2	1,390.9
% of total revenues	30.9 %	31.9 %		31.4 %
Depreciation and amortization	-956.5	-953.4	-0.3	-956.5
EBIT	424.1	443.9	-4.5	434.4
% of total revenues	9.5 %	10.1 %		9.8 %
Interest income	15.5	14.3	8.3	5.4
Interest expense	-86.9	-95.3	8.8	-86.9
Other financial expense	-14.8	-11.2	-31.5	-14.8
Foreign currency exchange differences	5.1	-2.6	n. m.	5.1
Equity interest in net income of affiliates	-0.8	-0.7	-13.3	-0.8
Earnings before income tax (EBT)	342.4	348.5	-1.8	342.5
Income tax	-99.7	-3.0	n. m.	-98.8
Net result[1]	242.7	345.5	-29.7	243.7

1) Attributable to equity holders of the parent, non-controlling interests and hybrid capital owners

ARPU: Full Year 2018 (reported)

in EUR million	1-12 M 2018 IAS 18	1-12 M 2017 IAS 18	% change	1-12 M 2018 IFRS 15	Absolute change
Austria	16.1	15.6	2.9	14.5	-1.6
Bulgaria	5.6	5.5	3.1	5.2	-0.5
Croatia	12.0	12.2	-1.3	10.8	-1.2
Belarus	4.2	4.7	-9.5	4.2	0.0
Slovenia	15.1	15.6	-3.2	14.5	-0.6
Republic of Serbia	6.1	5.4	13.4	6.8	0.7
Republic of Macedonia	6.6	6.1	7.5	5.6	-1.0
Group ARPU	8.6	8.6	0.0	8.0	-0.6

ARPL: Full Year 2018 (reported)

in EUR million	1-12 M 2018 IAS 18	1-12 M 2017 IAS 18	% change	1-12 M 2018 IFRS 15	Absolute change
Austria	30.7	29.1	5.3	30.7	0.0
Bulgaria	12.6	11.6	8.9	12.5	-0.1
Croatia	30.2	29.3	2.9	30.2	0.0
Belarus[1)]	5.6	7.3	-22.6	5.6	0.0
Slovenia	35.7	35.4	1.1	35.7	0.0
Republic of Serbia	n.a.	n.a.	n.a.	n.a.	n.a.
Republic of Macedonia	11.6	12.3	-5.4	11.4	-0.2

1) ARPL in Belarus is affected by the acquisitions of the fixed-line providers Garant (Gomel), consolidated as of August 1, 2017, and Vitebsk Garant, consolidated as of May 1, 2018, which have a comparably low ARPL.

EBITDA per segment

adjusted for FX- and one-off effects as well as restructuring charges

in EUR million	1-12 M 2018 reported	1-12 M 2017 proforma	% change
Austria	927.8	880.5	5.4
Bulgaria	136.3	125.5	8.6
Croatia	109.5	109.1	0.4
Belarus	177.4	180.7	-1.9
Slovenia	38.1	41.5	-8.1
Republic of Serbia	45.8	36.9	24.1
Republic of Macedonia	34.8	30.5	14.1
Corporate & other, eliminations	-61.5	-45.3	-35.8
Total adjusted EBITDA	1,408.2	1,359.4	3.6

Group EBITDA

adjustments for FX- and one-off effects as well as restructuring charges

in EUR million	1-12 M 2018	1-12 M 2017	% change
EBITDA (reported)	1,380.6	1,397.3	-1.2
FX translation effect	14.9	–	–
One-off effects	-9.4	-21.3	–
Restructuring charges	22.1	-18.2	–
Adjusted EBITDA (reported)	1,408.2	1,357.8	3.7
M&A effect	–	1.6	–
Adjusted EBITDA (proforma)	1,408.2	1,359.4	3.6

Information on alternative performance measures

The Consolidated Financial Statements are prepared according to applicable accounting standards. The presentation and analysis of financial information and key performance indicators may differ substantially from the financial information presented in the Consolidated Financial Statements. This is due to the fact that the presentation and analysis are partially based on proforma figures which include M&A transactions between the start of the comparison period and the end of the reporting period.

To reflect the performance on an operational basis, the proforma figures present comparison figures for previous periods as if M&A transactions executed between the start of the comparison period and the end of the reporting period had already been fully consolidated in the relevant months of the comparison period. Alternative performance measures are used to describe operational performance. Please therefore also refer to the financial information presented in the Consolidated Financial Statements, which do not contain proforma figures, as well as the following reconciliation tables.

Austria EBITDA

adjustments for one-off effects and restructuring charges

in EUR million	1-12 M 2018	1-12 M 2017	% change
EBITDA (reported)	905.7	914.2	-0.9
One-off effects	–	-15.5	–
Restructuring charges	22.1	-18.2	–
Adjusted EBITDA (reported)	927.8	880.5	5.4

ARPL (reported)

ARPL-relevant revenues are fixed retail revenues and fixed interconnection revenues. The ARPL is calculated by dividing ARPL-relevant revenues by average fixed access lines in a certain period. The difference to fixed-line and other revenues are interconnection transit revenues, solutions and connectivity reve-nues, fixed equipment revenues and other revenues.

ARPU (reported)

ARPU-relevant revenues are wireless service revenues, i. e. mobile retail revenues (incl. customer roaming) and mobile interconnection as well as visitor roaming and national roaming revenues. The ARPU is calculated based on ARPU-relevant revenues divided by the average number of subscribers in a certain period.

ARPL-relevant revenues

in EUR million	2018 reported	2017 reported	% change
Austria	767.8	754.7	1.7
Bulgaria	80.4	74.2	8.4
Croatia	106.8	106.0	0.7
Belarus	25.8	19.3	33.9
Slovenia	30.7	29.9	2.5
Republic of Serbia	n. a.	n. a.	n. a.
Republic of Macedonia	21.6	21.2	2.3

Total access lines

in '000	2018 reported	2017 reported	% change
Austria	2,048.3	2,117.5	-3.3
Bulgaria	536.0	531.2	0.9
Croatia	296.9	296.6	0.1
Belarus	451.8	306.4	47.5
Slovenia	73.8	70.5	4.8
Republic of Serbia	n. a.	n. a.	n. a.
Republic of Macedonia	164.4	149.3	10.1

Belarus Key Financials in EUR and BYN

Due to the impact on the consolidated results of occasionally substantial fluctuations in the Belarusian Rouble, the performance for the Belarus segment is also presented in local currency.

Presentation of proforma reconciliation

The following section provides for the proforma values in the previous section the corresponding reported values as well as the difference between both. The difference stems from the M&A activities listed below.

- The acquisition of the fixed-line operator Metronet in Croatia, consolidated as of February 1, 2017.
- The acquisitions of the fixed-line providers Garant (Gomel), consolidated as of August 1, 2017, and Vitebsk Garant, consolidated as of May 1, 2018, both in Belarus. As the financial impact of Vitebsk Garant on the Belarus segment is marginal, no proforma view is provided on this acquisition.

For further details on purchasing prices and cash outflow, see Note (34).

Free cash flow (reported)

in EUR million	2018 reported	2017 reported	% change
Net cash flow from operating activities	1,232.3	1,174.8	4.9
Capital expenditures paid	-771.5	-705.4	-9.4
Proceeds from sale of plant, property and equipment	7.5	15.1	-50.3
Interest paid	-84.2	-99.8	15.6
Free cash flow	384.2	384.7	-0.1

Belarus Key Financials

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	389.3	390.5	-0.3	394.1	-1.2	3.7
Total costs and expenses	-225.5	-209.2	-7.8	-212.4	-6.2	-3.2
EBITDA	163.8	181.3	-9.6	181.8	-9.9	0.5

in BYN million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute Abweichung (proforma - reported)
Total revenues	936.4	851.8	9.9	859.9	8.9	8.0
Total costs and expenses	-542.4	-456.4	-18.8	-463.3	-17.1	-6.9
EBITDA	394.0	395.5	-0.4	396.6	-0.7	1.1

Group summary

Key financials in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
Total revenues	4,466.4	4,382.5	1.9	4,388.5	1.8	6.1
EBITDA	1,380.6	1,397.3	-1.2	1,398.9	-1.3	1.6
% of total revenues	30.9 %	31.9 %	–	31.9 %	–	–
EBITDA excl. restructuring	1,402.7	1,379.1	1.7	1,380.7	1.6	1.6
% of total revenues	31.4 %	31.5 %	–	31.5	–	–
Operating income	424.1	443.9	-4.5	444.5	-4.6	0.6
% of total revenues	9.5 %	10.1 %	–	10.1 %	–	–

Total costs and expenses in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
Cost of service	-1,395.6	-1,394.2	-0.1	-1,396.6	0.1	-2.4
Cost of equipment	-626.9	-584.2	-7.3	-584.2	-7.3	0.0
Selling, general & administrative expenses	-1,049.3	-994.9	-5.5	-996.7	-5.3	-1.8
Other expenses	-13.9	-11.8	-18.2	-12.1	-14.9	-0.3
Total costs and expenses	-3,085.8	-2,985.1	-3.4	-2,989.6	-3.2	-4.5
thereof employee costs	-850.6	-793.9	-7.2	-795.9	-6.9	-2.1
thereof restructuring charges	-22.1	18.2	n. m.	18.2	n. m.	0.0
Impairment charges	0.0	0.0	n. a.	0.0	n. a.	0.0
Depreciation and amortization	-956.5	-953.4	-0.3	-954.4	-0.2	-1.0

Segment Croatia

Key financials in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
Total revenues	444.5	434.9	2.2	437.3	1.6	2.4
Service revenues	386.4	379.7	1.8	381.9	1.2	2.2
thereof mobile service revenues	261.7	258.8	1.1	258.8	1.1	0.0
thereof fixed-line service revenues	124.7	120.9	3.2	123.1	1.3	2.3
Equipment revenues	52.0	49.0	6.1	49.0	6.2	0.0
Other operating income	6.0	6.2	-3.4	6.3	-5.5	0.1
EBITDA	114.1	108.0	5.7	109.1	4.6	1.1
% of total revenues	25.7 %	24.8 %		24.9 %		
Operating income	7.6	12.4	-38.6	13.0	-41.4	0.6
% of total revenues	1.7 %	2.9 %		3.0 %		

Wireline indicators in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
RGUs (in '000)	681.8	654.1	4.2	654.1	4.2	0.0
thereof fixed broadband RGUs	254.0	250.0	1.6	250.0	1.6	0.0

The reconciliation table does not show wireless indicators as the M&A transaction in the segment only comprises the fixed-line business.

Segment Belarus

Key financials in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	389.3	390.5	-0.3	394.1	-1.2	3.7
Service revenues	286.9	303.7	-5.5	307.1	-6.6	3.3
thereof mobile service revenues	247.0	273.1	-9.5	273.1	-9.5	0.0
thereof fixed-line service revenues	39.9	30.6	30.2	34.0	17.3	3.3
Equipment revenues	84.3	71.5	17.8	71.5	17.8	0.0
Other operating income	18.1	15.2	19.0	15.5	16.5	0.3
EBITDA	163.8	181.3	-9.6	181.8	-9.9	0.5
% of total revenues	42.1 %	46.4 %	–	46.1 %	–	–
Operating income	87.6	123.1	-28.8	123.0	-28.8	0.0
% of total revenues	22.5 %	31.5 %	–	31.2 %	–	–

Wireline indicators in EUR million	2018 reported	2017 reported	Veränderung in %	2017 proforma	%-Veränderung proforma	Absolute change (proforma - reported)
RGUs (in '000)	657.3	463.4	41.8	463.4	41.8	0.0
thereof fixed broadband RGUs	246.7	212.0	16.4	212.0	16.4	0.0

The reconciliation table does not show wireless indicators as the M&A transaction in the segment only comprises the fixed-line business.

Revenues

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma - reported)
Austria	2,658.0	2,622.3	1.4	2,622.3	1.4	0.0
Bulgaria	446.2	431.2	3.5	431.2	3.5	0.0
Croatia	444.5	434.9	2.2	437.3	1.6	2.4
Belarus	389.3	390.5	-0.3	394.1	-1.2	3.7
Slovenia	214.1	216.1	-0.9	216.1	-0.9	0.0
Republic of Serbia	249.2	230.8	8.0	230.8	8.0	0.0
Republic of Macedonia	119.2	114.0	4.5	114.0	4.5	0.0
Corporate & other, eliminations	-53.9	-57.3	5.9	-57.3	5.9	0.0
Total revenues	**4,466.4**	**4,382.5**	**1.9**	**4,388.5**	**1.8**	**6.1**

EBITDA

in EUR million	2018 reported	2017 reported	% change	2017 proforma	%% change proforma	Absolute change (proforma - reported)
Austria	905.7	914.2	-0.9	914.2	-0.9	0.0
Bulgaria	138.0	130.1	6.1	130.1	6.1	0.0
Croatia	114.1	108.0	5.7	109.1	4.6	1.1
Belarus	163.8	181.3	-9.6	181.8	-9.9	0.5
Slovenia	38.1	40.6	-6.1	40.6	-6.1	0.0
Republic of Serbia	47.0	38.4	22.5	38.4	22.5	0.0
Republic of Macedonia	35.4	30.1	17.7	30.1	17.7	0.0
Corporate & other, eliminations	-61.5	-45.3	-35.8	-45.3	-35.8	0.0
Total EBITDA	**1,380.6**	**1,397.3**	**-1.2**	**1,398.9**	**-1.3**	**1.6**

Depreciation & amortization

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
Austria	-431.8	-472.2	8.6	-472.2	8.6	0.0
Bulgaria	-243.1	-215.7	-12.7	-215.7	-12.7	0.0
Croatia	-106.5	-95.6	-11.4	-96.0	-10.9	-0.5
Belarus	-76.2	-58.2	-30.9	-58.8	-29.6	-0.5
Slovenia	-29.2	-30.1	2.9	-30.1	2.9	0.0
Republic of Serbia	-42.9	-45.1	4.9	-45.1	4.9	0.0
Republic of Macedonia	-26.0	-36.0	27.7	-36.0	27.7	0.0
Corporate & other, eliminations	-0.8	-0.5	-55.4	-0.5	-55.4	0.0
Total depreciation & amortization	**-956.5**	**-953.4**	**-0.3**	**-954.4**	**-0.2**	**-1.0**

EBIT

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
Austria	473.9	442.1	7.2	442.1	7.2	0.0
Bulgaria	-105.1	-85.6	-22.8	-85.6	-22.8	0.0
Croatia	7.6	12.4	-38.6	13.0	-41.4	0.6
Belarus	87.6	123.1	-28.8	123.0	-28.8	0.0
Slovenia	8.9	10.5	-15.2	10.5	-15.2	0.0
Republic of Serbia	4.1	-6.8	n. m.	-6.8	n. m.	0.0
Republic of Macedonia	9.3	-6.0	n. m.	-6.0	n. m.	0.0
Corporate & other, eliminations	-62.3	-45.8	-36.0	-45.8	-36.0	0.0
Total EBIT	**424.1**	**443.9**	**-4.5**	**444.5**	**-4.6**	**0.6**

Capital expenditures[1)]

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
Austria	469.3	435.5	7.8	435.5	7.8	0.0
Bulgaria	86.5	81.3	6.5	81.3	6.5	0.0
Croatia	87.8	84.7	3.6	85.2	3.1	0.4
Belarus	49.7	47.1	5.6	47.8	4.0	0.7
Slovenia	27.5	41.8	-34.3	41.8	-34.3	0.0
Republic of Serbia	34.1	35.1	-2.9	35.1	-2.9	0.0
Republic of Macedonia	19.2	21.3	-9.9	21.3	-9.9	0.0
Corporate & other, eliminations	-3.1	-10.0	68.5	-10.0	68.5	0.0
Total capital expenditures	**771.0**	**736.9**	**4.6**	**738.0**	**4.5**	**1.1**

1) Additions to property, plant and equipment and intangible assets, excluding asset retirement obligations.

Capital expenditures – tangible

in EUR million	2018 reported	2017 reported	% change
Austria	389.5	361.2	7.8
Bulgaria	52.4	53.8	-2.6
Croatia	70.7	69.3	2.0
Belarus	36.7	37.9	-3.4
Slovenia	17.9	19.3	-6.9
Republic of Serbia	25.3	26.0	-2.6
Republic of Macedonia	17.0	17.9	-4.9
Corporate & other, eliminations	0.8	-6.0	n. m.
Total capital expenditures-tangible	**610.2**	**579.3**	**5.3**

Capital expenditures – intangible

in EUR million	2018 reported	2017 reported	% change
Austria	79.9	74.3	7.4
Bulgaria	34.1	27.5	24.3
Croatia	17.1	15.4	10.7
Belarus	13.0	9.1	42.8
Slovenia	9.5	22.5	-57.7
Republic of Serbia	8.8	9.1	-3.6
Republic of Macedonia	2.2	3.5	-35.9
Corporate & other, eliminations	-3.9	-3.9	-0.6
Total capital expenditures – intangible	**160.7**	**157.6**	**2.0**

Consolidated non-financial statement

We refer to the separate consolidated non-financial report in accordance with Section 267a (6) UGB.

Disclosure in accordance with Section 243a of the Austrian Business Enterprise Code (“UGB”)

Shareholder structure and capital disclosures

At the end of 2018, a total of 51.00 % or 338,895,000 shares of Telekom Austria Aktiengesellschaft were held by América Móvil B.V., Netherlands (“América Móvil B.V.”; formerly Carso Telecom B.V.), a wholly owned subsidiary of América Móvil, S.A.B. de C.V. (“América Móvil”). The Republic of Austria holds 28.42 % via Österreichische Bundes- und Industriebeteiligungen GmbH (“ÖBIB”)[20], while the remaining 20.58 % of the shares are in free float. 0.1 % or 0.4 million shares of the latter were held by the company itself. Employee shares that are being held in a collective custody account are also part of the free float. The associated voting rights are exercised by a custodian (notary). The total number of no-par value shares remains at 664,500,000.

	2018	2017	Change in %
Treasury Shares	415,159	415,159	0.0

Further details on treasury shares are provided in Section 28 of the Notes.

Standard change-of-control clauses that could ultimately lead to the termination of contracts affect the majority of financing agreements. None of these clauses came into effect in the 2018 financial year or up until the date of this report.

The following information concerning the shareholders’ agreement is based solely on publicly available information.[21] The company has no additional information. The shareholders’ agreement between ÖBIB, América Móvil and América Móvil B.V., Netherlands (“América Móvil B.V.”; formerly “Carso Telecom B.V.”), came into force on June 27, 2014 (see Note (28)). Under the terms of the shareholders’ agreement, the parties have undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria Aktiengesellschaft by exercising their voting rights on a concerted basis. The shareholders’ agreement also contains provisions on the joint exercise of voting rights in the committees of the company for the election of Supervisory Board and Management Board members and restrictions on the sale of shares. The Supervisory Board of the company consists of ten shareholder representatives, of which eight members are nominated by América Móvil B.V. and two by ÖBIB. ÖBIB has the right to nominate the chairman of the Supervisory Board. América Móvil B.V. has the right to nominate the deputy chairman. The Management Board of the company consists of three members. Two members are nominated by América Móvil B.V., while one member of the Management Board, namely the Chief Executive Officer (CEO), is nominated by ÖBIB. The Extraordinary General Meeting on August 14, 2014 also amended the Articles of Association to state that, as long as the Republic of Austria directly or indirectly holds at least 25 % plus one share of the share capital of the company, resolutions on capital increases and the issue of instruments containing a conversion right or a conversion obligation for shares of the company and amendments to the provisions of the Articles of Association relating to capital increases and such instruments shall require a majority of at least three quarters of the share capital represented at the vote on the resolution.

ÖBIB and América Móvil B.V. have agreed that at least 24 % of the shares of the company should be in free float while the shareholders’ agreement is in place. This minimum free float requirement is based on ÖBIB’s maximum equity interest of 25 % plus one share. If ÖBIB holds more than 25 % plus one share of the share capital of the company, the minimum free float requirement decreases accordingly so that América Móvil can retain an equity interest in the company of 51 %. If the number of shares in free float falls below the minimum while the shareholders’ agreement is in place, (i) América Móvil

20) ÖBIB will be transformed into a stock company due to the change of the, ÖIAG Gesetz 2000‘ according to Sec 245ff AktG. The company will be transformed into Österreichische Beteiligungs AG.

21) Information on the takeover offer (May 9, 2014): https://www.a1.group/en/ir/12474
Information on the capital increase as of November 7, 2014: https://www.a1.group/en/ir/14887.

B.V. undertakes to sell shares within the next 24 months and (ii) América Móvil undertakes to ensure that neither it nor its subsidiaries purchase any additional shares until the minimum free float requirement is restored.

As long as ÖBIB holds 25 % plus one share or more of the share capital of Telekom Austria Aktiengesellschaft, ÖBIB shall have the following rights of codetermination in accordance with the voting rights agreement: the right to veto capital increases of Telekom Austria Aktiengesellschaft and its subsidiaries, the issue of certain convertible instruments, the appointment of the auditor of the financial statements, related party transactions, the relocation of the registered office of the company and material business functions, including research and development, the disposal of the company's core business, and changes to the name of Telekom Austria Aktiengesellschaft and the brands of Telekom Austria Aktiengesellschaft, among other things. ÖBIB shall also be granted the blocking minority rights accruing by law to a minority shareholder with an equity interest of 25 % plus one share. ÖBIB's veto rights in connection with capital increases and the issue of certain convertible instruments are also set out in the Articles of Association of the company. If ÖBIB's equity interest falls below 20 % but remains above 10 %, ÖBIB shall retain certain veto rights. The voting rights agreement shall expire automatically if the equity interest held by one of the parties falls below 10 %.

Changes to the Management Board and the Supervisory Board

At the Annual General Meeting on May 30, 2018, the Supervisory Board mandates of Carlos García Moreno Elizondo, Carlos M. Jarque and Oscar Von Hauske Solís were extended. Edith Hlawati was elected as Chairperson of the Supervisory Board, while Bettina Glatz-Kremsner and Daniela Lecuona Torras were elected as members after Wolfgang Ruttenstorfer, Stefan Pinter, and Reinhard Kraxner left the Supervisory Board.

Telekom Austria Aktiengesellschaft: members of the Supervisory Board

Name (year of birth)	Date of first appointment	End of current term of office/leaving date
Alejandro Cantú Jiménez (1972)	14.08.2014	2019 1)
Karin Exner-Wöhrer (1971)	27.05.2015	2020 2)
Carlos García Moreno Elizondo, first Deputy Chairman (1957)	14.08.2014	2023 5)
Bettina Glatz-Kremsner (1962)	30.05.2018	2023 5)
Peter Hagen (1959)	25.05.2016	2019 1)
Edith Hlawati (1957), Chair 6)	28.06.2001 to 29.05.2013, reappointed on 30.05.2018	2023 5)
Carlos M. Jarque (1954)	14.08.2014	2022 4)
Peter F. Kollmann (1962)	20.09.2017	2021 3)
Reinhard Kraxner (1970)	14.08.2014	30.05.2018
Daniela Lecuona Torras (1982)	30.05.2018	2022 4)
Stefan Pinter (1978)	14.08.2014	30.05.2018
Wolfgang Ruttenstorfer, Chairman (1950) 7)	27.05.2010 to 14.08.2014, reappointed on 27.05.2015	30.05.2018
Oscar Von Hauske Solís (1957)	23.10.2012	2023 5)

Members of the Supervisory Board delegated by the Staff Council	
Silvia Bauer (1968)	30.01.2009 to 03.11.2010, 26.07.2012 to 12.10.2018
Walter Hotz (1959)	Re-delegated on 06.05.2011
Werner Luksch (1967)	03.08.2007 to 20.10.2010, re-delegated on 11.01.2011
Renate Richter (1972)	12.10.2018
Alexander Sollak (1978)	03.11.2010
Gottfried Kehrer (1962)	27.10.2010

1) The term of office ends at the Annual General Meeting for the 2018 financial year (May 29, 2019).
2) The term of office ends at the Annual General Meeting for the 2019 financial year (provisionally May 2020).
3) The term of office ends at the Annual General Meeting for the 2020 financial year (provisionally May 2021).
4) The term of office ends at the Annual General Meeting for the 2021 financial year (provisionally May 2022).
5) The term of office ends at the Annual General Meeting for the 2022 financial year (provisionally May 2023).
6) Chairperson since May 30, 2018.
7) Chairperson until May 30, 2018.

Thomas Arnoldner was elected Chief Executive Officer (CEO) of Telekom Austria Aktiengesellschaft as of September 1, 2018 for a term of three years with an extension option of two additional years. The contracts of Alejandro Plater, Chief Operating Officer (COO), and Siegfried Mayrhofer, Chief Financial Officer (CFO), were renewed and run as long as Thomas Arnoldner's contract until August 31, 2021 with an extension option of two additional years to August 31, 2023.

Cash use policy

The A1 Telekom Austria Group pursues a conservative finance strategy, with a solid investment grade rating of Baa2 by Moody's and BBB by Standard & Poor's at its core. This orientation ensures a solid balance sheet structure with moderate leverage (net debt to EBITDA) as well as financial flexibility for investments and unrestricted access to debt capital markets. In the 2018 year under review, the company rating of the A1 Telekom Austria Group was confirmed by Standard and Poor's (BBB) with the outlook "positive" and increased from Baa2 to Baa1 with the outlook "stable" from Moody's.

Based on the improved operational and financial performance of the Group, a new expected dividend level was agreed upon by América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) in 2016. Starting with the 2016 financial year, this dividend expectation entails the payment of EUR 0.20 per share to be maintained or increased on a sustainable basis in line with the operational and financial developments of the Group.

In this context, the Management Board plans to propose a dividend of EUR 0.21 per share to the Annual General Meetings 2019 and 2020 for the financial years 2018 and 2019.

Risk management

Principles and methods

As one of the leading telecommunications companies in Austria as well as Central and Eastern Europe, the A1 Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. The A1 Telekom Austria Group's risk management system analyses risk areas systematically, assesses the potential impact, improves existing risk avoidance and risk elimination measures, and reports on the status and developments in the Supervisory Board. In this process, the A1 Telekom Austria Group relies on close cooperation between Group officers and the local risk officers. The risk management system is made up of seven risk categories.

Risk management is performed by analyzing risks and opportunities in connection with the short-term and medium-term planning and ongoing business operations. One key element of risk management is to develop effective measures for reducing and perceiving risks. These are continuously updated by way of monthly performance calls (MPC) and leadership team meetings (LTM) and by analyzing critical deviations and initiated measures. The overall risk situation of this risk category is derived from the sum of the individual risks. In addition to the fixed-line and mobile communications market in Austria, the A1 Telekom Austria Group holds leading positions in six other telecommunications markets abroad. This ensures diversification in terms of both sectors and geographical regions. The risk sets of the respective markets vary, which is why risk management is the responsibility of the local operational units. Risk management is controlled by the holding company. In addition to the regular operating meetings (MPC) and strategic meetings (LTM), a multi-year plan is also created. This close integration of business planning and risk management ensures appropriate risk control.

A1 Telekom Austria Group's risk management is monitored by the Audit Committee of the Supervisory Board.

The most important risk categories and individual risks that could materially influence the net assets, financial position and results of operations of the A1 Telekom Austria Group are explained below.

Risks

1. Market and strategic risks

High competitive intensity in the A1 Telekom Austria Group's markets is leading to price reductions in both mobile communications and data traffic. There is a risk that competition will increase amidst the infrastructure by Open Access Network providers (OAN). Additional competition is arising from innovative over-the-top players (OTTs), who are able to offer their services without owning a network. There is a risk that traffic volume growth cannot offset these price declines. In addition, the monitoring of key macroeconomic indicators in order to assess any changes in consumer behavior is an important aspect of risk management as well as strategic pricing and product design.

The telecommunications sector is facing the challenge of being able to offer new services and products at increasingly faster rates. Cloud services, over-the-top services and machine-to-machine are just a few examples of new business areas where the A1 Telekom Austria Group is convinced of their growth potential. In addition, the growing importance of digitalization is taken into account with A1 Digital International GmbH. However, shorter innovation cycles are also associated with innovation risks. Within the América Móvil Group, the A1 Telekom Austria Group is involved in the discussion on innovations.

2. Compliance risks

The annual compliance risk assessment process – which is an essential element of the A1 Telekom Austria Group's compliance management system – identifies relevant compliance risks on the basis of structured management interviews and workshops and defines risk-mitigating measures. The A1 Telekom Austria Group focuses on prevention by means of training and uncompromising application of internal and external guidelines – such as capital market compliance and a focus on compliance at management level (tone at the top). The Compliance Management System (CMS) is also regularly reviewed internally and externally.

Data protection risks are a relevant section of compliance risks. The products and services of the A1 Telekom Austria Group are subject to data protection and data security risks, particularly with regard to unauthorized access to customer, partner or employee data. Violations of the EU General Data Protection Regulation (GDPR), which has been in force since May 25, 2018, may result in considerable legal and financial risks. To minimize potential risk, the EU General Data Protection Regulation has been implemented in interdisciplinary projects within the A1 Telekom Austria Group since early 2016. Technical and organizational measures have also been implemented on the basis of risk assessments. All companies of the A1 Telekom Austria Group undertake to comply with the most stringent data protection and data security standards. In 2018, there was a particular focus on data privacy during the compliance risk assessment in order to check the implementation of GDPR.

3. Physical risks

Technical and topographical risks

Maintaining availability and a high level of reliability of the services and products offered is a key aspect of operational risk management, as different threats such as natural disasters, major technical disruptions, third-party construction work, hidden faults or criminal activities can all impair their quality. Long-term planning takes technological developments into account. The redundancy of critical components ensures failure safety, and efficient organizational structures for operations and security serve to secure high standards of quality. Furthermore, a separate Group guideline ensures uniform methods for the recognition and management of the most important risks. The ongoing identification and assessment of risks flows into the decision-making process in terms of the implementation of risk minimization measures and the self-sustaining ability of the A1 Telekom Austria Group. Whenever a major disruption occurs, causes are clarified and conclusions are drawn on ways to reduce the risks of repeating the same causes of error. A central approach of insurance against physical damage also helps to minimize the financial effects.

Environmental risks

Climate change can give rise to risks for the A1 Telekom Austria Group's network infrastructure (ranging from rising average temperatures and high rainfall levels through to flooding, mudslides, etc.). The A1 Telekom Austria Group is actively committed to climate protection and continuously observes developments in this area in order to ensure that it can initiate measures to protect its infrastructure facilities as necessary. The impact of this risk category on financials and customer experience was limited in recent years.

4. Cyber risks

The A1 Telekom Austria Group places great emphasis on the implementation of cyber security standards. These are covered by a series of internal guidelines and procedures that are controlled, implemented and monitored for effectiveness in critical situations by means of defined responsibilities. Prevention of possible risks is the primary focus in critical and important network elements as well as business and operational support systems (BSS & OSS). The A1 Telekom Austria Group uses the international IT standards for security techniques (ISO 27001) as a basis and has defined uniform and state-of-the-art security information standards and security information policies.

Essential elements in managing cyber risks are continuous assessments and software updates to the infrastructure to be protected as well as employee training. The A1 Telekom Austria Security Committee is made up of highly qualified security experts from all countries in which the A1 Telekom Austria Group operates and regularly exchanges information about the latest local, regional, and global cyber risks and cyber attacks. This working group also discusses and coordinates cross-country protection measures in critical situations.

5. Operational risks

In addition to operational management of business-critical systems (billing, call servers, gateways, etc.), which is performed by means of redundancies, standard processes, and authorization as well as access management, this category includes **personnel risks.**

The A1 Telekom Austria Group counters personnel-related risks in various ways. For example, young talent is recruited as part of the "1A Career" program, which focuses on graduates, students and apprentices and ensures diversity in the company. The risk of losing key employees is counteracted by means of forward-looking skill management, succession planning, and Group-wide talent management. The in-house A1 Learning Hub development platform supports employees in the development of their skills and abilities and serves as a platform for the Group-wide transfer of expertise. A central e-learning platform provides training at any time and in any place throughout the Group. In addition to business-plan-oriented cost planning, human resources planning includes measures aimed at encouraging employee mobility.

In 2018, management of personnel risks added the challenge of developing digital competencies in all departments to its focus. These digital competencies are an essential pillar of a future-oriented company and allow an optimization of human resources by means of a digital shift of sales, service, and monitoring processes. They are also essential to do more than just survive in new markets and with digitalized business models. This is being initiated via the integration of start-ups, broad-based development measures, and the digital development of key employees of the A1 Telekom Austria Group and will be focused on in the coming years.

In 1996, civil servants of the Republic of Austria were allocated to Telekom Austria Aktiengesellschaft or predecessor companies until their retirement in accordance with the Austrian Postal Services Structure Act ("Poststrukturgesetz"). Transfers within and outside the A1 Telekom Austria Group are limited. Civil servants are employed in accordance with public law. The rights and duties associated with their employment status are exclusively based on provisions under public law, particularly the Public Sector Employment Law of 1979 ("Beamten-Dienstrechtsgesetz 1979").

Civil servants cannot be laid off. Therefore, their employment contract cannot be unilaterally terminated if the need for their employment no longer exists. In the event of a breach of duty, performance deficiencies, or a permanent incapacity to work, complex administrative procedures are necessary. Due to their salary structure, civil servants normally move to the next remuneration level every two years.

Around 45% of employees in the Austria segment have civil servant status. This corresponds to around 19% at Group level. To address the structure of employee costs, the Austria segment has developed not only several social plans in cooperation with employee representatives, but also models that enable employees with civil servant status to transfer to government ministries. Civil servants are also encouraged to take part in internal mobility initiatives within the context of integrated skill management.

6. Financial risks

The A1 Telekom Austria Group is exposed to liquidity, credit, foreign currency exchange rate, transfer and interest rate risks (see Note (33)).

Investment risks

In general, the A1 Telekom Austria Group counters investment risks through measures such as the active management of equity investments by means of target requirements, coordination processes and, where acquisitions of equity interests are concerned, thorough due diligence and enterprise valuation (see Notes (17) and (18)).

7. Political, legal, and regulatory risks

Telecommunications services offered by a provider with significant market power are subject to extensive network access and price regulations. In Austria, the A1 Telekom Austria Group is classified as this kind of provider in several sub-markets. Regulation at the wholesale level restricts operational flexibility with regard to products. There is also an obligation to provide access to infrastructure and fixed-line services to alternative providers. The foreign subsidiaries are also subject to regulatory frameworks. Additional regulatory decisions, such as further reductions in mobile and fixed-line termination rates as a result of the European Commission's new legal framework (European Electronic Communications Code) as well as the reduction of surcharges for international calls within the EU, could negatively affect the A1 Telekom Austria Group's earnings development.

As described in the "Regulation" section, a new regulation on net neutrality and roaming came into force in 2016 that has far-reaching effects on subsidiaries within the EU. Although the Body of European Regulators has issued guiding principles on net neutrality in order to specify how the regulation should be applied in more detail, the topic of net neutrality is still open to interpretation and legal uncertainty so that harmonized, uniform implementation within the EU is not guaranteed. Therefore the extent of their effects cannot be fully predicted and may vary between member states. In turn, this gives rise to legal-regulatory and financial uncertainty.

The European Electronic Communications Code described in the "Regulation" section includes policy objectives for a "gigabit society" and a 5G plan of action. In addition, the above-mentioned cap on surcharges for international calls within the EU that applies starting May 2019 will have significant effects on the revenues of telecommunications operators in Europe. This will involve both legal-regulatory risks as well as financial risks in the future.

The A1 Telekom Austria Group and its subsidiaries are party to a number of legal proceedings both in and out of court with public authorities, competitors, and other parties. An ongoing dialog with the stakeholders involved and a regular exchange of information on controversial issues that could pose a threat to the company enable the Group to identify problems at an early stage and develop measures to counteract them in a targeted manner if need be.

Internal control system for financial reporting

Telekom Austria Aktiengesellschaft has an internal control system (ICS) for the financial reporting process, as required by law. The ICS is intended to provide reasonable assurance regarding the reliability, completeness, and accuracy of external financial reporting in compliance with international and national accounting standards. Regular internal reporting to Management and the review of the internal control system by Internal Audit also ensure that weaknesses are identified promptly or at an early stage as well as reported and eliminated accordingly. The most important content and principles apply to all A1 Telekom Austria Group subsidiaries. The effectiveness of this system is reviewed, analyzed and assessed at regular intervals. At the end of each year, the Group's Management carries out an assessment of the ICS for relevant companies with the involvement of the respective business units. Based on the findings of this assessment and the defined criteria, the Management has determined that the internal control system regarding financial reporting as of December 31, 2018 is effective.

Due to the listing of the ultimate parent, América Móvil, on the New York Stock Exchange (NYSE), the implementation of the U.S. Sarbanes-Oxley Act (SOX) is required. To this end, an adjustment and amendment of the internal control system to reflect this standard was implemented in the 2015 financial year.

Outlook

A1 Telekom Austria Group outlook for 2019

In 2018, A1 Telekom Austria Group again achieved growth in its revenues and its EBITDA adjusted for one-off and FX effects as well as restructuring charges. This was achieved thanks to a clear focus on high-value customers in the mobile business and an ongoing strong fixed-line business with increasing significance of TV content and a growing solutions & connectivity business. Demand for mobile WiFi routers also increased. In Austria, the competition launched convergent offerings for the first time in autumn 2018. In the mobile market, the dynamics in Austria and most CEE markets were relatively unchanged year-on-year. At the same time, the economic situation remained positive in all of the Group's markets. The Belarusian Rouble depreciated by 9.3% against the Euro (based on the period average). Ongoing cost efficiency increases enabled the translation of the solid revenue growth into solid growth of operational EBITDA.

For the full year 2019, most of the market dynamics mentioned above are expected to remain. In Austria, development with regard to the new convergent providers is yet to be seen, while the competitive environment in the mobile markets of the CEE are expected to show similar trends as in 2018. However, demand for fixed-line services is expected to serve as a positive driver across all markets. As in 2018, TV content and solutions & connectivity will be an important element here.

In this business environment, the Management of A1 Telekom Austria Group remains committed to its growth strategy, which is focused on three strategic elements: exceling in the core business, expanding the portfolio, and targeted M&A. As in previous years, results are expected to gain support from ongoing efforts to continuously increase operating efficiency.

For 2019, the Management of A1 Telekom Austria Group expects to achieve growth in total revenues on a reported basis.

The negative effect of the reduction of surcharges for international calls within the EU is anticipated to amount to 1% of Group EBITDA.

The development in Belarus is again expected to be negatively affected by the devaluation of the Belarusian Rouble in 2019. The Management of A1 Telekom Austria Group expects the currency to depreciate by 5–10% versus the euro (period average), whereas it must be noted that the predictability of the Belarusian Rouble is generally limited.

The harmonization of the brands under the "A1" brand will be continued. The respective companies will amortize the brand values until the phase-out of the old brands. More than 90% of these amortizations have already materialized as of year-end 2018.

A1 Telekom Austria Group will remain committed to the fiber rollout in Austria and the further development of its mobile infrastructure, especially with regards to the preparation of 5G, in its markets in 2019. Capital expenditures before spectrum investments and acquisitions are expected to remain approximately stable in 2019.

The frequency allocation of the 3.4–3.8 GHz band is imminent in Austria. The bidding documents were published in September 2018, while the auction itself will take place in the first quarter of 2019.

Based on the improved operational and financial performance of the Group, a new expected dividend level was agreed upon by América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) in 2016. Starting with the financial year 2016, this dividend expectation entails the payment of EUR 0.20 per share to be maintained or increased on a sustainable basis in line with the operational and financial developments of the Group.

In this context, the Management Board plans to propose a dividend of EUR 0.21 per share to the Annual General Meetings 2019 and 2020 for the financial years 2018 and 2019.

In order to ensure its financial flexibility, A1 Telekom Austria Group remains committed to maintaining a solid investment grade rating of Baa2 from Moody's and BBB from Standard & Poor's (currently Baa1 from Moody's and BBB from Standard & Poor's).

Vienna, February 11, 2019
The Management Board

Thomas Arnoldner, CEO
Telekom Austria Aktiengesellschaft

Alejandro Plater, COO
Telekom Austria Aktiengesellschaft

Siegfried Mayrhofer, CFO
Telekom Austria Aktiengesellschaft

Consolidated financial statements 2018 [1)]

1) The Consolidated Financial Statements are a translation from the original German version, which is the decisive version in all cases.

TELEKOM AUSTRIA AG – Consolidated Statements of Comprehensive Income

in TEUR	Notes	2018	2017
Service revenues (incl. other operating income)		3,772,765	3,878,051
Equipment revenues		662,635	504,432
Total revenues (incl. other operating income)	**(5)**	**4,435,401**	**4,382,483**
Cost of service		-1,395,625	-1,394,198
Cost of equipment		-627,941	-584,243
Selling, general & administrative expenses		-1,007,027	-994,910
Other expenses		-13,930	-11,784
Total cost and expenses	**(6)**	**-3,044,524**	**-2,985,135**
Earnings before interest, tax, depreciation and amortization - EBITDA		**1,390,877**	**1,397,347**
Depreciation and amortization	(15) (16)	-956,518	-953,435
Operating income - EBIT		**434,360**	**443,912**
Interest income		5,382	14,329
Interest expense		-86,866	-95,274
Interest on employee benefits and restructuring and other financial items, net		-14,754	-11,220
Foreign currency exchange differences, net		5,145	-2,594
Equity interest in net income of associated companies		-768	-678
Financial result	**(7)**	**-91,861**	**-95,437**
Earnings before income tax - EBT		**342,499**	**348,474**
Income tax	(29)	-98,793	-3,006
Net result		**243,706**	**345,468**
Attributable to:			
Equity holders of the parent		241,079	319,151
Non-controlling interests	(34)	408	1,005
Hybrid capital owners	(28)	2,219	25,313
Basic and diluted earnings per share attributable to equity holders of the parent in Euro	**(8)**	**0.36**	**0.48**
Other comprehensive income items:			
Items that may be reclassified to profit or loss:			
Effect of translation of foreign entities	(3) (28)	-10,340	-32,450
Realized result on hedging activities, net of tax	(33)	4,380	4,380
Unrealized result on debt instruments at fair value, net of tax	(19)	-7	0
Realized result on debt instruments at fair value, net of tax	(7)	30	0
Unrealized result on securities available-for-sale, net of tax	(19)	0	198
Realized result on securities available-for-sale, net of tax	(7)	0	-33
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations, net of tax	(27)	-2,180	8,181
Total other comprehensive income (loss)		**-8,119**	**-19,724**
Total comprehensive income (loss)		**235,587**	**325,744**
Attributable to:			
Equity holders of the parent		232,960	299,424
Non-controlling interests	(34)	408	1,008
Hybrid capital owners	(28)	2,219	25,313

See accompanying Notes to the Consolidated Financial Statements.
The use of automated calculation systems may give rise to rounding differences.
As a result of the application of the modified retrospective method for IFRS 15 and IFRS 9, the comparative figures for 2017 have not been restated.

TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

in TEUR	Notes	December 31, 2018	January 1, 2018	December 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents	(9)	63,631	202,390	202,390
Accounts receivable: Subscribers, distributors and other, net	(10)	830,375	708,307	679,292
Receivables due from related parties	(11)	1,382	944	944
Inventories, net	(12)	131,171	102,401	87,442
Income tax receivable	(29)	2,609	2,807	2,807
Other current assets, net	(13)	153,140	140,599	253,376
Contract assets	(14)	141,114	145,639	0
Total current assets		1,323,422	1,303,087	1,226,251
Non-current assets				
Property, plant and equipment, net	(15)	2,716,084	2,627,919	2,627,919
Intangibles, net	(16)	1,782,681	2,075,878	2,075,878
Goodwill	(17)	1,277,910	1,276,342	1,276,342
Investments in associated companies	(18)	33,188	33,971	33,971
Long-term investments	(19)	11,475	13,385	12,891
Deferred income tax assets	(29)	245,513	325,375	327,077
Other non-current assets, net	(20)	17,809	10,112	57,947
Total non-current assets		6,084,660	6,362,981	6,412,026
TOTAL ASSETS		7,408,082	7,666,069	7,638,277
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Short-term debt and current portion of long-term debt	(21)	-245,257	-566	-566
Accounts payable	(22)	-937,898	-784,243	-784,243
Accrued liabilities and current provisions	(23)	-233,738	-246,167	-265,855
Income tax payable	(29)	-27,078	-35,935	-35,935
Payables due to related parties	(11)	-528	-554	-554
Contract liabilities	(24)	-160,160	-161,595	0
Deferred revenues	(24)	0	0	-156,570
Total current liabilities		-1,604,659	-1,229,059	-1,243,722
Non-current liabilities				
Long-term debt	(25)	-2,536,792	-2,533,607	-2,533,607
Deferred income tax liabilities	(29)	-14,992	-51,024	-41,619
Deferred revenues and other non-current liabilities	(26)	-22,580	-28,474	-38,270
Asset retirement obligation and restructuring	(23)	-575,956	-646,852	-646,852
Employee benefits	(27)	-203,654	-196,842	-196,842
Total non-current liabilities		-3,353,974	-3,456,799	-3,457,190
Stockholders' equity				
Capital stock		-1,449,275	-1,449,275	-1,449,275
Treasury shares		7,803	7,803	7,803
Additional paid-in capital		-1,100,148	-1,100,148	-1,100,148
Hybrid capital		0	-591,186	-591,186
Retained earnings		-603,461	-534,828	-491,948
Other comprehensive income (loss) items		698,286	690,171	690,137
Equity attributable to equity holders of the parent	(28)	-2,446,794	-2,977,462	-2,934,617
Non-controlling interests		-2,655	-2,748	-2,748
Total stockholders' equity		-2,449,449	-2,980,210	-2,937,365
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		-7,408,082	-7,666,069	-7,638,277

See accompanying Notes to the Consolidated Financial Statements.
The use of automated calculation systems may give rise to rounding differences.
As a result of the application of the modified retrospective method for IFRS 15 and IFRS 9, the comparative figures for 2017 have not been restated.

TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows

in TEUR	Notes	2018	2017
Earnings before income tax - EBT		342,499	348,474
Items not requiring the use of cash and other reconciliation:			
Depreciation	(15)	500,146	532,354
Amortization of intangible assets	(16)	456,371	421,082
Result from measurement of investments	(7)	107	0
Equity interest in net income of associated companies	(18)	768	678
Result on sale of investments	(7)	39	-76
Result on sale of property, plant and equipment	(5) (6)	4,871	5,684
Net period cost of labor obligations and restructuring	(7) (23) (27)	39,350	-5,511
Foreign currency exchange differences, net	(7)	-5,145	2,594
Interest income	(7)	-5,382	-14,329
Interest expense	(7)	94,635	99,100
Other adjustments		-4,860	-10,807
Changes in financial positions:			
Accounts receivable: Subscribers, distributors and other, net	(10)	-121,615	-40,049
Prepaid expenses	(13)	6,352	6,696
Due from related parties	(11)	-438	-19
Inventories	(12)	-29,096	-5,919
Other assets	(13) (20)	-3,869	-15,772
Contract assets	(14)	4,836	0
Employee benefits and restructuring	(23) (27)	-101,288	-108,450
Accounts payable and accrued liabilities	(22) (23)	113,841	-264
Due to related parties	(11)	-26	-5,864
Contract liabilities	(24)	-1,484	0
Deferred revenues	(24) (26)	0	-6,629
Others:			
Interest received	(7)	5,423	14,329
Income taxes paid	(29)	-63,699	-42,491
Net cash flow from operating activities		**1,232,337**	**1,174,810**
Capital expenditures paid	(32)	-771,459	-705,422
Dividends received from associates	(18)	771	-0
Proceeds from sale of plant, property and equipment	(15)	7,520	15,141
Purchase of investments	(19)	-231	-45
Proceeds from sale of investment	(19)	1,921	2,620
Acquisition of businesses, net of cash acquired	(34)	-3,727	-86,731
Sale of shares of associated companies	(18) (34)	127	4,052
Net cash flow from investing activities		**-765,078**	**-770,386**
Long-term debt obtained	(25) (32)	0	248,762
Repayments of long-term debt	(25) (32)	0	-522,000
Interest paid	(7)	-84,243	-99,841
Change in short-term debt	(21) (32)	7,877	1,857
Dividends paid	(28)	-167,341	-166,885
Issuance of short-term debt		240,000	0
Redemption of hybrid bond	(28)	-600,000	0
Acquisition of non-controlling interest	(34)	-105	-1,235
Deferred consideration paid for business combinations	(34)	-1,200	-120,000
Net cash flow from financing activities		**-605,012**	**-659,342**
Adjustment to cash flows due to exchange rate fluctuations, net	(3)	-1,006	-152
Net change in cash and cash equivalents		**-138,759**	**-255,070**
Cash and cash equivalents beginning of period	(9)	202,390	457,460
Cash and cash equivalents end of period	(9)	63,631	202,390

See accompanying Notes to the Consolidated Financial Statements. The use of automated calculation systems may give rise to rounding differences.
As a result of the application of the modified retrospective method for IFRS 15 and IFRS 9, the comparative figures for 2017 have not been restated.

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

in TEUR	Common stock Par value	Treasury shares at cost	Additional paid-in capital	Hybrid capital	Retained earnings
At January 1, 2017	1,449,275	-7,803	1,100,148	591,186	306,338
Net result	0	0	0	0	344,464
Other comprehensive income (loss)	0	0	0	0	0
Total comprehensive income	0	0	0	0	344,464
Distribution of dividends	0	0	0	0	-158,131
Change in reporting entities	0	0	0	0	-722
At December 31, 2017	1,449,275	-7,803	1,100,148	591,186	491,948
Impact of change in accounting policy	0	0	0	0	42,879
At January 1, 2018	1,449,275	-7,803	1,100,148	591,186	534,828
Net result	0	0	0	0	243,298
Other comprehensive income (loss)	0	0	0	0	0
Total comprehensive income	0	0	0	0	243,298
Distribution of dividends	0	0	0	0	-165,827
Redemption of hybrid capital	0	0	0	-591,186	-8,814
Addition from acquisition	0	0	0	0	0
Acquisition of non-controlling interests	0	0	0	0	-24
At December 31, 2018	1,449,275	-7,803	1,100,148	0	603,461

In 2017, the measurement of debt instruments includes the available-for-sale reserve (see Notes (19) and (3)).
For changes in accounting policies, see Note (3).
See accompanying Notes to the Consolidated Financial Statements.
The use of automated calculation systems may give rise to rounding differences.
The tax benefit resulting from the accrued interest attributable to hybrid capital holders is included in the distribution of dividends (see Note (28)).
In the change in reporting entities in 2017, non-controlling interests related to acquisitions as well as acquisitions made within the business year are netted.

Remeasurement of defined benefit plans	Measurement of debt instruments	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
-37,336	-221	-28,468	-604,384	2,768,734	1,993	2,770,727
0	0	0	0	344,464	1,005	345,468
8,181	165	4,380	-32,454	-19,727	3	-19,724
8,181	165	4,380	-32,454	324,736	1,008	325,744
0	0	0	0	-158,131	-318	-158,449
0	0	0	0	-722	65	-657
-29,155	-56	-24,088	-636,837	2,934,617	2,748	2,937,365
0	-34	0	0	42,845	0	42,845
-29,155	-90	-24,088	-636,837	2,977,462	2,748	2,980,210
0	0	0	0	243,298	408	243,706
-2,180	22	4,380	-10,337	-8,115	-3	-8,119
-2,180	22	4,380	-10,337	235,183	404	235,587
0	0	0	0	-165,827	-774	-166,602
0	0	0	0	-600,000	0	-600,000
0	0	0	0	0	355	355
0	0	0	0	-24	-78	-102
-31,335	-68	-19,709	-647,175	2,446,794	2,655	2,449,449

TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements

(1) Segment Reporting

2018 (in TEUR) without application of IFRS 15	Austria	Bulgaria	Croatia	Belarus
External revenues	2,629,618	435,286	436,283	388,801
Intersegmental revenues	28,352	10,874	8,169	468
Total revenues (incl. other operating income)	**2,657,971**	**446,160**	**444,452**	**389,269**
Segment expenses	-1,752,277	-308,131	-330,326	-225,475
EBITDA	**905,693**	**138,029**	**114,126**	**163,794**
Depreciation and amortization	-431,751	-243,149	-106,488	-76,179
Operating income - EBIT	**473,942**	**-105,120**	**7,638**	**87,614**
Interest income	2,357	2,579	4,304	1,920
Interest expense	-22,850	-515	-7,115	-2,481
Other financial result	-5,979	-5,692	4,546	-1,636
Equity interest in net income of associated companies	127	0	0	0
Earnings before income tax - EBT	**447,596**	**-108,748**	**9,373**	**85,418**
Income taxes	-112,015	15,548	-2,610	-15,543
Net result	**335,580**	**-93,200**	**6,763**	**69,875**
EBITDA margin	34.1%	30.9%	25.7%	42.1%
Capital expenditures - intangible	79,876	34,139	17,087	13,040
Capital expenditures - tangible	389,473	52,364	70,699	36,655
Total capital expenditures	**469,349**	**86,502**	**87,786**	**49,695**
Assets by segment	4,969,389	752,519	664,110	379,731
Property, plant and equipment	1,790,177	228,982	260,687	189,847
Goodwill	708,212	242,691	127,762	13,703
Brand names and patents	158,351	7,571	0	21,833
Licenses and rights of use	884,604	42,487	51,450	19,894
Other intangible assets	182,927	47,495	62,015	24,034
Investments in associated companies	0	0	0	0
Liabilities by segment	-2,490,712	-144,462	-450,944	-104,076

2017 (in TEUR)	Austria	Bulgaria	Croatia	Belarus
External revenues	2,594,580	421,001	424,222	388,757
Intersegmental revenues	27,731	10,206	10,669	1,698
Total revenues (incl. other operating income)	2,622,311	431,207	434,891	390,456
Segment expenses	-1,708,079	-301,060	-326,871	-209,187
EBITDA	914,232	130,147	108,020	181,269
Depreciation and amortization	-472,171	-215,717	-95,587	-58,212
Operating income - EBIT	442,061	-85,571	12,433	123,057
Interest income	2,244	3,178	5,123	441
Interest expense	-20,611	-631	-9,358	-3,018
Other financial result	-9,153	-3,972	1,156	-4,949
Equity interest in net income of associated companies	-277	0	0	0
Earnings before income tax - EBT	414,264	-86,995	9,355	115,531
Income taxes	-100,123	10,598	-1,835	-19,741
Net result	314,141	-76,397	7,520	95,790
EBITDA margin	34.9%	30.2%	24.8%	46.4%
Capital expenditures - intangible	74,341	27,468	15,431	9,135
Capital expenditures - tangible	361,194	53,787	69,312	37,927
Total capital expenditures	435,536	81,255	84,742	47,062
Assets by segment	4,903,251	840,842	676,234	393,977
Property, plant and equipment	1,705,260	236,142	248,295	191,795
Goodwill	708,211	242,691	126,041	14,146
Brand names and patents	158,351	144,017	19,431	54,673
Licenses and rights of use	950,634	45,249	54,217	23,525
Other intangible assets	175,203	59,563	65,697	24,163
Investments in associated companies	0	0	0	0
Liabilities by segment	-2,441,252	-138,719	-472,477	-100,032

The EBITDA margin is calculated by dividing EBITDA by total revenues (including other operating income).
Additions to assets do not include additions related to ARO, see Notes (15) and (16).
"Without application of IFRS 15" signifies reported according to IAS 18 as in the previous year.

Slo enia	Se ia	acedonia	Co o ate t e	liminations	Consolidated
209 0	2 2	11 1	90	0	12
9	99	1	0	0	0
214,053	249,242	119,163	12,507	−66,405	4,466,412
−175,956	−202,232	−83,797	−68,200	60,581	−3,085,814
38,098	47,009	35,366	−55,693	−5,824	1,380,598
−29,210	−42,933	−26,048	−1,608	850	−956,518
8,888	4,077	9,317	−57,301	−4,974	424,081
2,313	1,534	294	33,535	−33,310	15,524
−479	−1,175	−1,280	−84,292	33,321	−86,866
−141	243	46	379,991	−380,987	−9,609
0	0	0	−895	0	−768
10,580	4,679	8,378	271,037	−385,950	342,362
−1,200	−142	−1,077	16,225	1,147	−99,668
9,380	4,536	7,301	287,262	−384,803	242,694
17.8%	18.9%	29.7%	n.a.	n.a.	30.9%
9,544	8,787	2,214	2,368	−6,309	160,747
17,932	25,318	16,989	4,192	−3,389	610,232
27,476	34,105	19,203	6,560	−9,698	770,979
434,768	374,123	185,662	7,687,801	−8,059,581	7,388,521
69,829	84,185	82,328	4,638	5,412	2,716,084
147,632	0	30,060	131,281	−123,430	1,277,910
910	4,536	722	1,981	0	195,904
68,730	127,927	24,298	0	−7,239	1,212,150
21,760	19,713	13,010	3,531	142	374,627
0	0	0	33,188	0	33,188
−69,338	−118,992	−62,520	−3,472,225	1,930,715	−4,982,555

Slovenia	Serbia	Macedonia	Corporate & Other	Eliminations	Consolidated
211,562	224,193	112,019	5,729	418	4,382,483
4,517	6,608	2,007	6,784	−70,219	0
216,079	230,801	114,025	12,513	−69,801	4,382,483
−175,514	−192,434	−83,966	−53,760	65,736	−2,985,135
40,565	38,368	30,059	−41,247	−4,065	1,397,347
−30,090	−45,131	−36,039	−429	−59	−953,435
10,475	−6,763	−5,980	−41,676	−4,124	443,912
2,273	801	242	36,580	−36,554	14,329
−1,306	−1,628	−1,391	−93,862	36,529	−95,274
1	3,220	653	715,234	−716,005	−13,814
0	0	0	−400	0	−678
11,444	−4,370	−6,477	615,876	−720,154	348,474
−907	−569	269	108,600	701	−3,006
10,537	−4,939	−6,207	724,476	−719,453	345,468
18.8%	16.6%	26.4%	n.a.	n.a.	31.9%
22,548	9,113	3,454	1,576	−5,494	157,572
19,255	25,998	17,861	1,129	−7,169	579,294
41,803	35,111	21,316	2,705	−12,663	736,866
432,967	375,932	190,198	7,910,058	−8,085,181	7,638,277
70,180	82,177	81,943	1,563	10,563	2,627,919
147,632	0	30,060	131,025	−123,465	1,276,342
990	4,873	6,429	1,907	0	390,671
73,305	141,633	26,544	0	−4,116	1,310,990
18,390	16,742	12,965	1,520	−28	374,217
0	0	0	33,971	0	33,971
−73,584	−125,992	−74,359	−3,239,035	1,964,537	−4,700,912

A1 Telekom Austria Group has aligned its management structure and the resulting segment reporting on geographical markets and reports separately based on its seven operating segments: Austria, Bulgaria, Croatia, Belarus, Slovenia, Serbia and Macedonia.

The Management Board of A1 Telekom Austria Group, which regularly meets in Management Board meetings, acts as the chief operating decision maker. Members of the Management Board are the Group CEO, the Group COO and the Group CFO (see Note (36)). The Management Board focuses on revenue, EBITDA and capital expenditure (CAPEX). Revenue and EBITDA are managed without the application of IFRS 15, i.e. according to IAS 18 (see Note (3)).

The following table provides a reconciliation of the total reportable segments' revenues and results ("without application of IFRS 15") to A1 Telekom Austria Group's total consolidated revenues and results ("as reported IFRS 15"):

2018 (in TEUR)	Without application of IFRS 15	Adjustments	As reported IFRS 15
External revenues	4,466,412	-31,011	4,435,401
Total revenues (incl. other operating income)	**4,466,412**	**-31,011**	**4,435,401**
Segment expenses	-3,085,814	41,290	-3,044,524
EBITDA	**1,380,598**	**10,279**	**1,390,877**
Depreciation and amortization	-956,518	0	-956,518
Operating income - EBIT	**424,081**	**10,279**	**434,360**
Interest income	15,524	-10,142	5,382
Interest expense	-86,866	0	-86,866
Other financial result	-9,609	0	-9,609
Equity interest in net income of associated companies	-768	0	-768
Earnings before income tax - EBT	**342,362**	**137**	**342,499**
Income taxes	-99,668	875	-98,793
Net result	**242,694**	**1,012**	**243,706**
Assets by segment	7,388,521	19,561	7,408,082
Liabilities by segment	-4,982,555	23,922	-4,958,633

The accounting policies of the segments are the same as those of A1 Telekom Austria Group without application of IFRS 15, i.e. according to IAS 18 (see Note (3)). The segments offer the services and products disclosed in Note (5), for brand names, see Note (16).

Segment revenues, segment expenses and segment results include deliveries and services between operating segments. Such deliveries and services are accounted for at transfer prices that are constantly monitored and documented to ensure that pricing is at arm's length. These intersegmental transactions are eliminated in consolidation.

The column Corporate & Other comprises mainly holding companies, the group financing company as well as A1 Digital, which focuses its business activities on the CEE region and Germany and which will be further expanded internationally.

Other financial income reported in the column Corporate & Other relates mostly to dividend income from fully consolidated subsidiaries that is eliminated in consolidation, thus having no impact on the Consolidated Financial Statements. The column Corporate & Other is reported in addition to the column Eliminations for improved transparency.

The elimination column contains intersegment consolidation entries and the reconciliation of segment assets and liabilities to consolidated total assets and liabilities. Capital expenditures, as well as depreciation and amortization, relate to property, plant and equipment and other intangible assets.

None of the segments records revenues from transactions with a single external customer amounting to at least 10% or more of A1 Telekom Austria Group's revenues.

The item other financial result in the segment reporting includes interest on employee benefits and restructuring and other financial items as well as foreign exchange differences.

Telekom Austria Aktiengesellschaft (Telekom Austria AG) is incorporated as a joint stock corporation under the laws of the Republic of Austria and is located in Austria, Lassallestrasse 9, 1020 Vienna. Telekom Austria AG and its subsidiaries (A1 Telekom Austria Group) provide the services and products listed in revenues (Note (5)) in Austria, Bulgaria, Croatia, Belarus, Slovenia, Serbia and Macedonia.

The ultimate parent company of A1 Telekom Austria Group is América Móvil, S.A.B. de C.V. (América Móvil), which is located in Mexico. The Federal Republic of Austria, through Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB), is the second significant shareholder of A1 Telekom Austria Group. América Móvil's and ÖBIB's stakes in A1 Telekom Austria Group are disclosed in Note (28).

In addition to the related party transactions disclosed in Note (11), the Federal Republic of Austria regulates certain activities of A1 Telekom Austria Group in Austria via the Rundfunk und Telekom Regulierungs-GmbH (RTR). In addition, the government holds the taxing authority for the Austrian operations of A1 Telekom Austria Group and imposes taxes such as corporate income tax and value-added taxes.

Functional currency

The Consolidated Financial Statements of A1 Telekom Austria Group are prepared in euro. Unless indicated otherwise, all amounts are reported in thousand euro (TEUR). The use of automated calculation systems may give rise to rounding differences.

Financial statements of subsidiaries where the functional currency is a currency other than the euro are translated using the functional currency principle. For these entities, assets and liabilities are translated using the year-end exchange rates, while revenues and expenses are translated using the average exchange rates prevailing during the year. The resulting foreign currency translation is recognized in other comprehensive income (OCI) and until the disposal of the respective subsidiary presented in the translation reserve in stockholders' equity.

Gains and losses that arise from exchange rate fluctuations between the recognition of the transaction and payment date or translation at year-end are recognized in the financial result.

The following table provides the exchange rates for the currencies in which A1 Telekom Austria Group conducts its transactions:

	Exchange rates at December 31		Average exchange rates for the year	
	2018	2017	2018	2017
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.4125	7.5137	7.4184	7.4635
Czech Koruna (CZK)	25.7240	25.5350	25.6444	26.3345
Hungarian Forint (HUF)	320.9800	310.3300	318.8321	309.2175
Serbian Dinar (CSD)	118.1946	118.4727	118.2737	121.4206
Swiss Franc (CHF)	1.1269	1.1702	1.1551	1.1112
Rumanian Leu (RON)	4.6635	4.6585	4.6542	4.5683
Turkish Lira (TRY)	6.0588	4.5464	5.6996	4.1186
Macedonian Denar (MKD)	61.4950	61.4950	61.5121	61.5748
Belarusian Rouble (BYN)	2.4734	2.3553	2.4055	2.1816
US Dollar (USD)	1.1450	1.1993	1.1817	1.1291
Great Britain Pound (GBP)	0.8945	0.8872	0.8846	0.8765
Bosnian convertible mark (BAM)	1.9558	1.9558	1.9558	1.9558
Polish Zloty (PLN)	4.3014	4.1770	4.2605	4.2577

Accounting

A1 Telekom Austria Group prepared the Consolidated Financial Statements as of December 31, 2018 in compliance with the International Financial Reporting Standards (IFRS/IAS), issued by the International Accounting Standards Board (IASB), the interpretations of the IFRS Interpretations Committee (IFRIC) and the interpretation of the former Standards Interpretation Committee (SIC), effective as of December 31, 2018 and as endorsed by the European Union, as well as in accordance with the supplemental regulations of Section 245a of the Austrian Commercial Code (UGB).

Significant accounting policies

The general accounting policies are presented in the respective Notes to the Statement of Comprehensive Income and the Statement of Financial Position.

Changes in accounting policies

The following amendments to existing and new IFRS are effective as of January 1, 2018.

IFRS 15	Revenue from Contracts with Customers
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers - Clarifications
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
Several IFRSs	Annual Improvements 2014 – 2016
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRS 4	Amendments: Application of IFRS 9 with IFRS 4 Insurance Contracts
IAS 40	Transfers of Investment Property (Amendments to IAS 40)

Impact of IFRS 15

In May 2014, the IASB issued the new standard IFRS 15 "Revenue from Contracts with Customers". The new standard for revenue recognition aims at standardizing the multitude of regulations previously included in various standards. The amount of revenue recognized and its timing is determined based on a five-step model. The type of transaction or the sector of the entity is not relevant. IFRS 15 contains additional qualitative and quantitative disclosure obligations. These are aimed at enabling users of the financial statements to understand the nature, amount, timing and the uncertainties of revenue and the resulting cash flows arising from contracts with customers. In April 2016, the IASB issued clarifications to IFRS 15 related to identifying performance obligations, principal versus agent considerations, as well as licensing. As the standard itself, the European Union has endorsed these clarifications.

Impact at January 1, 2018

At January 1, 2018, A1 Telekom Austria Group initially applied IFRS 15, electing the modified retrospective approach for the initial application in accordance with the transition guidance. Accordingly, the comparative figures for 2017 were not adjusted, i.e. they correspond to the figures published according to IAS 18 and the respective interpretations.

The following table shows the quantitative effects of the initial application of IFRS 15 on the Consolidated Statements of Financial Position as of January 1, 2018 including detailed explanations (see columns a) to f)):

in TEUR at January 1, 2018	Total	a)	b)	c)	d)	e)	f)
Accounts receivable: Subscribers, distributors and other, net (10)	29,015	155,852	–17,550			–109,288	
Inventories (12)	14,959		14,959			0	
Contract assets (14)	145,639					145,639	
Contract cost (13)	42,316				42,316	0	
Prepaid expenses (13)	–35,562		–35,562			0	
Other assets (13)	–17,565					–17,565	
Installment sales (13) (20)	–149,802	–149,802				0	
Contract liabilities (24)	–161,595			–150,421		–11,174	
Accrued liabilities (23)	19,688			18,483		1,205	
Deferred revenues (24) (26)	166,366			131,938		34,428	
Deferred taxes (29)	–11,108					0	–11,108
Stockholders' equity	–42,352	–6,050	38,152	0	–42,316	–43,246	11,108

For references related to the Notes, see brackets.
The equity effect of the loss allowance of TEUR 2,277 (see "Impact of IFRS 9") is included in column e).

a) According to IAS 18, installment sales receivables were recognized at the present value of the installments. Based on the current status, financing components are considered insignificant according to IFRS 15 on an individual contract level. Thus installment sales receivables are not discounted anymore as long as the discounting effect continues to be insignificant. Installment sales receivables discounted at December 31, 2017 were re-measured at their nominal value at January 1, 2018 and the related accretion effect was recognized directly in shareholders' equity.

Starting 2018, this leads to an improvement in EBITDA, as installment sales revenues that were recognized previously at the present value with the interest component reported in the financial result shall now be recognized at their full amount in revenues (see table "Impact on the Consolidated Statement of Comprehensive Income"). In addition, starting 2018, the total amount of installment sales receivables is reported in accounts receivable: subscribers, distributors and other, net.

b) According to IAS 18, dealers reselling mobile devices acquired from A1 Telekom Austria Group to end customers were considered principals. Due to the regulations of IFRS 15, hardware sales to dealers will no longer be recognized as revenue as the dealers are now considered agents. Revenue will be recognized only once the mobile devices are sold to end customers. The effect of the derecognition of accounts receivable and revenue related to mobile devices in dealers' stock at December 31, 2017 as well as the effect of the recognition of these mobile devices in inventory was reported directly in shareholders' equity at January 1, 2018.

According to IAS 18, subsidies to dealers were recognized in prepaid expenses at the date of sale of mobile devices and expensed over the minimum contractual term. According to IFRS 15, these subsidies are treated as a reduction in revenue. Thus the prepaid expenses were derecognized and the effect was recognized directly in shareholders' equity at January 1, 2018.

Starting 2018, the classification of dealers as agents leads to a later recognition of equipment revenues effected via dealers. At the same time, the fact that subsidies are recognized as a reduction in revenue in 2018 will lead to a shift from expenses to equipment revenues (see table "Impact on the Consolidated Statement of Comprehensive Income").

c) Provisions for discounts granted retrospectively on the basis of service revenue generated and deferred income are qualified as contract liabilities according to IFRS 15 and were reclassified accordingly.

d) According to IAS 18, discounts and provisions granted to third parties and to employees were fully expensed. If these discounts and provisions are incremental costs of obtaining a customer contract, they are recognized as deferrals (contracts costs) according to IFRS 15 and are expensed according to the expected duration of the underlying contract. The effect from the initial recognition of contract costs at January 1, 2018 was reported directly in shareholders' equity.

Starting 2018, this results in a later recognition of expense, yet there was no further significant impact on EBITDA in 2018 (see table "Impact on the Consolidated Statement of Comprehensive Income").

e) A1 Telekom Austria Group had already previously allocated the majority of transaction prices of multiple-element arrangements to goods and services based on a determination of a separable value to the customer for each deliverable on a standalone basis. IFRS 15 requires the identification of separate performance obligations in multiple-element arrangements based on certain criteria as well as the allocation of transaction prices to the performance obligations in proportion to the fair values of the underlying goods and services (stand-alone selling prices).

The application of the criteria for identifying performance obligations according to IFRS 15 resulted in a re-evaluation of performance obligations for fixed-line services. For mobile communication services, the allocation according to IFRS 15 results in a higher transaction price for mobile equipment and a lower transaction price for mobile services compared to the allocation according to IAS 18. The adjusted allocation of the transaction price has also insignificant effects on the amount of deferrals for customer loyalty programs. The effect of the re-evaluation of performance obligations for fixed-line services as well as, in accordance with IFRS 15, the effect of the allocation of the transaction price for multiple-element arrangements for mobile services and on deferrals for customer loyalty programs was recognized directly in shareholders' equity at January 1, 2018.

Starting 2018, the change in the allocation of transaction prices leads to a shift from service revenues to equipment revenues; the related effect on EBITDA is not significant. For fixed-line telephone services, the application of the criteria of IFRS 15 for identifying performance obligations results in a later revenue recognition in 2018, which did not have a significant impact (see table "Impact on the Consolidated Statement of Comprehensive Income").

f) The effects on equity of the changes described above are only temporary shifts of results. Thus deferred taxes were recognized for the effects related to the initial application of IFRS 15.

Impact on the period reported

The following tables summarize the effects of applying IFRS 15 on the Condensed Consolidated Financial Statements (items without any adjustments are summarized in "Other"):

Impact on the Consolidated Statement of Comprehensive Income

2018 (in TEUR)	As reported IFRS 15	Adjustments	Without application of IFRS 15
Service revenues (incl. other operating income)	3,772,765	147,398	3,920,163
Equipment revenues	662,635	–116,387	546,249
Total revenues (incl. other operating income)	**4,435,401**	**31,011**	**4,466,412**
Cost of service	–1,395,625	0	–1,395,625
Cost of equipment	–627,941	1,009	–626,932
Selling, general & administrative expenses	–1,007,027	–42,299	–1,049,326
Other expenses	–13,930	0	–13,930
Total cost and expenses	**–3,044,524**	**–41,290**	**–3,085,814**
Earnings before interest, tax, depreciation and amortization - EBITDA	**1,390,877**	**–10,279**	**1,380,598**
Interest income	5,382	10,142	15,524
Other	–1,053,760	0	–1,053,760
Earnings before income tax - EBT	**342,499**	**–137**	**342,362**
Income tax	–98,793	–875	–99,668
Net result	**243,706**	**–1,012**	**242,694**

Impact on the Condensed Consolidated Statements of Financial Position

in TEUR, at December 31, 2018	As reported IFRS 15	Adjustments	Without application of IFRS 15
Accounts receivable: Subscribers, distributors and other, net	830,375	–75,946	754,429
Inventories, net	131,171	–13,967	117,204
Other current assets, net	153,140	143,144	296,284
Contract assets	141,114	–141,114	0
Other	65,013	0	65,013
Total current assets	**1,323,422**	**–87,883**	**1,235,539**
Deferred income tax assets	245,513	4,846	250,359
Other non-current assets, net	17,809	63,476	81,285
Other	5,821,338	0	5,821,338
Total non-current assets	**6,084,660**	**68,322**	**6,152,982**
TOTAL ASSETS	**7,408,082**	**–19,561**	**7,388,521**
Accrued liabilities and current provisions	–233,738	–18,183	–251,921
Contract liabilities	–160,160	160,160	0
Deferred revenues	0	–162,135	–162,135
Other	–1,210,760	0	–1,210,760
Total current liabilities	**–1,604,659**	**–20,157**	**–1,624,816**
Deferred income tax liabilities	–14,992	5,419	–9,574
Deferred revenues and other non-current liabilities	–22,580	–9,184	–31,763
Other	–3,316,402	0	–3,316,402
Total non-current liabilities	**–3,353,974**	**–3,765**	**–3,357,739**
Retained earnings	–603,461	43,500	–559,960
Other comprehensive income (loss) items	698,286	–17	698,269
Other	–2,541,619	0	–2,541,619
Total stockholders' equity	**–2,449,449**	**43,483**	**–2,405,966**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**–7,408,082**	**19,561**	**–7,388,521**

Impact on the Condensed Consolidated Statements of Cash Flows

2018 (in TEUR)	As reported IFRS 15	Adjustments	Without application of IFRS 15
Earnings before income tax - EBT	342,499	–137	342,362
Items not requiring the use of cash and other reconciliation:			
Interest income	–5,382	–10,142	–15,524
Other	1,086,283	0	1,086,283
Changes in financial positions:			
Accounts receivable: Subscribers, distributors and other, net	–121,615	48,266	–73,349
Prepaid expenses	6,352	2,463	8,816
Inventories	–29,096	–992	–30,088
Other assets	–3,869	–49,646	–53,515
Contract assets	4,836	–4,836	0
Accounts payable and accrued liabilities	113,841	–1,505	112,336
Contract liabilities	–1,484	1,484	0
Deferred revenues	0	4,903	4,903
Interest received	5,423	10,142	15,565
Other	–165,451	0	–165,451
Net cash flow from operating activities	1,232,337	0	1,232,337

The adoption of IFRS 15 does not have an effect on cash flows from investing and financing activities.

Impact of IFRS 9

In July 2014 the IASB issued IFRS 9 “Financial Instruments”, effective for periods beginning on or after January 1, 2018 and replacing IAS 39 “Financial Instruments”. IFRS 9 introduces changes regarding the classification and measurement of financial instruments, the impairment of financial assets and hedge accounting.

A1 Telekom Austria Group initially applies IFRS 9 at January 1, 2018, electing the modified retrospective approach for initial application in accordance with the transition guidance. The initial application of IFRS 9 in A1 Telekom Austria Group has effects on the classification and measurement of financial assets that are not significant overall. The business model of A1 Telekom Austria Group is “hold to collect” and “hold to collect and sell”, respectively, and no derivative financial instruments are held. The contractual cash flows of non-derivative financial instruments consist mainly of principal and interest. All equity instruments held at December 31, 2017 are classified in the measurement category “at fair value through profit or loss”. Financial investments formerly carried at cost are now recognized at their fair value, which leads to an increase in shareholders’ equity of TEUR 493 at January 1, 2018 due to the changed measurement category.

The following table shows the effects on the classification and the existing book values of financial assets according to IAS 39 in TEUR (there are no effects on financial liabilities):

Item	Classification IAS 39	Classification IFRS 9	Carrying amount at Dec. 31, 2017 IAS 39	Carrying amount at Jan. 1, 2018 IFRS 9
Cash and cash equivalents	Cash and cash equivalents	Financial assets at amortized cost	202,390	202,390
Accounts receivable: Subscribers, distributors and other	Loans and receivables	Financial assets at amortized cost	679,292	679,292
Receivables due from related parties	Loans and receivables	Financial assets at amortized cost	944	944
Other current financial assets	Loans and receivables	Financial assets at amortized cost	111,631	111,631
Other non-current financial assets	Loans and receivables	Financial assets at amortized cost	49,390	49,390
Long-term investments			12,891	13,385
thereof:				
Quoted bonds	Available-for-sale investments	Debt instruments at fair value through other comprehensive income - mandatory	3,563	3,563
Quoted equity instruments	Available-for-sale investments	Equity instruments at fair value through profit or loss - mandatory	1,798	1,798
Other long-term investments*	Available-for-sale investments	Debt instruments at fair value through profit or loss - mandatory	2,177	2,177
Fixed deposits	Available-for-sale investments	Financial assets at amortized cost	3,808	3,808
Unquoted equity instruments	Carried at cost	Equity instruments at fair value through profit or loss - mandatory	1,546	2,039

*Solely payment of principal and interest ("SPPI") criterium not met

The loss allowance of accounts receivable trade is measured in accordance with the simplified approach of IFRS 9 at an amount equal to lifetime expected losses. Due to the good credit quality of the customers, the current measurement of accounts receivable according to the incurred loss method differs only insignificantly from the required method of lifetime expected credit losses. Thus the adoption of IFRS 9 does not have a significant impact on the Consolidated Financial Statements (see Note (33)). The application of the simplified approach for the calculation of lifetime expected credit losses on financial assets, accounts receivable: subscribers, distributors and other as well as contractual assets and contractual costs according to IFRS 9 leads to a reduction in shareholders' equity of TEUR 2,277 at January 1, 2018.

Allowance in TEUR	December 31, 2017	Adjustments	January 1, 2018
Financial assets and accounts receivable: Subscribers, distributors and other	236,108	-1,998	234,110
Contract assets	0	3,344	3,344
Contract cost	0	931	931
Total	**236,108**	**2,277**	**238,385**

The effect on shareholders' equity ("Adjustments") is included in column (e) of the table on IFRS 15.

As at December 31, 2017, A1 Telekom Austria Group invests only short-term with counterparties with investment grade rating, the calculation resulted in insignificant expected credit losses on all other financial assets (see Note (33)).

The new requirements of IFRS 9 regarding hedge accounting do not have an effect on the Consolidated Financial Statements of A1 Telekom Austria Group, as hedge accounting is not applied.

Compared to IAS 39, the application of IFRS 9 has an immaterial effect on the Consolidated Financial Statements 2018.

Impact on Consolidated Shareholders' Equity

The following tables summarize the effects of the initial application of IFRS 15 and IFRS 9 on consolidated shareholders' equity at January 1, 2018.

	Retained earnings	Measurement of debt instruments	Available-for-sale reserve	Total stockholders' equity
Reclassification available-for-sale to FVPL	34		–34	0
Reclassification available-for-sale to FVOCI		–90	90	0
Valuation financial instruments at cost to FVPL	493			493
Application of IFRS 15	42,352			42,352
Impact of change in accounting policy	**42,879**	**–90**	**56**	**42,845**

FVPL: at fair value through profit or loss, FVOCI: at fair value through other comprehensive income (see Note (19))
For details on the adoption of IFRS 15, see "Impact of IFRS 15 at January 1, 2018" table.
The effect of the loss allowance according to IFRS 9 on shareholders' equity amounting to TEUR 2,277 ("Adjustments") is included in the line "Application of IFRS 15".

The initial application of the remaining standards (IAS, IFRS) mentioned above had an insignificant impact on the Consolidated Financial Statements since the amendments were not fully applicable.

The following standards and interpretations were issued by the IASB, but were not effective at the reporting date. A1 Telekom Austria Group has not early adopted these standards and interpretations and will apply them as of their effective date.

		Effective *	Effective**
IFRS 16	Leases	January 1, 2019	January 1, 2019
IFRIC 23	Uncertainty over Tax Treatments	January 1, 2019	January 1, 2019
IFRS 9	Amendments: Prepayment Features with Negative Compensation	January 1, 2019	January 1, 2019
Several IFRSs	Annual Improvements 2015 – 2017	January 1, 2019	not endorsed
IAS 28	Amendments: Long-term Interests in Associates and Joint Ventures	January 1, 2019	not endorsed
IAS 19	Amendments: Plan Amendment, Curtailment or Settlement	January 1, 2019	not endorsed
IFRS 3	Amendments: Definition of a Business	January 1, 2020	not endorsed
IAS 1 and 8	Amendments: Definition of Material	January 1, 2020	not endorsed
Framework	Amendments: References to the Conceptual Framework	January 1, 2020	not endorsed
IFRS 17	Amendments: Application of IFRS 9 with IFRS 4 Insurance Contracts	January 1, 2021	not endorsed

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

A1 Telekom Austria Group is evaluating the impact of these standards and interpretations on the Consolidated Financial Statements.

Impact of IFRS 16

At January 1, 2019, A1 Telekom Austria Group initially applies IFRS 16, which replaces the former leasing standard IAS 17 as well as its respective interpretations. Under IFRS 16, lessors continue to classify into operating lease and finance lease as previously under IAS 17, while lessees will be required to introduce extensive modifications. The initial application of IFRS 16 is based on the modified retrospective approach, therefore the comparative figures for previous periods are not adjusted. The overall impact on net assets, financial position and results of operations of A1 Telekom Austria Group as well as other components of the Consolidated Financial Statements, which was analyzed in a group-wide project for the implementation of IFRS 16, is the following:

In the Consolidated Statement of Financial Position, assets are now recognized as follows: rights of use to leased assets in the amount of the future discounted payment obligation. The recognition exemptions for low-value assets and short-term leases will be elected for certain rights of use that are immaterial for business operations. The recognition exemptions will not be applied to base stations, technical sites and facilities as well as buildings and vehicles. For all contracts already classified as operating leasing, the right of use assets recognized are based on the future payment obligations discounted at the incremental borrowing rate of A1 Telekom Austria Group plus existing prepayments and other deferred direct costs. According to the current status of analysis of lease contracts, the initial adoption of IFRS 16 will result in lease obligations and right of use assets of approximately TEUR 948,000 at January 1, 2019. Retained earnings are not expected to change materially. The increase in total assets and total liabilities will reduce the equity ratio from 33% to 29%.

In the Statement of Comprehensive Income there will be a shift from rental and lease expenses, which are reported in EBITDA, to depreciation and interest expense by roughly TEUR 160,000. No significant impacts are expected for EBT.

In the Statement of Cash Flows, payments for operating leasing contracts were included in the cash flow from operating activities up to now. In future, these payments will essentially be reported in the cash flow from financing activities, broken down into redemption of lease liability and interest payment. Prepayments and other deferred direct costs, which are paid before delivery of the lease asset, are shown in the cash flow from investing activities.

Actual effects at January 1, 2019 may differ from the expected effect as the functionality of controls ensuring that the amounts recognized, which are calculated by IT systems, are in conformity with IFRS 16 has not been completely examined yet.

IFRS 16 will require estimates that affect the valuation of right-of-use assets as well as the lease liabilities. This will include the determination of contracts that fall under IFRS 16, lease terms, and the incremental borrowing rate used for discounting the future payment obligations. For lease contracts with an indefinite term, the length of the contract is estimated to be in line with the planning period of seven years to 15 years for certain leases related to fixed lines. The incremental borrowing rate will be derived from risk-free interest rates representing the related contract term adjusted for country, currency and entity risks.

(4) Use of Estimates

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

Management has made judgments in the process of applying A1 Telekom Austria Group’s accounting policies. Additionally, at the reporting date, Management has made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty that are subject to the risk of a material change in the carrying amounts of assets and liabilities in the next financial year. For all sensitivity analyses, the remaining parameters of the original calculation remain unchanged, thus no possible correlation effects are taken into account.

a) Revenues: Changes in the allocation of the transaction prices of multi-element arrangements for goods and services as well as changes in the expected average contractual term may lead to a shift in timing of revenue recognized (see Note (5)).

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

c) Impairments: The impairment test for goodwill, other intangible assets and property, plant and equipment is generally based upon discounted estimated future net cash flows from the continuing use and ultimate disposal of the assets. Changes in the discount rates used, in the development of revenues, in cost drivers as well as in capital expenditures could lead to impairments or, to the extent permitted, to reversals of impairments (see Note (17)). For more information on the carrying amounts of goodwill, other intangible assets and property, plant and equipment, see Notes (17), (16) and (15).

d) The estimated useful lives of property, plant and equipment and intangible assets subject to depreciation and amortization represent the estimated periods during which the assets will be in use. With respect to changes in depreciation and amortization resulting from changes in the useful lives, see Note (15).

e) Share-based compensation: Obligations under the long-term incentive program are measured based on the fair value, which depends on expected target achievement and the expected share price at vesting date. Compensation expense and liabilities could differ from the estimated amount as of the reporting date if the underlying parameters were to change (see Note (31)).

f) Deferred taxes: In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all deferred tax assets will be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences will become deductible. If A1 Telekom Austria Group does not generate sufficient taxable income, deferred tax assets cannot be realized and therefore will not be recognized (see Note (29)).

g) Restructuring (includes provisions for onerous contracts according to IAS 37 as well as provisions for social plans according to IAS 19): The provision is based on various parameters such as discount rate, salary increase and the probability of the acceptance of termination offers. Changes in these parameters could result in higher or lower expenses (see Note (23)).

h) Allowances for financial assets and contract assets are based on the estimated probability of default. Deviation of actual customer behavior may result in higher or lower expenses (see Note (33)).

i) Asset retirement obligation: The calculation of the provision is based on parameters such as estimated decommissioning costs, discount rate and inflation rate. Changes in these parameters may result in higher or lower provisions (see Note (23)).

(5) Revenues

Operating revenues include all revenues resulting from the ordinary operations of A1 Telekom Austria Group. Operating revenues are stated net of value-added tax and any other taxes and fees, collected from the customer on behalf of tax and other relevant authorities.

A1 Telekom Austria Group generates revenues from the sale of end-user terminal equipment as well as fixed-line services and mobile communication services to individuals, commercial and non-commercial organizations and other national and foreign carriers. Furthermore, A1 Telekom Austria Group offers innovative digital products, cloud and IoT services as well as mobile payment services.

Fixed-line services include access fees, domestic and long distance services including Internet services, fixed-to-mobile calls, international traffic,
voice value-added services, interconnection, call center services, data and ICT solutions, television services, IPTV and smart home services.

Mobile communications services comprise digital mobile communications services including value-added services, text and multimedia messaging, m-commerce, music platform and information services.

The following table shows the disaggregated revenues per product line and segment:

2018 (in TEUR) as reported IFRS 15	Austria	Bulgaria	Croatia	Belarus	Slovenia	Serbia	Macedonia	Other*	Consolidated
Mobile service revenues	923,627	245,793	234,990	247,018	120,977	178,096	71,257	-18,176	2,003,582
Fixed-line service revenues	1,373,930	102,324	125,011	39,858	35,281	6,670	25,760	-31,595	1,677,239
Service revenues	**2,297,556**	**348,117**	**360,001**	**286,876**	**156,258**	**184,766**	**97,018**	**-49,771**	**3,680,820**
Mobile equipment revenues	250,260	85,909	61,639	85,654	45,889	71,007	20,145	7	620,510
Fixed-line equipment revenues	35,869	3,459	2,273	274	293	0	421	-464	42,125
Equipment revenues	**286,129**	**89,368**	**63,912**	**85,929**	**46,182**	**71,007**	**20,565**	**-457**	**662,635**
Other operating income	**53,791**	**7,623**	**5,996**	**18,107**	**5,732**	**2,973**	**1,393**	**-3,670**	**91,945**
Total revenues (incl. OOI)	**2,637,476**	**445,109**	**429,909**	**390,911**	**208,172**	**258,746**	**118,976**	**-53,898**	**4,435,401**

2017 (in TEUR) without application of IFRS 15	Austria	Bulgaria	Croatia	Belarus	Slovenia	Serbia	Macedonia	Other*	Consolidated
Mobile service revenues	1,006,174	267,027	258,824	273,078	132,919	139,639	80,624	-19,292	2,138,992
Fixed-line service revenues	1,359,366	91,990	120,860	30,631	35,001	6,189	26,002	-33,736	1,636,304
Service revenues	2,365,540	359,017	379,684	303,709	167,920	145,828	106,626	-53,028	3,775,296
Mobile equipment revenues	164,430	57,549	48,239	71,515	43,471	76,444	6,367	-786	467,229
Fixed-line equipment revenues	34,043	1,819	758	18	376	0	328	-139	37,203
Equipment revenues	198,473	59,367	48,997	71,533	43,848	76,444	6,695	-924	504,432
Other operating income	58,298	12,822	6,210	15,214	4,312	8,529	704	-3,336	102,755
Total revenues (incl. OOI)	2,622,311	431,207	434,891	390,456	216,079	230,801	114,025	-57,288	4,382,483

*Other includes: Corporate & Other and Eliminations

The shift from service revenues to equipment revenues is substantially due to the adoption of IFRS 15 (see Note (3)).

The following table shows revenues from customer contracts and from other sources:

in TEUR	2018
Service revenues	3,652,699
Equipment revenues	662,635
Total customer contract revenues	**4,315,334**
Other service revenues	28,121
Other operating income	91,945
Total other revenues	**120,066**
Total revenues (incl. other operating income)	**4,435,401**

Equipment revenues comprise an effect of accrued interest for installment sales amounting to TEUR 1,667, which is entirely due to the segment Belarus.

Other service revenues include essentially income from the rental of private automatic branch equipment ("PABX"), set top boxes, routers, servers, equipment for fixed-line customers as well as telecommunication circuits.

Other operating income comprises mainly collection fees, penalties, revenues from sale of electricity and rental income. Furthermore, income from impaired receivables is included (see Note (33)).

In 2018 and 2017, other operating income includes research tax credits amounting to TEUR 1,466 and TEUR 1,649, respectively.

The accounting principles that were applied to the recognition of revenue in 2018 (IFRS 15) are presented as follows (for the accounting principles applied in 2017 (IAS 18), see Note (3)):

Service revenues are recognized upon providing the service and are generally billed on a monthly basis. Certain SIM card services, access fees, monthly base fees, maintenance contracts, services and leased line revenues for business customers are to some extent billed in advance. These fees and revenues are recognized as deferrals (in 2018 in contract liabilities and in 2017 in deferred income (see Notes (24) and (26))) and as income over the period the service is provided or at the time the service is provided.

In accordance with contract terms, equipment revenues are recognized upon delivery and acceptance by the customers. For sales that are neither part of multiple-element arrangements nor installment sales, customers pay at the time of sale. For sales that are part of multiple-element arrangements, customers pay the amount recognized in contract assets as part of the monthly fees invoiced over the term of the contract. In case of installment sales, customers pay equal installments over the term of the contract.

Receivables and revenues from installment sales are not discounted if the period between the provision of goods and services and the payment is less than one year or if the discounting effect is insignificant. The materiality of the discounting effect of receivables with remaining terms of more than one year is considered on an individual contract level. In 2018, a discounting effect had to be recognized in Belarus only. A possible accretion effect is recognized in equipment revenues.

When equipment is sold through dealers, these distributors are considered agents, i.e. the revenue is recognized once the mobile devices are sold to end customers. At the same time, dealer subsidies are treated as a reduction in revenue.

Certain arrangements that A1 Telekom Austria Group enters into provide for the delivery of multiple deliverables. For mobile communication, these multiple-element arrangements typically include the sale of a handset, the activation fee, the service contract and, in Austria, the yearly SIM card fee. For fixed-line, these arrangements typically include Internet and fixed-line services including installation and optional TV and mobile communication services.

If the requirements of IFRS 15 are met, A1 Telekom Austria Group generally determines that such arrangements are divided into separate "units of account" based on a determination of a separable benefit for the end customer for each deliverable on a standalone basis.

Transaction prices are allocated to the performance obligations by reference to the relative stand-alone selling prices of the products and services. The stand-alone selling prices of products are based on the market prices of alternative providers whereas the stand-alone selling prices of services are available separately, as services are also offered on a stand-alone basis, i.e. without hardware.

Customer loyalty programs, which lead to claims for the acquisition of new mobile handsets or accessories on the basis of sales made and which are settled with customers in the form of bonus points, are included in the calculation of multiple deliverables as well. Revenue is reduced at the time of the granting of the award credits, while revenue is recognized once the goods are redeemed or the awards expire. The stand-alone selling prices of bonus points are determined based on the stand-alone selling prices of the future services, adjusted for the probability of usage.

For the majority of the contracts, A1 Telekom Austria Group applies the practical expedient according to IFRS 15 to pool similar contracts into portfolios, based on contract characteristics and duration. Only a small number of more complex contracts with major clients is calculated on individual contract basis.

A1 Telekom Austria Group recognizes revenue from connection and roaming services to its customers based upon calling minutes or data volume used as income at the time that the service is provided, as long as connection and roaming services are not covered by contractually agreed fee schedules.

Revenues due from other national and foreign carriers for incoming calls from outside A1 Telekom Austria Group's network (interconnection) and roaming revenues are recognized in the period the call occurs or the data volume is used.

Cash discounts and discounts granted retrospectively are accounted for as a reduction in revenue when granted. The discounts are calculated on an individual customer basis depending on the service revenue generated.

Discounts (standardized multiple-element subsidies) are generally included in the multiple-element calculation leading, in the case of pure service contracts, to an equal reduction of revenue over the term of the contract. In multiple-element contracts, discounts are usually allocated to separate performance obligations according to the method of relative stand-alone prices, whereby a part of the revenue for equipment is reduced at a certain point in time and the other part of the revenue from services is reduced over a period of time.

Due to the volumes they purchase, certain customers are granted also discounts on hardware and sometimes on services during the term of the service contract in addition to standardized multiple-element subsidies. These are included in the multiple-element calculation as well ("discounts granted for hardware").

There are no substantial warranties exceeding legal warranty obligations. Furthermore, there are no significant obligations for returns.

At December 31, 2018, the total transaction price of the unfulfilled (or partly unfulfilled) performance obligations related to multiple-element arrangements amounts to up to 30% of segment revenues and will be realized over a contract term of twelve to 33 months as a general rule. The transaction price of unfulfilled performance obligations and timing of revenue recognition are not disclosed for performance obligations recognized at the amount to which A1 Telekom Austria Group has a right to invoice.

(6) Cost and Expenses

The following table shows cost and expenses according to type:

in TEUR	2018	2017
Cost of equipment	627,941	584,243
Employee expenses, including social benefits and taxes	850,581	793,851
Other operating expenses	1,566,001	1,607,041
Total costs and expenses	3,044,524	2,985,135

The cost of equipment corresponds to material expense. Employee expenses, including social benefits and taxes, comprise all benefits to employees excluding own work capitalized, which is reported on a net basis.

in TEUR	2018	2017
Own work capitalized	63,870	56,684

Own work capitalized represents the work performed for own purposes consisting mainly of employee costs and direct overheads capitalized primarily as part of property, plant and equipment. For the capitalization of internally developed software, see Note (16).

Impairment losses of financial assets classified at amortized cost (2017: loans and receivables) are reported in the line item selling, general and administrative expenses and amount to (see Note (33)):

in TEUR	2018	2017
Impairment losses	45,128	54,066

The line item depreciation and amortization in the Statement of Comprehensive Income is broken down as follows:

in TEUR	2018	2017
Cost of service	630,306	683,038
Cost of equipment	24,134	27,346
Selling, general & administrative expenses	302,078	243,052
Depreciation and amortization	956,518	953,436

The increase in amortization in selling, general & administrative expenses is due mainly to the amortization of the local brands because of the roll-out of the brand A1 (see Note (16)).

At the Annual General Meeting, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (EY) was appointed as group auditor for Telekom Austria AG. Expenses related to the group auditor amount to:

in TEUR	2018	2017
Audit fees	1,121	1,298
Other reviews	26	184
Other services	110	142
Fees EY	1,257	1,623

The expenses in 2017 also include charges for 2016. In 2018, other reviews relate to expenses incurred for the certification of the internal control system according to ISAE3402-1 requested by customers, while in 2017, other reviews relate to expenses incurred for the issuance of bonds (see Note (25)).

(7) Financial Result

	2018	2017
Interest income on financial assets at amortized cost	5,306	14,198
Interest income on investments at fair value through profit or loss	65	0
Interest income on investments at fair value through other comprehensive income	10	130
Interest income	5,382	14,329

In 2017, interest income on investments at fair value through other comprehensive income includes interest income on available-for-sale financial assets.

The decrease in interest income on financial assets at amortized cost (2017: "interest income on loans and receivables as well as cash deposits") is due to the application of IFRS 15, since the presentation of a possible accretion effect was changed (see Notes (3) and (5)).

in TEUR	2018	2017
Interest expense on financial liabilities	85,683	88,053
Interest capitalized	-3,369	-5,833
Interest expense on asset retirement obligations	4,465	4,720
Interest expense on deferred considerations	88	8,333
Interest expense	86,866	95,274

Interest is recognized using the effective interest method. In 2017, interest expense on deferred considerations relates primarily to one.Vip in Macedonia (see Note (32)).

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. A qualifying asset is an asset that requires a substantial period of time to be prepared for its intended use. In 2018 and 2017, interest capitalized on internally developed software as well as on qualifying assets of property, plant and equipment (see Notes (15) and (16)) was based on an interest rate of 2.9% and 3.3%, respectively. In 2018 and 2017, the calculation of interest capitalized for licenses was based on an interest rate of 3.125%, which is derived from a specific financing facility.

in TEUR	2018	2017
Interest expense on employee benefit obligations	3,316	3,117
Interest expense on restructuring provision	3,861	4,824
Fees for unused credit lines	2,375	2,312
Dividends received	-339	- 471
Gain on disposal of available-for-sale securities transferred from other comprehensive income	0	- 44
Loss on disposal of debt instruments at fair value through other comprehensive income	39	0
Result from other investments	0	- 32
Interest on taxes	5,394	1,514
Income from measurement of instruments at fair value through profit or loss	-326	0
Loss from measurement of instruments at fair value through profit or loss	434	0
Interest on employee benefits and restructuring and other financial items, net	**14,754**	11,220

Restructuring provisions contain onerous contracts in accordance with IAS 37 as well as provisions for social plans in accordance with IAS 19.

For information on the interest rate for restructuring provisions and employee benefit obligations, see Notes (23) and (27).

In 2018, interest on taxes relates to the final decision on a tax audit in Bulgaria covering the years 2008 and 2009 (see Note (29)).

The amounts previously recognized in other comprehensive income and subsequently recognized in profit or loss are disclosed in the Consolidated Statements of Comprehensive Income.

in TEUR	2018	2017
Foreign exchange gains	14,452	10,359
Foreign exchange losses	-9,307	-12,953
Foreign exchange differences	**5,145**	-2,594

(8) Earnings per Share

Basic and diluted earnings per share are calculated by dividing the net income or loss by the weighted average number of common shares outstanding for the year:

	As reported IFRS 15 2018	Without application of IFRS 15 2018	2017
Net result attributable to owners of the parent in TEUR	241,079	240,067	319,151
Weighted average number of common shares outstanding	664,084,841	664,084,841	664,084,841
Basic and diluted earnings per share in euro	0.36	0.36	0.48

For the number of shares, see Note (28).

According to IAS 33.12, the after-tax dividend on the hybrid capital is deducted from the net result attributable to owners of the parent, since the hybrid capital represents equity but does not constitute net result attributable to owners of the parent (see Note (28)).

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred as of December 31, 2018 and 2017.

(9) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in banks and financial investments with remaining maturities of up to three months from the date of acquisition. The financial resource fund in the Consolidated Statements of Cash Flows is equal to cash and cash equivalents reported in the Consolidated Statements of Financial Position.

A1 Telekom Austria Group's investments are entered into with counterparties holding investment grade ratings, thus the result of the calculation of expected credit losses for cash and cash equivalents was immaterial and was not recognized.

(10) Accounts Receivable: Subscribers, Distributors and Other, Net

in TEUR, at December 31	2018	2017
Accounts receivable, gross	1,071,578	898,399
Allowances	-241,204	-219,106
Accounts receivable, net	**830,375**	679,292
Thereof remaining term of more than one year	66,126	0

The cumulated effect of the initial application of IFRS 15 and IFRS 9 was recognized in the opening balance at January 1, 2018 in accordance with the modified retrospective approach (see Note (3) – Impact at January 1, 2018).

At December 31, 2018, accounts receivable: subscribers, distributors and other with remaining term of more than one year relate to installment sales receivables. For the change in presentation of installment sales receivables, see Notes (3), (13) and (20).

The development of the allowance for accounts receivable: subscribers, distributors and other as well as their age structure is disclosed in "credit risk" in Note (33).

(11) Related Party Transactions

The significant shareholders América Móvil and ÖBIB are considered related parties due to their stake in Telekom Austria AG allowing them to control and to exercise significant influence, respectively. Through América Móvil, A1 Telekom Austria Group is also related to its subsidiaries. Through ÖBIB, A1 Telekom Austria Group is related to the Republic of Austria and its subsidiaries, which are mainly ÖBB Group, ASFINAG Group and Post Group as well as Rundfunk und Telekom Regulierungs-GmbH (RTR), all of which qualify as related parties. A1 Telekom Austria Group has determined the type and amount of the transactions entered into with these related parties. In 2018 and 2017, revenues generated with these related parties amounted to approximately 2% of total revenues. In 2018 and 2017, services received from the related parties mentioned above relate mainly to postage fees, transportation, commissions, roaming and fees to RTR and amount to approximately 3% of total cost and expenses excluding employee expenses (see Note (6)).

A1 Telekom Austria Group is obligated to provide communication services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the Republic of Austria on a contractual basis. The contract with the Republic of Austria entered into in July 2016 specifies the reimbursement of EUR 10.00 per customer per month for customers having a valid official notice. The total reimbursement recorded as revenue in the service period was TEUR 12,260 and TEUR 13,419 in 2018 and 2017, respectively.

See Note (23) regarding the transfer of civil servants, who cannot be laid off, to the federal government and the related expenses, provisions and liabilities.

The revenues from and expenses charged to associated companies are set forth in the following table:

in TEUR	2018	2017
Revenues (incl. other operating income)	1,690	1,591
Expenses	569	10,759

In 2017, the expenses relate mainly to advertising and marketing services provided by media.at-Group, which was sold on July 18, 2017 (see Note (18)).

At December 31, 2018 and 2017, accounts receivable due from related parties and accounts payable due to related parties, as recognized in the Consolidated Statements of Financial Position, relate primarily to Telecom Liechtenstein (see Note (18)) and subsidiaries of América Móvil.

All transactions with related parties are continually monitored and documented to ensure that pricing is at arm's length.

The following table shows the compensation of key management personnel as well as the expenses for pensions and severance for other employees. Key management personnel is defined as the members of the management boards and the managing directors of all significant operating companies of A1 Telekom Austria Group registered in the Company Register as well as the members of the Management Board of Telekom Austria AG.

in TEUR	2018	2017
Short-term employee benefits	7,389	7,393
Pensions	383	538
Other long-term benefits	306	229
Termination benefits	98	685
Share-based payments	759	1,752
Compensation of key management	**8,933**	**10,599**
Expenses for pensions and severance for other employees	21,803	21,142
Expenses for pensions and severance for Management Board	291	235

For members of the Management Board of Telekom Austria AG, see Note (36).

Expenses for pensions and severance consist of voluntary and legal severance expenses, contributions to pension plans and other pension payments.

(12) Inventories

Inventories consist of merchandise sold in the shops of A1 Telekom Austria Group or by distributors and are measured at the lower of cost or net realizable value, with cost being determined on the basis of weighted average cost less allowance based on the turnover rate of the last twelve months. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling expense.

As of December 31, 2018 and 2017, the carrying amount of merchandise measured at fair value less cost to sell amounted to TEUR 36,754 and TEUR 47,482, respectively. The net amount related to impairment loss and reversal of impairment of inventory that is recognized in cost of equipment consists of:

in TEUR	2018	2017
Write-down/ reversals of write-down of inventories	-513	-973

Impairment loss: negative values; reversal of impairment: positive values

(13) Other Current Assets

Other current assets are broken down as follows:

in TEUR, at December 31	2018	2017
Prepaid expenses	62,017	103,782
Other current assets	50,928	149,594
Contract costs	40,195	0
Total	**153,140**	**253,376**

Prepaid expenses

in TEUR, at December 31	2018	2017
Advances to employees	16,169	16,920
Rent	9,910	11,106
Marketing expenses	1,997	38,421
Concession fees	18,517	22,559
Other	15,425	14,777
Prepaid expenses	**62,017**	**103,782**

At December 31, 2017, prepaid marketing expenses consist mainly of subsidies for mobile handsets, which were expensed over the minimum contractual term. According to IFRS 15, these subsidies are recognized as a reduction in revenue (see Note (3)).

Other current assets

in TEUR, at December 31	2018	2017
Installment sales	0	116,785
Other financial assets	7,495	10,077
Financial assets	**7,495**	**126,862**
Fiscal authorities	3,064	4,932
Customer loyalty program deferrals	0	17,565
Advance payments	2,859	1,617
Government grants	30,962	8,264
Other non-financial assets	9,837	8,136
Non-financial assets	**46,721**	**40,512**
Other current assets, gross	**54,216**	**167,374**
Less allowance for financial assets	-724	-15,231
Less allowance for non-financial assets	-2,564	-2,550
Other current assets	**50,928**	**149,594**

At December 31, 2017, installment sales receivables relate to mobile handsets and tablets and equal the present value of the installments less already amortized amounts and relate to all segments. As of 2018, installment sales receivables are reported in accounts receivable: subscribers, distributors and other, net (see Notes (3) and (10)).

According to IFRS 15, deferrals for customer loyalty programs are reported in contract assets (see Notes (3) and (14)).

The increase in government grants is due to the expansion of the broadband network in Austria.

Other current non-financial assets consist mainly of claims against the Republic of Austria (see Note (11)), indemnification payments due from insurance companies and receivables due from employees.

The development of the allowance for financial assets as well as their age structure is disclosed in “credit risk” in Note (33).

Contract costs

Provisions paid to third parties and to employees are recognized as deferrals if they are costs of obtaining a customer contract and if they are expected to be recovered. As contract costs are expected to be realized in A1 Telekom Austria Group’s normal operating cycle, they are classified as current. A1 Telekom Austria Group applies the practical expedient not to capitalize incremental costs of obtaining a contract with an amortization period of one year or less.

in TEUR	2018
Contract costs - gross	41,111
Allowance contract costs	-917
Contract costs, net	**40,195**
Thereof remaining term of more than one year	14,652

At January 1, 2018, contract costs amounting to TEUR 42,316 were recognized (see Note (3)). Contract costs are expensed over the expected duration of the underlying contract using the straight-line method. In 2018, the amortization of TEUR 36,869 was recognized in selling expenses.

Impairment losses are recognized in selling expenses if the related customer receivable or contract asset has to be remeasured according to IFRS 9. The following table shows the development of the valuation allowance for contract costs:

in TEUR	2018
At January 1	931
Foreign currency adjustment	2
Reversed	-808
Charged to expenses	792
At December 31	**917**

(14) Contract Assets

A1 Telekom Austria Group recognizes contract assets for contractual rights to consideration for goods transferred or services performed. Contract assets include mainly deferrals for relevant multiple-element arrangements for mobile communication services and for performance obligations for fixed-line services as well as deferrals for customer loyalty programs, discounts granted for hardware and installation fees (see Note (5)).

As contract assets are expected to be realized as part of A1 Telekom Austria Group's normal operating cycle, they are classified as current. Contract assets are reclassified to receivables when the right to the consideration becomes unconditional. Contract liabilities for customer loyalty programs and discounts granted for hardware amounting to TEUR 65,800 are included in the multiple-element calculation and thus netted with contract assets.

The following table shows the development of gross contract assets as well as a reconciliation with net contract assets and its portion with a remaining term of more than one year:

in TEUR	2018
At January 1	**148,983**
Increases	218,896
Transfers to receivables	-223,293
Foreign currency adjustments	324
At December 31	**144,910**
Allowances	-3,796
Contract assets, net	**141,114**
Thereof remaining term of more than one year	50,248

The development of the allowance regarding contract assets is disclosed in "credit risk" in Note (33).

(15) Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes certain costs that are capitalized during the installation and expansion of the assets, for example material, payroll, direct overhead and interest costs as well as the present value of estimated decommissioning and restoration obligations (see Note (23)). Value-added tax (VAT), which is charged by suppliers and refunded by the tax authorities, is not included in cost.

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

in TEUR	Network in operation and equipment	Land and buildings	Other assets	Construction in progress and advances	Inventories for operation of the network	Total
Cost						
At January 1, 2017	9,971,254	876,137	475,633	232,261	141,061	11,696,346
Additions	245,001	10,541	29,989	229,625	97,515	612,670
Disposals	-305,532	-6,873	-61,729	-1,037	-7,764	-382,935
Transfers	319,405	4,745	21,521	-213,683	-104,153	27,835
Translation adjustment	-29,298	-3,455	-8,266	-3,991	273	-44,736
Changes in reporting entities	81,965	1,296	3,779	1,624	167	88,831
At December 31, 2017	10,282,795	882,392	460,926	244,799	127,099	11,998,011
Additions	181,302	32,024	34,676	251,932	115,244	615,179
Disposals	-398,563	-10,444	-39,330	-992	-6,805	-456,134
Transfers	293,446	26,067	10,775	-210,296	-122,540	-2,548
Translation adjustment	-686	-624	-2,061	-1,142	264	-4,248
Changes in reporting entities	5,647	391	114	61	85	6,297
At December 31, 2018	10,363,942	929,806	465,100	284,361	113,348	12,156,558
Accumulated depreciation and impairment						
At January 1, 2017	-8,093,974	-641,526	-369,598	0	-40,495	-9,145,592
Additions	-452,321	-25,977	-43,006	0	-11,051	-532,354
Disposals	295,367	4,828	60,606	0	2,929	363,730
Transfers	-22,026	-129	-251	0	0	-22,405
Translation adjustment	16,615	521	3,537	0	-92	20,580
Changes in reporting entities	-51,485	-54	-2,511	0	0	-54,051
At December 31, 2017	-8,307,823	-662,338	-351,223	0	-48,708	-9,370,092
Additions	-439,612	-22,186	-45,854	0	7,505	-500,146
Disposals	384,043	6,994	38,450	0	4,941	434,428
Transfers	-4,211	-14	3,409	0	0	-816
Translation adjustment	-2,086	-234	803	0	-114	-1,631
Changes in reporting entities	-2,170	-47	0	0	0	-2,217
At December 31, 2018	-8,371,858	-677,825	-354,414	0	-36,377	-9,440,474
Carrying amount at						
December 31, 2018	1,992,084	251,981	110,686	284,361	76,971	2,716,084
December 31, 2017	1,974,972	220,054	109,703	244,799	78,391	2,627,919

Other assets include mainly office and business equipment as well as automobiles.

Depreciation on property, plant and equipment is calculated using the straight-line method. If an event or circumstance indicates that the assets may be impaired, they are tested for impairment (see impairment test in Note (16)). Property, plant and equipment under finance lease and leasehold improvements are amortized using the straight-line method over the lease term or the estimated useful life of the asset, whichever is shorter. The useful lives are:

	Years
Network in operation and equipment	3-20
Buildings and leasehold improvements	3-50
Other assets	2-14

Inventories for operation of the network are used primarily for A1 Telekom Austria Group's network expansion. In accordance with IAS 16.8, they are reported in property, plant and equipment as A1 Telekom Austria Group expects to use these items during more than one period.

As of December 31, 2018 and 2017, the carrying amount of land amounted to TEUR 59,791 and TEUR 59,347, respectively.

Government grants for assets totaling TEUR 33,603 and TEUR 10,727 were deducted from acquisition cost in 2018 and 2017, respectively. The increase in government grants is due to the expansion of the broadband network in Austria.

At December 31, 2018 and 2017, contractual commitments for the acquisition of property, plant and equipment amount to TEUR 145,836 and TEUR 153,005, respectively.

Sensitivity analysis
The estimated useful lives of property, plant and equipment and of intangible assets represent the periods in which the assets are estimated to be used by A1 Telekom Austria Group. A change in the useful lives by one year would lead to the following changes in depreciation and amortization:

in TEUR	2018	2017
Decrease due to extension by one year	205,818	243,924
Increase due to reduction by one year	316,325	356,251

Due to the amortization of local brands (see Note (16)), the reduction of useful life by one year resulted in a significant increase in 2017, as brands might have been completely amortized within a year.

(16) Intangibles

in TEUR	Licenses and rights of use	Brand names and patents	Software	Customer base	Advances/ construction in progress	Total
Cost						
At January 1, 2017	2,148,093	658,150	1,280,135	1,131,356	61,633	5,279,367
Additions	26,216	2,234	44,549	0	84,573	157,572
Disposals	-1,943	-51,487	-50,614	-41,298	-63	-145,404
Transfers	-21,467	2,994	64,243	1,906	-75,510	-27,835
Translation adjustment	1,641	-8,606	-6,552	-34,760	-665	-48,943
Changes in reporting entities	5,768	3,907	7,232	23,830	0	40,737
At December 31, 2017	2,158,307	607,192	1,338,995	1,081,033	69,968	5,255,494
Additions	7,883	8,671	55,715	3,286	85,191	160,747
Disposals	-15,030	-14,562	-100,155	0	-181	-129,927
Transfers	18,474	-17,428	71,551	240	-70,291	2,548
Translation adjustment	-1,131	-2,504	-1,256	-9,911	-189	-14,991
Changes in reporting entities	0	287	132	685	0	1,105
At December 31, 2018	2,168,505	581,656	1,364,982	1,075,333	84,499	5,274,976
Accumulated amortization and impairment						
At January 1, 2017	-741,399	-141,148	-1,027,844	-1,047,581	0	-2,957,973
Additions	-127,404	-127,442	-142,452	-23,784	0	-421,082
Disposals	1,780	51,468	50,481	41,298	0	145,027
Transfers	21,960	756	-310	0	0	22,405
Translation adjustment	798	-153	5,358	34,148	0	40,151
Changes in reporting entities	-3,052	0	-5,094	0	0	-8,145
At December 31, 2017	-847,317	-216,521	-1,119,860	-995,918	0	-3,179,616
Additions	-119,692	-199,669	-122,238	-14,773	0	-456,371
Disposals	14,981	14,562	100,004	0	0	129,547
Transfers	-5,431	14,790	-8,543	0	0	816
Translation adjustment	1,104	1,086	975	10,165	0	13,330
Changes in reporting entities	0	0	0	0	0	0
At December 31, 2018	-956,355	-385,752	-1,149,662	-1,000,526	0	-3,492,295
Carrying amount at						
December 31, 2018	1,212,150	195,904	215,321	74,807	84,499	1,782,681
December 31, 2017	1,310,990	390,671	219,135	85,114	69,968	2,075,878

Licenses not yet put into operation are included in licenses and rights of use.

Intangible assets with finite useful lives are recognized at acquisition cost and amortized over their respective useful lives. If there is an indication of impairment, intangible assets are tested for impairment (see impairment test). Amortization using the straight-line method is based on the following useful lives:

	Years
Mobile communications and fixed net licenses	8-20
Rights of use	2-33
Patents	5-12
Software	2-14
Subscriber base	2-16

Rights of use with useful lives of more than 20 years relate to indefeasible rights of use of cable fiber or wavelengths that are used over a fixed period of time. These rights of use are amortized over the term of the contract.

A1 Telekom Austria Group holds mobile telecommunication licenses (GSM, UMTS and LTE) provided by regulatory authorities in Austria, Croatia, Slovenia, Serbia, Bulgaria, Belarus and Macedonia. Licenses are recorded at cost and amortized on a straight-line basis. The total cost incurred for the major license agreements, which will expire between 2019 and 2033, amounts to TEUR 1,967.

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

in TEUR	
2019	269,950
2020	209,102
2021	183,979
2022	150,728
2023	125,495
Thereafter	683,095

The following table shows the changes in the carrying amounts of brand names by segment:

in TEUR	Austria	Bulgaria	Croatia	Belarus	Slovenia	Macedonia	Corporate & Other	Total
At January 1, 2017	158,351	243,704	25,301	76,184	1,391	5,276	0	510,207
Amortization	0	-99,697	-7,473	-12,983	-1,391	-1,664	0	-123,207
Translation adjustment	0	0	198	-9,089	0	-4	-35	-8,929
Changes in reporting entities	0	0	1,404	561	0	0	1,942	3,907
At December 31, 2017	**158,351**	**144,007**	**19,431**	**54,673**	**0**	**3,609**	**1,907**	**381,978**
Amortization	0	-144,007	-19,680	-31,377	0	-2,886	0	-197,950
Translation adjustment	0	-0	249	-1,751	0	-1	73	-1,429
Changes in reporting entities	0	0	0	287	0	0	0	287
At December 31, 2018	**158,351**	**0**	**-0**	**21,833**	**0**	**722**	**1,981**	**182,886**

Regarding the changes in business combinations, see Note (34).

Brand names are classified as intangible assets with an indefinite useful life based on an analysis of product life cycles, contractual and legal control of the asset and other pertinent factors. In the course of business combinations, brand names are recognized at fair value based on the "relief of royalty" method.

If a brand name is intended for discontinuation in the foreseeable future, its carrying amount is amortized over its remaining estimated useful life. In September 2017, harmonization of the brands in the entire A1 Telekom Austria Group was resolved. Depending on the respective markets, the Austrian brand "A1" will be rolled out to all segments by the third quarter of 2019 at the latest, and the local brands are therefore amortized accordingly in the relevant business segments (see amortization in the table on changes in the carrying values of brand names by segment).

The following table shows the recognized brand names:

in TEUR, at December 31	2018	2017
A1 Telekom Austria	144,910	144,910
Cable Runner	491	491
YESSS!	12,950	12,950
Total Austria	**158,351**	158,351
Mobiltel	0	144,007
Total Bulgaria	**0**	144,007
Vipnet	0	18,576
Metronet	0	855
Total Croatia	**0**	19,431
velcom	21,833	54,673
Total Belarus	**21,833**	54,673
one	722	3,609
Total Macedonia	**722**	3,609
Exoscale	1,981	1,907
Total Corporate & Other	**1,981**	1,907
Total Brand Names	**182,886**	381,978
Thereof with indefinite useful lives	160,331	160,258
Thereof with definite useful lives	22,554	221,720

Certain direct and indirect development costs associated with internally developed software are capitalized once the project has reached the application development stage. The development costs are generally amortized using the straight-line method over a period not to exceed four years, beginning when the asset is essentially ready for use. Development costs requiring capitalization include direct costs of materials and purchased services as well as payroll costs. Costs incurred during the preliminary project stage, maintenance and training costs as well as research and development costs (with the exception of the above-mentioned capitalizable development costs) are expensed immediately in the year they arise.

The following table shows internally developed software included in the line item "Software":

in TEUR, at December 31	2018	2017
Total cost	125,093	120,965
Accumulated amortization	–105,069	–97,531
Carrying amount	20,025	23,435
Additions	2,595	1,922

In 2018 and 2017, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

At December 31, 2018 and 2017, contractual commitments for the acquisition of intangible assets amounted to TEUR 27,278 and TEUR 25,852, respectively.

In 2018, the estimated useful lives of certain software programs in the segments Austria and Bulgaria were reduced due to fast technological progress, which led to an increase in amortization of TEUR 8,255.

Impairment test

Property, plant and equipment and intangible assets with finite useful lives are tested for impairment if facts or changes in circumstances indicate that the carrying amount of an asset could be above its fair value. The impairment test is performed for all property, plant and equipment and intangible assets, regardless of whether they are intended for sale or not. In accordance with IAS 36, an impairment loss is recognized when an asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. Fair value is the amount obtainable from the sale of the asset in an arm's length transaction. Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Impairment charges are recorded separately in the Consolidated Statements of Comprehensive Income. If there is any indication that the impairment recognized in prior periods no longer exists, A1 Telekom Austria Group considers the need to reverse all or a portion of the impairment charge.

Brand names classified as intangible assets with indefinite useful lives are tested for impairment in the fourth quarter of each year in accordance with IAS 36, as described in Note (17). If an event or circumstance indicates that an asset may be impaired, impairment tests are carried out. Since brand names do not generate cash inflows that are largely independent of those from other assets, the value in use can be determined only for the asset's cash-generating unit. The second step according to IAS 36.107 is to determine whether an impairment loss should be recognized based on the total cash-generating unit.

(17) Goodwill

Goodwill is recognized in the course of business combinations and is measured as the difference between the aggregate of the fair value of the consideration transferred as of the acquisition date and the amount of any non-controlling interest less the fair value of the identifiable assets acquired and the liabilities assumed.

The following table illustrates the changes in the carrying amounts of goodwill allocated to the individual cash-generating units that are expected to benefit from the synergies of the business combination:

in TEUR	Austria	Bulgaria	Croatia	Belarus	Slovenia	Macedonia	A1 Digital	Total
At January 1, 2017	708,211	242,691	102,203	11,018	147,632	30,068	0	1,241,823
Translation adjustment	0	0	515	-1,533	0	-8	-138	-1,164
Acquisitions	0	0	23,322	4,662	0	0	7,698	35,682
At December 31, 2017	**708,211**	**242,691**	**126,041**	**14,146**	**147,632**	**30,060**	**7,560**	**1,276,342**
Translation adjustment	0	0	1,721	-616	0	0	290	1,396
Acquisitions	0	0	0	173	0	0	0	173
At December 31, 2018	**708,212**	**242,691**	**127,762**	**13,703**	**147,632**	**30,060**	**7,851**	**1,277,910**

For details of acquisitions, see Note (34).

Acquisition cost of goodwill amounted to:

in TEUR, at December 31	2018	2017
Segment Austria	712,232	712,231
Segment Bulgaria	642,691	642,691
Segment Croatia	132,868	131,078
Segment Belarus	437,684	459,386
Segment Slovenia	175,556	175,556
Segment Macedonia	35,171	35,171
A1 Digital	7,851	7,560
Total cost	**2,144,052**	**2,163,673**

Cumulative impairment charges of goodwill amounted to:

in TEUR, at December 31	2018	2017
Segment Austria	4,020	4,020
Segment Bulgaria	400,000	400,000
Segment Croatia	5,106	5,037
Segment Belarus	423,981	445,240
Segment Slovenia	27,924	27,924
Segment Macedonia	5,111	5,111
Accumulated impairment	866,141	887,332

Impairment test

Goodwill and other intangible assets with indefinite useful lives and other intangible assets that are not yet available for use are not amortized, but are tested for impairment in accordance with IAS 36 at least once a year in the fourth quarter, irrespective of whether there is any indication of impairment, by comparing their carrying amounts with their recoverable amounts. If an event or circumstance indicates that an asset may be impaired, impairment tests are also carried out.

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

A1 Telekom Austria Group performs these impairment tests by calculating the value in use based on capital-market-oriented valuation methodology. The weighted average cost of capital (WACC) applied corresponds to the weighted average interest on equity and debt. Value in use is determined by estimating the future net cash flows of the cash-generating unit based on the business plans with a detailed planning period of five years. Significant assumptions to determine the value in use comprise the development of revenues, cost drivers, working capital changes, capital expenditure, growth rate and discount rate.

Assumptions in terms of revenue development are based on historical performance, industry forecasts, and external market data such as the development of gross domestic product (GDP), inflation rates, currency rates, population and other parameters.

Cost drivers and capital expenditure are based on past experience and internal expectations.

Growth rates applied to the perpetual annuity consider general growth rates and company-specific revenue growth rates of prior periods and those used in detailed planning, respectively.

The discount rate applied for discounting future cash flows is determined for each cash-generating unit separately based on market data and taking into account specific risks associated with the cash-generating unit. The cost of equity is derived from the expected return on investment by the investors. The cost of debt as well as beta factors and capital structure are derived from the peer group based on publicly available market data.

The following parameters were used to calculate the value in use:

	Growth rates perpetual annuity		Pre-tax interest rates*	
	2018	2017	2018	2017
Segment Austria	1.5%	1.1%	7.2%	6.8%
Segment Bulgaria	3.0%	1.6%	8.4%	7.4%
Segment Croatia	2.5%	2.9%	10.7%	9.2%
Segment Belarus	8.5%	9.7%	18.4%	20.0%
Segment Slovenia	1.3%	1.2%	8.6%	8.2%
Segment Macedonia	1.4%	0.3%	11.0%	9.5%
A1 Digital	1.5%	1.1%	7.0%	6.5%

* Based on a risk-free interest rate, adjusted for market, country and industry-specific risks. A standard discount rate is used for all planning periods.

At December 31, 2018 and 2017, the value in use in the segment Austria amounts to TEUR 6,877,996 and TEUR 6,743,288, respectively, in the segment Bulgaria TEUR 1,294,350 and TEUR 1,182,835, respectively, in the segment Croatia TEUR 374,186 and TEUR 389,824, respectively, in the segment Belarus TEUR 1,001,662 and TEUR 1,110,626, respectively, in the segment Slovenia TEUR 379,349 and TEUR 411,851, respectively, in the segment Macedonia TEUR 224,553 and TEUR 202,172, respectively, and in the cash-generating unit A1 Digital the value in use amounts to TEUR 86,997 and TEUR 467,318, respectively.

The value in use is compared with the carrying amount of the cash-generating units (including goodwill). Impairment charges are recognized in profit or loss if the carrying amount of the cash-generating units exceeds the value in use. The impairment loss shall first be allocated to the carrying amount of any goodwill allocated to the cash-generating unit, and then to the other assets of the cash-generating unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit, provided that the recoverable amount is less than the carrying amount of the cash-generating unit. These reductions in the carrying amounts represent impairment losses on individual assets.

If the value in use of the cash-generating unit exceeds its carrying amount, the cash-generating unit and the goodwill allocated to that cash-generating unit shall be regarded as not impaired. Rather, A1 Telekom Austria Group examines if impairment losses recognized in the past (with the exception of goodwill) must be reversed again.

Sensitivity analysis

The use of the following pre-tax interest rates would lead to the carrying amount equaling the value in use at December 31, 2018 and 2017:

Pre-tax interest rates*	2018	2017
Segment Austria	14.0%	13.3%
Segment Bulgaria	14.4%	11.0%
Segment Croatia	13.0%	11.1%
Segment Belarus	38.1%	45.6%
Segment Slovenia	8.9%	9.2%
Segment Macedonia	15.6%	13.8%
A1 Digital	14.0%	26.5%

* Based on a risk-free interest rate, adjusted for market, country and industry-specific risks.
In the segment Austria, the sensitivity analysis was carried out for A1 Telekom Austria AG only.

The following table lists the changes in revenues, cost drivers, and capital expenditure that would lead to the carrying amounts equaling the value in use at December 31, 2018 and 2017 with respect to the key markets:

2018	Revenues	Cost	Capital expenditures
Segment Austria	-10.8%	18.3%	51.3%
Segment Bulgaria	-10.4%	18.0%	48.2%
Segment Croatia	-3.4%	5.5%	15.8%
Segment Belarus	-21.4%	50.1%	99.9%
Segment Slovenia	-0.9%	1.3%	5.6%
Segment Macedonia	-7.7%	13.3%	43.9%
A1 Digital	-7.2%	8.8%	67.6%

2017	Revenues	Cost	Capital expenditures
Segment Austria	-10.3%	17.3%	48.1%
Segment Bulgaria	-8.3%	13.9%	43.7%
Segment Croatia	-3.2%	5.0%	15.6%
Segment Belarus	-25.7%	60.0%	141.1%
Segment Slovenia	-2.6%	3.9%	18.8%
Segment Macedonia	-7.9%	13.9%	39.6%
A1 Digital	-18.2%	25.7%	153.6%

In the segment Austria, the sensitivity analysis was carried out for A1 Telekom Austria AG only.

(18) Investments in Associates

At December 31, 2018 and 2017, investments in associates accounted for using the equity method relate to Telecom Liechtenstein AG only. The capital share as well as the allocation to the segments are disclosed in Note (34).

The following table shows the development of investments in associates:

in TEUR	2018	2017
At January 1	**33,971**	40,820
Dividends received	-771	0
Recognized income	-895	-529
Changes in reporting entities	0	-4,200
Translation adjustment	882	-2,120
At December 31	**33,188**	33,971

Dividends received are reported in the net cash flow from investing activities.

On July 18, 2017, A1 Telekom Austria Group sold its 25.3% stake in media.at for a consideration of TEUR 4,052, which was paid in cash. In 2017, the resulting loss of TEUR 148 was recognized in the line item “Equity interest in net income of associated companies”. In 2018, a further payment of TEUR 127 was made and recognized in the line item “Equity interest in net income of associated companies”.

The following table shows the difference between the investment in associates and their proportionate equity:

in TEUR, at December 31	2018	2017
Proportionate equity	14,963	14,661
Goodwill	10,882	10,882
Purchase price allocation	7,343	8,428
Investments in associates	**33,188**	33,971

(19) Investments

in TEUR, at December 31	2018	2017
Equity instruments at fair value through profit or loss - mandatory	3,705	0
Debt instruments at fair value through other comprehensive income - mandatory	2,826	0
Debt instruments at fair value through profit or loss - mandatory	1,614	0
Investments at amortized cost	3,330	0
Other investments carried at cost	0	1,546
Other long-term investments*	0	580
Marketable securities - available-for-sale, long-term	0	10,765
Investments	**11,475**	**12,891**

* For the classification of financial instruments according to IFRS 9 and IAS 39, see Note (3).

All equity instruments held at December 31, 2018 are classified as "at fair value through profit or loss". "Equity instruments at fair value through profit or loss – mandatory" comprise both quoted and unquoted equity instruments.

"Debt instruments at fair value through other comprehensive income – mandatory" include quoted bonds with investment grade ratings, thus the result of the calculation of expected credit losses is immaterial and was not recognized. Interest income is recognized in profit or loss and calculated the same way as interest income on financial assets at amortized cost, i.e. the premium is recognized in profit or loss over the remaining term according to the effective interest method (see Note (7)). The remaining changes in fair value are recognized in other comprehensive income (OCI), net of income tax.

"Debt instruments at fair value through profit or loss – mandatory" include other long-term financial investments that do not meet the solely payment of principal and interest ("SPPI") criterium and serve partially as coverage for the provision for pensions in Austria.

Financial assets at amortized cost include fixed deposits and serve mainly as cash reserve for the subsidiary paybox Bank AG according to the requirements of the Capital Requirements Regulation, the "Internal Liquidity Adequacy Assessment Process" and contractual obligations to the licensor VISA.

Marketable securities available-for-sale at December 31, 2017 include quoted bonds and equity instruments as well as other financial investments. In accordance with IAS 39, A1 Telekom Austria Group carried these securities at fair value. Unrealized gains and losses resulting from the change in their fair value were recorded in other comprehensive income (OCI), net of income tax. Other long-term investments at December 31, 2017 include fixed deposits. Other investments carried at cost at December 31, 2017 include investments in unquoted equity instruments (investments).

(20) Other Non-current Assets

in TEUR, at December 31	2018	2017
Installment sales	0	49,606
Other financial assets	9,191	1,555
Financial assets	**9,191**	**51,161**
Other non-financial assets	**8,618**	**8,557**
Other non-current assets, gross	**17,809**	**59,718**
Less allowance for financial assets	0	-1,771
Other non-current assets	**17,809**	**57,947**

For information on installment sales receivables, see Note (13). Starting 2018, installment sales receivables are reported in accounts receivable: subscribers, distributors and other, net (see Notes (3) and (10)).

Other non-financial assets include essentially prepayments for maintenance agreements, license fees and rent.

Development of the allowance for non-current installment sales receivables and other non-current financial assets as well as their age structure is disclosed in "Credit risk" in Note (33).

(21) Short-term Debt and Current Portion of Long-term Debt

in TEUR, at December 31	2018	2017
Short-term debt	245,000	17
Current portion of lease obligations	256	549
Short-term debt	245,257	566

For further information regarding the current portion of lease obligations as well as of long-term financial debt, see Notes (25) and (30). Further funding sources are disclosed in Note (33).

(22) Accounts Payable

Accounts payable consist of the following items:

in TEUR, at December 31	2018	2017
Fiscal authorities	58,077	63,097
Social security	11,244	10,483
Employees	38,765	35,546
Long-term incentive program	2,627	2,823
Employees - transferred to government	303	1,249
Prepayments from customers	12,147	11,903
Government	153	142
Other non-financial liabilities	5,435	4,153
Current non-financial liabilities	128,751	129,395
Suppliers	745,377	592,032
Deferred consideration from business combinations	1,271	19
Accrued interest	29,990	29,990
Cash deposits received	10,635	9,921
Other current financial liabilities	21,874	22,886
Current financial liabilities	809,147	654,848
Accounts payable	937,898	784,243

Liabilities due to tax authorities include mostly value-added taxes and payroll taxes.

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

Liabilities due to employees relate mainly to salaries payable (including overtime and travel allowances), unused vacation days as well as one-time termination benefits and service awards.

For information on the long-term incentive program, see Note (31).

The liabilities regarding employees - transferred to government include compensation for reductions in salaries, lump sum payments for any shortfall in pension payments, as well as one-off payments to civil servants of A1 Telekom Austria Group (see Note (23)).

At December 31, 2018 and 2017, accounts payable amounting to TEUR 11,199 and TEUR 20,788, respectively, have a maturity of more than twelve months.

Purchase price liabilities from business combinations relate to the acquisition of Metronet in 2017 (see also Note (32)). Accrued interest includes interest on bonds (see Note (25)). In 2018 and 2017, other current financial liabilities include mainly customer deposits related to vouchers for parking and shopping.

(23) Accrued Liabilities and Current Provisions, Asset Retirement Obligation and Restructuring

in TEUR	Restructuring	Employees	Asset retirement obligation	Legal	Other	Total
At January 1, 2018	500,957	105,208	247,692	13,301	25,860	893,018
Additions	68,990	33,646	3,171	931	6,547	113,284
Changes in estimates	-464	0	-10,332	0	0	-10,796
Used	-91,656	-30,544	-3,577	-509	-5,130	-131,416
Released	-47,700	-13,382	-2,315	-6,223	-3,752	-73,373
Accretion expense	3,861	0	4,465	0	0	8,326
Reclassifications*	-206	10,597	0	0	5	10,397
Translation adjustment	0	12	-156	36	17	-91
Changes in reporting entities	0	0	0	0	344	344
At December 31, 2018	433,782	105,538	238,948	7,535	23,891	809,694
Thereof long-term						
December 31, 2018	337,008	0	238,948	0	0	575,956
December 31, 2017	399,159	0	247,692	0	0	646,852

* Reclassification to current liabilities and short-term portion of employee benefit obligations.
The cumulative effect of the initial application of IFRS 15 was recognized in the opening balance at January 1, 2018 in accordance with the modified retrospective approach (see Note (3) – Impact at January 1, 2018).

In calculating provisions, the Management Board must assess if there are obligations to third parties that will probably lead to a payment outflow for A1 Telekom Austria Group and that can be estimated reliably. Provisions are recognized in the amount of the probable utilization.

Even if a payout of the provisions is not expected in the following financial year, provisions and accrued liabilities, with the exception of the asset retirement obligation and the provision for restructuring, are reported as short-term provisions since A1 Telekom Austria Group has no influence on the timing of the utilization.

Restructuring

In 2008, a comprehensive restructuring program was initiated in the segment Austria. The provision for restructuring includes future compensation of employees who will no longer provide services for A1 Telekom Austria Group but who cannot be laid off due to their status as civil servants. These employment contracts are onerous contracts under IAS 37, as the unavoidable cost related to the contractual obligation exceeds the future economic benefit. The restructuring program also includes social plans for employees whose employments will be terminated in a socially responsible way. In 2009 and every year from 2011 to 2018, new social plans were initiated that provide for early retirement, special severance packages and golden handshake options. Due to their nature as termination benefits, these social plans are accounted for according to IAS 19. At December 31, 2018 and 2017, the corresponding liability amounts to TEUR 420,987 and TEUR 482,858 and includes 1,863 and 1,879 employees, respectively.

Provisions for restructuring are recorded at their present value. In 2018 and 2017, the rates of compensation increase used to measure the provisions are the same as those used for employee benefit obligations (see Note (27)). The following table provides the discount rates used, which are determined based on the Mercer Yield Curve Approach taking into account the respective maturities:

	2018	2017
Employees permanently leaving the service process	1.50%	1.25%
Social plans	0.75%	0.75%
Civil servants transferred to the government	1.50%	1.25%

Changes in the provision are recognized in employee expense and reported in the line item “Selling, general and administrative expenses”, while the accretion expense is reported in the financial result in the line item “Interest expense on restructuring provision” (see Note (7)). The provision was reversed, mainly because a number of employees returned to regular operations, were transferred to the government or opted for plans such as golden handshakes, special severance packages and early retirement to an extent not foreseeable at the time of measurement in the previous year.

Based on the general agreement for the transfer of personnel, which was entered into with the Austrian government in 2013, civil servants transferring voluntarily to the government can apply for a permanent transfer after a probation period of six months. During this probation period, A1 Telekom Austria Group bears the salary expense. In case of a permanent transfer, A1 Telekom Austria Group must compensate the government for any excess expense arising due to differing professional classifications of work places. Furthermore, compensation payments (or one-off payments) must be made to civil servants up to the age of 62.

At December 31, 2018 and 2017, the provision for the transfer of civil servants to the government amounts to TEUR 12,796 and TEUR 18,099 and comprises 159 and 176 employees, respectively. For information on the liability for employees transferred to the government, see Note (22).

Weighted average duration
The weighted average duration of the restructuring obligations is as follows:

	2018	2017
Employees permanently leaving the service process	7.2	7.6
Social plans	3.4	3.4
Civil servants transferred to the government	6.3	6.7

Sensitivity analysis
A change of one percentage point in the discount rate or in the rate of compensation would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR, at December 31, 2018	1 percentage point increase	1 percentage point decrease
Change in discount rate	-16,001	14,563
Change in rate of compensation	13,830	-13,151
in TEUR, at December 31, 2017		
Change in discount rate	-20,334	19,268
Change in rate of compensation	17,998	-16,987

Employees
The provisions for employees contain mainly bonuses and the short-term portion of employee benefit obligations for severance, service awards and pensions (see also Note (27)).

In its judgement of November 11, 2014, the European Court of Justice (ECJ) ruled that the Austrian law determining the reference date for salary increments for Austrian civil servants (this date determines the length of service and thus the date for advancing to the next salary level) conflicted with European Union law. For this reason, A1 Telekom Austria Group recognized a provision in its consolidated financial statements of TEUR 45,734 and TEUR 50,487 at December 31, 2018 and 2017, respectively for imminent back payments of salaries to the civil servants assigned to it.

Asset retirement obligation
Liabilities for asset retirement obligations are measured at their net present value in accordance with IAS 37, the increase in the liability that reflects the passage of time is recognized in profit or loss (see Note (7)). The effects of changes in the measurement from existing provisions are accounted for in accordance with IFRIC 1. Changes in the measurement of these liabilities resulting from changes in the estimated timing or amount of the outflow of resources or changes in the parameters shall be added to or deducted from the cost of the assets in the current period. The amount deducted from the asset shall not exceed its carrying amount. Any excess amount is reported in profit or loss. If the adjustment results in an addition to the asset, the company must review whether there is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset shall be tested for impairment and any impairment losses shall be recorded.

A1 Telekom Austria Group records asset retirement obligations for the retirement and decommissioning of wooden masts impregnated with tar or salt, base stations, payphones as well as land and buildings including rented premises.

The asset retirement obligation for masts impregnated with tar or salt is based on estimated settlement dates and expected cash flows.

A1 Telekom Austria Group operates base stations on land, rooftops and on other premises under various types of rental contracts. In estimating the fair value of the retirement obligation for its base stations, A1 Telekom Austria Group has made a range of assumptions such as retirement dates, timing and percentage of early cancellations, development of technology and the cost of removing network equipment and remediating the sites.

Additionally, A1 Telekom Austria Group records asset retirement obligations for buildings concerning obligations for the disposal of hazardous substances as well as the decontamination of land when decommissioning a building. A1 Telekom Austria Group records asset retirement obligations for buildings and rented premises under operating leases in accordance with the obligation to refurbish the sites at the expiration of the lease contracts.

The following table provides the parameters used for the measurement of the obligation:

	2018	2017
Discount rate	1.5% - 12.0%	1.5% - 10.9%
Inflation rate	2.0% - 5.5%	2.0% - 6.7%

The discount rate applied to the calculation of asset retirement obligations reflects current market expectations with regard to interest effects as well as specific risks of the obligation. The discount rate in the non-eurozone is based on the risk-free interest rate of German federal bonds with a maturity of 30 years, adapted for country-specific risk by the Damodaran Rating based default spread. For those countries whose currencies are not tied to the euro, the respective inflation differential according to the OECD is taken into account as well. In the eurozone, the discount rate is based on government bonds with matching maturities, as the specific risks were taken into account in the estimated cash flows.

The inflation rates are adapted quarterly to reflect the general development in the individual countries.

In essence, the change in these parameters as well as changes in the estimated outflow of resources resulted in an increase of the asset retirement obligation and an increase in the book value of the related item of property, plant and equipment (see change in estimates in the table of provisions). TEUR 2,413 were recognized in other operating income as the related tangible asset is already fully depreciated.

Sensitivity analysis

A change of one percentage point in the discount rate or in the inflation rate would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR at December 31, 2018	1 percentage point increase	1 percentage point decrease
Change in discount rate	-24,272	26,089
Change in inflation rate	26,279	-24,073
in TEUR at December 31, 2017		
Change in discount rate	-23,603	29,810
Change in inflation rate	29,643	-23,994

Legal

Provisions relate mainly to expenses for legal advice and litigation.

Other provisions

Other provisions relate mainly to taxes (excluding income taxes), guarantees, rents and penalties.

(24) Contract Liabilities and Current Deferred Income

A contract liability is recognized where a customer has paid an amount of consideration prior to goods or services being transferred by A1 Telekom Austria Group. Contract liabilities include prepaid fees, prepaid vouchers, fees for leased lines and site sharing, and discounts granted as well as one-time fees, activation fees and installation fees.

The following table shows the development of contract liabilities:

in TEUR	2018
At January 1	**161,595**
Increases due to cash received	980,378
Revenues recognized in the current period from:	
Amounts included in the contract liability at beginning of the period	-143,168
Increases due to cash received in current period	-838,720
Foreign currency adjustments	76
At December 31	**160,160**
Thereof remaining term of more than one year	19,490

At December 31, 2018, contract liabilities with remaining term of more than one year relate mainly to deferred rental income from base stations and data circuits as well as one-time fees, activation fees, and installation fees.

in TEUR, at December 31	2018	2017
Unearned income	0	122,142
Customer loyalty programs	0	34,428
Deferred income, current portion	**0**	**156,570**

Unearned income at December 31, 2017, relates mainly to prepaid access fees, monthly base fees, leased lines, prepaid mobile fees and rental income from site sharing. These fees are recognized over the period the service is provided. According to IFRIC 13 "Customer Loyalty Programs", the award credits granted were recognized as deferred income until redeemed or forfeited. For the changes according to IFRS 15, see Note (3).

(25) Long-term Debt

The terms and conditions of long-term debt and its current portion are summarized in the following table:

		At December 31, 2018				At December 31, 2017			
Currency	Maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds									
TEUR	2021	fixed	3,125%	750,000	746,954	fixed	3,125%	750,000	745,913
TEUR	2022	fixed	4,000%	750,000	746,232	fixed	4,000%	750,000	745,077
TEUR	2023	fixed	3,500%	300,000	298,855	fixed	3,500%	300,000	298,601
TEUR	2026	fixed	1,500%	750,000	744,375	fixed	1,500%	750,000	743,670
Total Bonds				**2,550,000**	**2,536,417**			**2,550,000**	**2,533,262**
Leases (Note (30))				**632**	**632**			**894**	**894**
Financial debt				**2,550,632**	**2,537,048**			**2,550,894**	**2,534,156**
Current portion of long-term debt				-256	-256			-549	-549
Long-term debt				**2,550,375**	**2,536,792**			**2,550,346**	**2,533,607**

Bonds

Bonds are recognized at the actual amount received. Discount and issue costs are amortized over the related term using the effective interest rate method.

In March 2012, A1 Telekom Austria Group initiated a Euro Medium Term Note (EMTN) program with a maximum volume of TEUR 2,500,000. On April 2, 2012, A1 Telekom Austria Group issued a bond under the EMTN program with a face value of TEUR 750,000, discount and the issue costs of TEUR 11,575, a maturity of ten years and a coupon of 4.0%.

On July 4, 2013, A1 Telekom Austria Group issued a bond under the EMTN program with a face value of TEUR 300,000, discount and issue costs of TEUR 2,574, a maturity of ten years and a coupon of 3.5%.

On December 3, 2013, A1 Telekom Austria Group issued a bond under the EMTN program with a face value of TEUR 750,000, discount and issue costs of TEUR 8,336, a maturity of eight years and a coupon of 3.125%.

On December 7, 2016, A1 Telekom Austria Group issued a bond with a face value of TEUR 500,000, a maturity of ten years and a coupon of 1.5%. On July 14, 2017, a tap issuance with a volume of TEUR 250,000 was settled. In August 2017, the outstanding bond and the tap were consolidated and have the same terms in all respects. Discount and issue costs amount to TEUR 6,990.

(26) Deferred Revenues and Other Non-current Liabilities

in TEUR, at December 31	2018	2017
Cash deposits received	756	745
Deferred consideration	3,329	5,532
Miscellaneous other non-current financial liabilities	13,516	13,665
Other non-current financial liabilities	**17,600**	19,942
Long-term incentive program	854	2,561
Miscellaneous other non-current non-financial liabilities	4,125	5,970
Deferred revenues, other	0	9,796
Other non-current non-financial liabilities	**4,979**	18,328
Deferred revenues and other non-current liabilities	**22,580**	38,270

Deferred considerations from business combinations relate to the acquisition of Metronet and Akenes in 2017 (see Note (34)). Other non-current non-financial liabilities include liabilities for pension contributions. See Note (31) regarding the long-term incentive program. Other deferred revenues at December 31, 2017, relate mainly to rental revenue. For the changes according to IFRS 15, see Note (3).

(27) Employee Benefits

A1 Telekom Austria Group records employee benefit obligations under defined contribution and defined benefit plans.

In the case of defined contribution plans, A1 Telekom Austria Group pays contributions to publicly or privately administered pension or severance insurance plans on a mandatory or contractual basis. Once the contributions have been paid, which are recognized in employee expenses in the respective functional area, A1 Telekom Austria Group has no further payment obligations.

All other employee benefit obligations are unfunded defined benefit plans for which A1 Telekom Austria Group records provisions that are calculated using the projected unit credit method in accordance with IAS 19.

in TEUR, at December 31	2018	2017
Service awards	62,394	62,477
Severance	136,069	129,277
Pensions	5,153	5,088
Other	39	0
Long-term employee benefit obligations	**203,654**	196,842

According to IAS 19.133, A1 Telekom Austria Group chooses to distinguish between current and non-current liabilities arising from employee benefit obligations (see also Note (23)).

For severance and pensions, A1 Telekom Austria Group recognizes actuarial gains and losses in other comprehensive income (OCI), whereas re-measurement gains and losses for service awards are immediately recognized in profit or loss. The re-measurement of defined benefit plans relates to actuarial gains and losses only, as A1 Telekom Austria Group holds no plan assets. Interest expense related to employee benefit obligations is reported in the financial result, while service cost is reported in employee expenses in the respective functional area.

Actuarial assumptions

The actuarial assumptions used to measure the obligations for service awards, severance payments and pensions are as follows:

	2018	2017
Discount rate service awards	1.25%	1.00%
Discount rate severance	2.00%	2.00%
Discount rate pensions	1.75%	1.50%
Rate of compensation increase – civil servants	4.40%	4.40%
Rate of compensation increase – other employees	3.00%	3.00%
Rate of compensation increase – civil servants released from work	3.50%	3.50%
Rate of increase of pensions	1.60%	1.60%
Employee turnover rate*	0.0% – 1.51%	0.0% – 1.72%

* Depending on years of service.

As in the prior year, the determination of the discount rate is based on the Mercer Yield Curve Approach, taking into account the respective maturities.

Life expectancy in Austria is based on "AVÖ 2018-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler" (2017: "AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler"). The effect of this change in estimate is presented in the actuarial gain/loss from changes in demographic assumptions in the following tables. The obligation related to the international subsidiaries was measured on the same actuarial basis due to their insignificant amount.

Weighted average duration

The weighted average duration of the obligations is as follows:

	2018	2017
Service awards	5.6	5.9
Severance	14.5	15.0
Pensions	11.2	11.7

Service awards

Civil servants and certain employees (together "employees") are eligible to receive service awards. Under these plans, eligible employees receive a cash bonus of two months' salary after 25 years of service and four months' salary after 40 years of service. Employees with at least 35 years of service when retiring (at the age of 65) or who are retiring based on specific legal regulations are also eligible to receive the service award of four monthly salaries. The provision is formed over the period of service, taking into account the employee turnover rate of employees who leave service early. The main risk that A1 Telekom Austria Group is exposed to is the risk of development of salary increases and changes of interest rates.

The following table provides the components and a reconciliation of the changes in the provisions for service awards:

in TEUR	2018	2017
At January 1	68,456	72,816
Service cost	2,024	2,193
Interest cost	661	707
Actuarial gain/loss based on experience adjustment	–318	–1,645
Actuarial gain/loss from changes in demographic assumptions	5,927	–4
Actuarial gain/loss from changes in financial assumptions	–1,096	–201
Recognized in profit or loss	7,199	1,050
Benefits paid	–5,843	–5,410
Obligation at December 31	69,811	68,456
Less short-term portion	–7,418	–5,979
Non-current obligation	62,394	62,477

Of the defined benefit obligations for service awards, less than 1% relate to foreign subsidiaries as of December 31, 2018 and 2017, respectively.

Severance

Defined contribution plans

Employees starting to work for A1 Telekom Austria Group in Austria on or after January 1, 2003 are covered by a defined contribution plan. A1 Telekom Austria Group paid TEUR 2,367 and TEUR 2,157 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2018 and 2017, respectively.

Defined benefit plans

Severance benefit obligations for employees hired before January 1, 2003, excluding civil servants, are covered by defined benefit plans. Upon termination by A1 Telekom Austria Group or retirement, eligible employees receive severance payments. Depending on the time in service, severance is equal to a multiple of the eligible monthly compensation that comprises fixed compensation plus variable element such as overtime or bonuses, with a maximum of twelve monthly salaries. In case of death, the heirs of eligible employees receive 50% of the severance benefits. A1 Telekom Austria Group is exposed to the risk of development of salary increases and changes of interest rates.

The following table provides a detailed reconciliation of the changes in severance benefit obligations:

in TEUR	2018	2017
At January 1	**130,555**	134,433
Service cost	4,517	5,230
Interest cost	2,577	2,316
Recognized in profit or loss	**7,094**	7,546
Actuarial gain/loss based on experience adjustment	1,830	-4,295
Actuarial gain/loss from changes in demographic assumptions	547	-1,034
Actuarial gain/loss from changes in financial assumptions	0	-4,795
Recognized in other comprehensive income	**2,378**	-10,125
Benefits paid	-1,974	-1,321
Foreign currency adjustments	1	22
Other	**-1,972**	-1,299
Obligation at December 31	**138,054**	130,555
Less short-term portion	-1,986	-1,279
Non-current obligation	**136,069**	129,277

Approximately 3% of the defined benefit obligations for severance relate to foreign subsidiaries as of December 31, 2018 and 2017.

Pensions

Defined contribution pension plans

In Austria, pension benefits are generally provided by the social security system, for employees, and by the government, for civil servants. The contributions of 12.55% that A1 Telekom Austria Group made in 2018 and 2017 to the social security system and the government in Austria, amount to TEUR 62,547 and TEUR 61,276, respectively. Contributions of the foreign subsidiaries into the respective systems range between 7% and 29% and amount to TEUR 22,836 and TEUR 21,233 in 2018 and 2017, respectively.

Additionally, A1 Telekom Austria Group sponsors a defined contribution plan for employees of some of its Austrian subsidiaries. A1 Telekom Austria Group's contributions to this plan are based on a percentage of the compensation not exceeding 5%. The annual expenses for this plan amounted to TEUR 11,997 and TEUR 12,006 in 2018 and 2017, respectively.

Defined benefit pension plans

A1 Telekom Austria Group provides defined benefits for certain former employees in Austria. All such employees are retired and were employed prior to January 1, 1975. This unfunded plan provides benefits based on a percentage of salary and years employed, not exceeding 80% of the salary before retirement, and taking into consideration the pension provided by the social security system. A1 Telekom Austria Group is exposed to the risk of development of life expectancy and inflation because the benefits from pension plans are lifetime benefits. Furthermore, approximately 7% of the pension benefit obligations at December 31, 2018 relate to the employees of the company Akenes in Lausanne, acquired in 2017.

The following table provides a detailed reconciliation of the changes in pension benefit obligations:

in TEUR	2018	2017
At January 1	**5,562**	6,595
Service cost	150	0
Interest cost	78	94
Recognized in profit or loss	**228**	94
Actuarial gain/loss based on experience adjustment	226	-720
Actuarial gain/loss from changes in demographic assumptions	287	0
Actuarial gain/loss from changes in financial assumptions	-118	0
Recognized in other comprehensive income	**394**	-720
Benefits paid	-571	-501
Change in reporting entities	0	97
Foreign currency adjustments	11	-5
Other	**-560**	-408
Obligation at December 31	**5,624**	5,562
Less short-term portion	-471	-474
Non-current obligation	**5,153**	5,088

Sensitivity analysis

The following table summarizes the short and long-term provisions recorded:

in TEUR, at December 31	2018	2017
Service awards	69,811	68,456
Severance	138,054	130,555
Pensions	5,624	5,562

A change in the discount rate of half a percentage point would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR, at December 31, 2018	0.5 percentage point decrease	0.5 percentage point increase
Service awards	1,950	-1,867
Severance	10,336	-9,442
Pensions	288	-262
in TEUR, at December 31, 2017		
Service awards	2,033	-1,943
Severance	9,855	-8,992
Pensions	332	-296

A change in the rate of compensation of one percentage point would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR, at December 31, 2018	1 percentage point decrease	1 percentage point increase
Service awards	-3,553	3,790
Severance	-18,068	21,200
Pensions	-465	541
in TEUR, at December 31, 2017		
Service awards	-3,690	3,953
Severance	-17,193	20,216
Pensions	-445	588

A change in the employee turnover rate of half a percentage point would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR, at December 31, 2018	0.5 percentage point decrease	0.5 percentage point increase
Service awards	17	-1,915
Severance	4,557	-5,225
in TEUR, at December 31, 2017		
Service awards	47	-2,016
Severance	3,927	-5,028

No employee turnover rate is applied to the calculation of the pension provision as the eligible employees have already retired. The calculation of a 0.5% decrease is limited to a maximum of 0.0% of the employee turnover rate.

(28) Stockholders' Equity

Capital management

The capital structure of A1 Telekom Austria Group consists of financial liabilities and equity attributable to the equity holders of the parent company, comprising common stock, treasury shares, additional paid-in capital, retained earnings, remeasurement of defined benefit plans, measurement of debt instruments, hedging reserve and translation reserve as well as hybrid capital in 2017.

A1 Telekom Austria Group manages its capital structure to safeguard its solid capital base in order to maintain investor, creditor and market confidence as well as to provide sustainable support to the future operational development of A1 Telekom Austria Group.

Maintaining a solid investment grade rating is the number one priority of A1 Telekom Austria Group's finance strategy. This will allow A1 Telekom Austria Group to obtain the financial flexibility required for strategically important projects. A transparent dividend policy ensures the balance between shareholder remuneration and the utilization of cash to redeem outstanding debt.

Share capital

As of December 31, 2018 and 2017, the common stock of Telekom Austria AG amounts to TEUR 1,449,275, and is divided into 664.5 million bearer shares. As of December 31, 2018 and 2017, América Móvil indirectly holds a stake of 51.00% through its 100% subsidiary América Móvil B.V., Netherlands (América Móvil B.V., formerly Carso Telecom B.V.), ÖBIB holds a stake of 28.42% and free floated shares including treasury shares amount to 20.58%. The shares have no par value.

According to the Austrian Banking Act and the Capital Requirements Regulation, a regulation for banks by the European Union, the subsidiary paybox Bank AG must fulfil regulatory minimum equity requirements regarding bank-related risks, notably credit risk and operational risks as well as liquidity coverage requirements. On December 31, 2018 and 2017, these requirements were fulfilled.

The number of authorized, issued and outstanding shares and shares in treasury is presented below:

At December 31	2018	2017
Shares authorized	664,500,000	664,500,000
Shares issued	664,500,000	664,500,000
Shares in treasury	-415,159	-415,159
Shares outstanding	664,084,841	664,084,841

The shares issued are fully paid.

Dividend payment

The following dividends were approved by the shareholders at the Annual General Meeting and paid by Telekom Austria AG (regarding the coupon payments on the hybrid capital, see “Hybrid capital“):

	2018	2017
Date of Annual General Meeting	May 30, 2018	June 9, 2017
Dividend per share in euro	0.20	0.20
Total dividend paid in TEUR	132,817	132,817
Date of payment	June 8, 2018	June 20, 2017

The net income of Telekom Austria AG according to Austrian GAAP amounts to:

in TEUR	2018	2017
Net income	381,546	1,060,490
Allocation to reserves reported in retained earnings	–350,523	–995,373
Profit carried forward from prior year	212,683	280,383
Unappropriated retained earnings	243,706	345,500

The unappropriated retained earnings of Telekom Austria AG according to Austrian GAAP are not subject to a dividend limitation as the restrictions of Section 235 UGB do not apply. The Management Board plans to propose to the shareholders at the Annual General Meeting to distribute a dividend of EUR 0.21 per share from unappropriated retained earnings.

Treasury shares

At the Annual General Meeting of Telekom Austria AG held on May 29, 2013, the Management Board was empowered to:
(a) use these treasury shares to settle obligations under the share-based compensation plans disclosed in Note (31) and/or to transfer them for or without a consideration to employees, managers and members of the Management Board/management of Telekom Austria AG and of its affiliated companies;
(b) use them as consideration for acquisitions, or
(c) sell treasury shares at any time via the stock exchange or by public offer.

Shares held in treasury as of December 31	2018	2017
Number of treasury shares	415,159	415,159
Average price per share in euro	18.80	18.80
Deduction in equity in TEUR	7,803	7,803

Additional paid-in capital

The additional paid-in capital results from the incorporation of A1 Telekom Austria Group as well as subsequent reorganization of the group. Furthermore, effects related to the employee participation plan and the retirement of treasury shares are reported in additional paid-in capital.

Hybrid capital

On February 1, 2018, the hybrid bond, issued on January 24, 2013, with a volume of TEUR 600,000 was repaid according to Section 5 (3) of the terms and conditions of the bond. The hybrid bond was a subordinated bond with indefinite maturity which, based on its conditions, was classified as stockholders’ equity according to IFRS. Accordingly, related discount and issue cost in the amount of TEUR 11,752 were recorded net of a tax benefit of TEUR 2,938 in stockholders’ equity. Therefore, stockholders’ equity was increased by TEUR 591,186 in 2013.

Coupon payments of TEUR 33,750 each made in February 2018 and 2017 were recognized as distribution of dividends in stockholders’ equity.

In the local financial statements, coupon payments are recognized as interest expense in profit or loss according to Austrian GAAP. While the tax benefit resulting from the accrued interest is recognized in profit or loss according to local GAAP, it is recognized in stockholders’ equity as “distribution of dividend” in the Consolidated Financial Statements according to IAS 12. The net result attributable to hybrid capital holders is presented in the Consolidated Statements of Comprehensive Income in the allocation of the net result and equals interest recognized in profit or loss in 2018 and 2017 according to local GAAP amounting to TEUR 2,959 and TEUR 33,750, respectively, net of the related tax benefit of TEUR 740 and TEUR 8,438, respectively, which are recognized in stockholders' equity in 2018 and 2017.

Other comprehensive income (loss) items (OCI)

The other comprehensive income (loss) contains the remeasurement of severance and pension obligations (see Note (27)), measurement of debt instruments at fair value through other comprehensive income (2017: the available-for-sale reserve, see Note (19)), the hedging reserve (see Note (33)) as well as the translation reserve (see Note (3)). Their development is presented in the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Stockholders' Equity. The foreign currency translation adjustment relates mainly to the consolidation of velcom in Belarus and Vip mobile in the Republic of Serbia.

(29) Income Taxes

Income taxes are calculated for each taxable entity based on the expected actual income tax rate applicable. For the purpose of calculating deferred tax assets and liabilities, A1 Telekom Austria Group uses the tax rates that have been enacted or substantively enacted at the reporting date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period the tax rate is effectively enacted. The distribution of dividends by Telekom Austria AG has no effect on the tax rate. Investment tax credits are recognized as a reduction in income taxes in the period in which these credits are granted.

Income tax attributable to income before income taxes consists of the following (negative values indicate an income tax benefit):

in TEUR	2018	2017
Current income tax	54,974	61,098
Deferred income tax	43,818	-58,092
Income tax	**98,793**	3,006

The table below provides information about the allocation of total income tax in the Consolidated Financial Statements:

in TEUR	2018	2017
Continuing operations	98,793	3,006
Income tax on realized result on hedging activities*	1,460	1,460
Income tax on result of debt instruments (2017: securities available-for-sale)*	9	47
Income tax on remeasurement of defined benefit obligations*	-597	2,664
Tax benefit related to hybrid capital**	-740	-8,438
Effect of initial application of IFRS 15 and IFRS 9***	11,108	0
Total income tax	**110,024**	-1,260

* Recognized in other comprehensive income (OCI).
**See Note (28).
***See Note (3).

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

in TEUR	2018	2017
Income tax expense at statutory rate	85,625	87,119
Foreign tax rate differential	5,442	5,610
Tax-non-deductible expenses	10,400	10,288
Tax incentives and tax-exempted income	-5,077	-6,281
Tax-free income (loss) from investments	141	216
Tax benefit/expense previous years	-5,315	-3,352
Changes in deferred tax assets not recognized	12,062	-185,221
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	-3,250	94,500
Other	-1,234	128
Income tax	**98,793**	3,006
Effective income tax rate	28.84%	0.86%

In 2018 and 2017, non-deductible expenses consist mainly of withholding taxes on dividends and representation expenses as well as various non-deductible expenses in the individual countries.

Tax incentives and tax-exempted income relate mainly to investment and other tax incentives in the individual countries. Furthermore, it includes the tax-free income on the fictitious amortization of tax goodwill related to the Austrian tax group. Amortizations of tax goodwill according to Section 9 (7) KStG are treated as a temporary differences on investments in subsidiaries for tax purposes. According to IAS 12.39, no deferred tax liabilities are recorded in that case, thus there are no differences in deferred tax liabilities in 2018 and 2017.

In 2018, the tax benefit for prior periods results mainly from the finalization of the tax audit in Bulgaria covering the years 2008 to 2009. A1 Bulgaria received the tax assessments for the tax audit covering the years 2010 to 2013, which do not include brand name and customer base including interest to be tax deductible. An appeal was filed against these tax assessments as the Supreme Administrative Court decided in favor of A1 Bulgaria regarding the amortization of customer base including interest for the years 2007 to 2009. Tax and interest of TEUR 15,844 related to the brand name for the years 2010 to 2013 is provided for and bank guarantees of TEUR 48,193 were issued to secure these and further possible tax claims and interest.

The tax effect of impairments (reversals of impairments) of investments relates to taxable write-downs and reversals of write-downs of investments in affiliated companies in Austria. In 2017, these reversals of impairments as well as improved earnings prospects led to a tax gain due to the reduction in deferred tax assets, which were not recognized.

In accordance with IAS 12, deferred tax assets and liabilities are recognized for all temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and their tax bases, for current-year tax losses and tax losses carried forward as well as certain impairment losses on investments for which recognition for tax purposes is deferred over a specified period. The tax effects of temporary differences that give rise to deferred tax assets and liabilities are set out below:

in TEUR, at December 31	2018	2017
Deferred tax assets		
Deferred deduction for impairments of investments in subsidiaries	39,074	62,946
Loss carry-forwards	223,073	270,839
Accounts receivable: Subscribers, distributors and other	8,058	8,423
Accrued liabilities and accounts payable suppliers	9,936	6,006
Provisions, long-term	48,001	58,730
Employee benefit obligations	27,224	25,737
Property, plant and equipment	5,387	5,903
Other	3,461	8,195
Deferred tax assets	364,214	446,778
Deferred tax liabilities		
Property, plant and equipment	-37,305	-39,040
Other intangible assets	-85,244	-118,256
Contract cost	-6,979	0
Other	-4,167	-4,024
Deferred tax liabilities	-133,695	-161,320

in TEUR, at December 31	2018	2017
Deferred tax assets	245,513	327,077
Deferred tax liabilities	-14,992	-41,619
Deferred taxes, net	230,519	285,458

Impairments of investments in subsidiaries relate to impairments for which the recognition of expense is deferred over seven years according to Austrian tax law and for which deferred tax is calculated (according to the respective guidance in “Effects of tax write-downs according to Section 12 (3) No 2 of the Austrian Corporate Tax Act on the accounting of income taxes according to IAS 12 in consolidated or single IFRS financial statements” issued by the Austrian Financial Reporting and Auditing Committee).

Deferred tax assets on long-term provisions relate mostly to the provision for the asset retirement obligation, which is only partly recognized for tax purposes, as well as to differences in the IFRS and tax value of the restructuring provision in Austria (see Note (23)).

Deferred tax assets on employee benefit obligations result from the difference between the amount recognized in accordance with Section 14 of the Austrian Income Tax Act (EStG) and the amount of the projected unit credit method in accordance with IAS 19 (see Note (27)).

Deferred tax liabilities on property, plant and equipment are due mostly to differences in the carrying value of assets with retirement obligations as well as to increases in carrying values in Belarus from 2011 to 2014 due to hyperinflation accounting according to IAS 29, which are not recognized for tax purposes.

Deferred tax liabilities on other intangible assets are due mainly to purchase price allocations according to IFRS in the course of acquisitions.

Contract costs must not be recognized for tax purposes in Austria, resulting in deferred tax liabilities.

In Austria, A1 Telekom Austria Group established a tax group according to Section 9 of the Austrian Corporate Tax Act (KStG), with Telekom Austria AG as the head of the tax group. Deferred tax assets and liabilities for the members of the tax group (currently all significant Austrian subsidiaries) are reported on a net basis since the tax group is treated as one taxable entity.

The following deferred tax assets were not recognized as the realization in the near future is not probable according to tax planning.

in TEUR, at December 31	2018	2017
Net operating loss carry-forwards	356,587	329,875
Temporary differences related to impairments of investments in consolidated subsidiaries	54,428	87,157
Deferred tax assets not recognized	411,015	417,032

In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all deferred tax assets will be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. These are based on business plans with a detailed planning period of five years. Management considers the scheduled release of deferred tax liabilities and projected future taxable income when making this assessment.

At December 31, 2018, the loss carry-forwards and the years these will expire are the following:

Year	in TEUR
2019	121,056
2021	9,340
2022	142
2023	1,271
2024	1,290
2026	420
Carry forward indefinitely	2,303,941
Total	2,437,460

The loss carry-forwards expiring in the years listed above relate mainly to the Republic of Serbia. Due to tax relief according to Article 50a of the Serbian Corporate Tax Act, the tax rate applicable at December 31, 2018 amounts to 1.6%.

The remaining net operating loss carry-forwards relate mainly to companies located in Austria and can be carried forward indefinitely. In Austria, the annual usage is generally limited to 75% of the taxable income for a year.

No deferred taxes are recognized on the following temporary differences related to shares in subsidiaries, since it is not probable that these temporary deferred taxes will be reversed in the foreseeable future:

in TEUR, at December 31	2018	2017
Temporary differences	59,902	52,218

(30) Leases

Lessee

Lease agreements in which A1 Telekom Austria Group assumes substantially all the risks and rewards of ownership as a lessee are classified as finance leases; otherwise, they are classified as operating leases.

Plant and equipment acquired by way of finance leasing is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

The non-cancellable operating lease contracts will expire on various dates through 2028 and comprise mainly leases of base stations, property and vehicles.

Future minimum lease payments for non-cancellable operating lease contracts as well as finance lease contracts as of December 31, 2018 are:

in TEUR	Other finance leases	Operating leases
2019	256	77,744
2020	181	60,691
2021	124	49,155
2022	65	42,118
2023	6	35,803
after 2023		108,335
Total minimum lease payments	**632**	**373,846**
Less amount representing interest	-1	
Present value of lease payments	632	
Less current portion	-256	
Non-current lease obligations	**375**	

In 2018 and 2017, the rental and leasing expenses recognized in the Statement of Comprehensive Income amount to TEUR 165,580 and TEUR 162,026, respectively. Assets under finance leases relate to automobiles.

Lessor

If, substantially, all risks and rewards are attributable to A1 Telekom Austria Group as a lessor, the leased asset is recognized by A1 Telekom Austria Group. Measurement of the leased asset is then based on the accounting policies applicable to that asset in accordance with IAS 16. A1 Telekom Austria Group receives minimum lease payments for non-cancellable operating lease contracts that relate mainly to indefeasible right of use contracts, private automatic branch exchange equipment (PABX) as well as set-top boxes.

These payments are recognized as revenue on a straight-line basis over the terms of the contracts and, at December 31, 2018, they amount to:

in TEUR	Operating leases
2019	12,642
2020	6,765
2021	4,027
2022	3,446
2023	2,819
after 2023	4,255
Total minimum lease payments	**33,953**

(31) Share-based Compensation

Long-term incentive (LTI) program

A1 Telekom Austria Group introduced a long-term incentive program (LTI) in 2010. In accordance with IFRS 2, share-based payments are measured at fair value at the grant date. The expense is recognized over the vesting period. Due to the Management Board's decision to settle bonus shares granted in the course of the long-term incentive program in cash (subsequently called fictitious bonus shares), the share-based payments are recorded as a liability.

Participants of this program are required to invest an amount depending on the annual gross basic salaries and the management level of the entitled employee in Telekom Austria shares and to hold these shares until the end of the holding period (at least three years). For each tranche, the number of fictitious bonus shares granted is calculated based on the average Telekom Austria stock price for a defined period. The performance period for meeting the performance targets was determined to be three years. The target values for these key indicators were determined by the Supervisory Board. At the vesting date (at the earliest three years after the grant date), fictitious bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, fictitious bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, proportionally additional fictitious bonus shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of fictitious bonus shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no bonus shares will be allocated.

On September 1, 2015, the sixth tranche (LTI 2015) was granted. EBITDA comparable, free cash flow and a revenue-based key figure were defined as key performance indicators. The actual performance and the bonus shares allocated are summarized in the subsequent table, settlement was effected in cash.

On September 1, 2016, the seventh tranche (LTI 2016) was granted. Return on Invested Capital (ROIC) and the market revenue share of A1 Telekom Austria Group (weighted with 50% each) were defined as key performance indicators.

On June 1, 2017, the eight tranche (LTI 2017) was granted. Return on Invested Capital (ROIC) and the market revenue share of A1 Telekom Austria Group (weighted with 50% each) were defined as key performance indicators. The LTI 2017 was granted only to the members of the Management Board of Telekom Austria AG in 2017, Alejandro Plater and Siegfried Mayrhofer.

On September 1, 2018, the ninth tranche (LTI 2018) was granted. Return on Invested Capital (ROIC) and the market revenue share of A1 Telekom Austria Group (weighted with 50% each) were defined as key performance indicators. The LTI 2018 was granted only to the members of the Management Board of Telekom Austria AG, Thomas Arnoldner, Alejandro Plater and Siegfried Mayrhofer.

The following table summarizes the significant terms and conditions for the tranche settled this year and for each tranche not yet settled:

	LTI 2018	LTI 2017	LTI 2016	LTI 2015
Start of the program	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2015
Grant date	September 1, 2018	June 1, 2017	September 1, 2016	September 1, 2015
End of vesting period	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Vesting date	September 1, 2021	June 1, 2020	September 1, 2019	September 1, 2018
Personal investment at grant date	58,719	54,271	204,334	240,835
Personal investment at reporting date*	58,719	54,271	175,231	168,945
Expected performance**	128.70%	115.60%	113.00%	87.40%
Expected bonus shares***	151,143	125,473	396,022	0
Maximum bonus shares***	205,517	189,947	613,308	0
Fair value of program in TEUR	945	809	2,610	0
Allocated bonus shares	0	0	0	274,527
Average stock price at end of vesting period in euro	0	0	0	7.88
Share-based compensation in TEUR	0	0	0	2,164

* For LTI 2015, personal investment at the end of the vesting period.
** For LTI 2015, actual performance at the end of the vesting period.
*** Taking into account the allocation of fictitious bonus shares equal to the double personal investment.

As of the reporting date, a liability measured at fair value for the portion of the expected future expense of the LTI program that has already vested, has been recognized. The fair value of the liability is measured based on the expected target achievement and the expected share price, as determined by applying a binomial calculation model generally used for share price analysis, taking into account expected dividends. The liability is recognized over the vesting period (see Notes (22) and (26)). The following personnel expense is recognized in the Consolidated Statements of Comprehensive Income (negative values indicate income):

in TEUR	2018	2017
Personnel expense LTI	609	2,803

Sensitivity analysis

A change of one euro in the average stock price expected at the end of the vesting period would result in the following changes in fair values (negative values indicate a reduction):

in TEUR, at December 31	1 euro increase	1 euro decrease
Fair value of LTI 2018	151	-152
Fair value of LTI 2017	126	-125

(32) Cash Flow Statement

The following table provides a reconciliation of capital expenditures paid to total capital expenditures:

in TEUR	2018	2017
Capital expenditures paid	**771,459**	705,422
Reconciliation of additions in accounts payable	22,218	39,707
Reconciliation of government grants	-22,698	-8,264
Total capital expenditures	**770,979**	736,866

The reconciliation of additions in accounts payable includes the adjustment of capital expenditures of the current period not yet paid as well as capital expenditures of prior periods paid in the current period in accordance with IAS 7.43. The reconciliation of government grants contains grants not yet paid, which have already been deducted from capital expenditures (see Notes (13) and (15)).

Total capital expenditures include interest capitalized (see Note (7)), but do not include additions related to asset retirement obligations. At December 31, 2018 and 2017, TEUR 171,885 and TEUR 161,275, respectively, of the additions to intangible assets and property, plant and equipment of the current year are unpaid (see Notes (15) and (16)).

In the Consolidated Statements of Cash Flows in 2018 and 2017, other adjustments in the items not requiring the use of cash and other reconciliation relate to non-cash effects of the asset retirement obligation, which are recognized in other operating income (see Note (23)).

The dividends received in 2018 and 2017 and recognized in the financial result (see Note (7)) had already been settled in cash as of December 31 and are reported in cash flow from operating activities. In 2018 and 2017, dividends paid include dividends paid to the non-controlling interests of subsidiaries in the amount of TEUR 774 and TEUR 318, respectively (see Note (34)).

In 2018 and 2017, cash and cash equivalents acquired totaled TEUR 485 and TEUR 624, respectively (see Note (34)).

The following table provides a reconciliation of the development of debt (see Notes (21) and (25)):

in TEUR	2018	2017
Change in short-term debt	244,691	-499,499
Change in long-term debt	3,184	230,112
Change in debt	**247,875**	-269,388
Thereof:		
Issuance of bonds	0	248,762
Repayments of bonds	0	-500,000
Repayments of long-term debt	0	-22,000
Change in short-term debt	7,877	1,857
Issuance of short-term debt	240,000	0
Total cash flows	**247,877**	-271,381
Acquisitions	0	1,993
Foreign exchange differences	-2	0
Non-cash changes	**-2**	1,993

The following table provides a reconciliation of deferred consideration from business combinations (see Notes (7), (22), (26) and (34)):

in TEUR	2018	2017
Change in deferred consideration	**-951**	-106,116
Thereof:		
Deferred Consideration one.vip at January 1, 2017	0	-111,667
Interest expense on deferred considerations	0	-8,333
Deferred consideration paid for Metronet	-1,200	0
Deferred consideration paid for business combinations	**-1,200**	-120,000
Interest expense on deferred considerations	88	0
Acquisitions	0	5,565
Foreign exchange differences	161	-14
Non-cash changes	**248**	5,551

(33) Financial Instruments

Concentration of risks

At the reporting dates, A1 Telekom Austria Group does not have any significant concentration of business transacted with a particular supplier or creditor or customer. Furthermore, A1 Telekom Austria Group does not have any concentration of risk with respect to contractors, other services, franchises or other rights which could, if suddenly eliminated, severely impact operations. A1 Telekom Austria Group invests its cash with various institutions with appropriate credit standings.

A1 Telekom Austria Group operates in markets in the Central Eastern European (CEE) region. Operations in the CEE region involve uncertainties, including transfer, currency and tax uncertainties that may affect business activities. The accompanying Consolidated Financial Statements reflect the Management Board's assessment of the impact of the CEE business environment on the operations and the financial position of A1 Telekom Austria Group. The actual development of the future business environment may differ from Management's assessment.

Financial risk management

Overview

A1 Telekom Austria Group is exposed to various financial risks with respect to its financial assets, liabilities and anticipated transactions, including liquidity risk, interest rate and foreign currency exchange rate risk and credit risk.

The financial risk management is centrally organized. The guideline establishing policies, responsibilities and competences is valid for both the Group Treasury and the financial departments of the subsidiaries. The existing risks are regularly monitored and, if necessary, A1

Telekom Austria Group responds to changes in market conditions. A1 Telekom Austria Group neither holds nor issues derivative financial instruments for trading, hedging or speculative purposes.

Liquidity risk

Liquidity risk is the risk that A1 Telekom Austria Group will not be able to meet its financial obligations as they fall due. A1 Telekom Austria Group's approach to managing liquidity is to ensure that A1 Telekom Austria Group will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. A monthly rolling consolidated liquidity planning is drawn up for this purpose and serves as the basis for determining the liquidity requirement. Furthermore, there is a liquidity reserve in the form of committed credit lines.

Funding sources

A1 Telekom Austria Group's treasury department acts as an internal financial services provider, realizing potential synergies in financing the operations of A1 Telekom Austria Group's subsidiaries. Its primary goal is to assure liquidity in a cost-effective manner by applying the pooling of cash flows and the clearing of A1 Telekom Austria Group's accounts to enable the management of short-term investments and borrowings at optimal interest rates with minimal administrative effort.

Cash flow from operations is the basis for securing sufficient liquidity of A1 Telekom Austria Group. Principal sources of external funding are bank loans and capital markets. For details of outstanding long-term debt and a description of the different classes of the debt as of the reporting date, see Note (25).

In order to diversify its short-term funding sources, A1 Telekom Austria Group implemented a multi-currency short-term treasury notes program (multi-currency notes) with a maximum volume of TEUR 300,000 in 2007. The program was entered into for an indefinite period. At December 31, 2018 and 2017, no multi-currency notes were issued.

At December 31, 2018 and 2017, A1 Telekom Austria Group had total credit lines of TEUR 1,015,000 and TEUR 1,265,000, respectively. These credit lines were not utilized. The credit line commitment of TEUR 15,000 has a term until June 2019, the remaining credit lines commitments have a maximum term until November 2019.

Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of financial liabilities. At December 31, 2018 and 2017, no variable interest-rate liabilities existed. Foreign currencies were translated at the rates valid on the reporting date.

in TEUR	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 years
At December 31, 2018						
Bonds	2,882,813	30,000	45,188	75,188	1,948,688	783,750
Bank debt	245,000	245,000	0	0	0	0
Accounts payable - trade	745,377	714,657	19,465	9,861	551	844
Lease obligations	632	122	135	181	195	0
Other financial liabilities	51,380	33,770	0	0	7,829	9,782
At December 31, 2017						
Bonds	2,958,000	30,000	45,188	75,188	1,702,125	1,105,500
Bank debt	17	17	0	0	0	0
Accounts payable - trade	592,032	562,527	8,718	6,997	13,403	388
Lease obligations	933	532	17	144	240	0
Other financial liabilities	71,453	50,294	2,971	2,749	5,668	9,772

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

Market risks

Market risk is the risk of changes in market prices. A1 Telekom Austria Group faces the risk of market price changes in interest rates and foreign exchange rates.

Interest rate risk

Since A1 Telekom Austria Group's long-term and short-term debt has fixed interest rates, no cash flow exposure due to fluctuating interest rates exists (see Note (25)). However, the fair value of fixed rate debt increases when market rates are below the rates fixed on these loans.

Exposure to interest rate risk

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

Fair value sensitivity analysis for financial instruments

One measure used to express the potential change in the value of a portfolio of financial liabilities in response to a change in interest rates is the modified duration. Modified duration (sensitivity measure) follows the concept that interest rates and the price of fixed-rate financial instruments move in opposite directions. The sensitivity is based on the assumption of a one-percentage-point parallel shift in market interest rates for all terms occurring at the reporting date. The methods and assumptions used remained unchanged to those used in prior years. The modified duration (sensitivity) is set forth in the following table (negative amounts represent decreases in financial liabilities):

in TEUR, at December 31	Capital amounts	Change in financial portfolio Increase	Decrease
2018			
Fixed rate financial liabilities	2,795,000		
Sensitivity at a modified duration of 4.053%		-113,281	113,281
2017			
Fixed rate financial liabilities	2,550,000		
Sensitivity at a modified duration of 4.344%		-110,761	110,761

Cash flow sensitivity analysis for variable-rate financial instruments

Since A1 Telekom Austria Group's debts have fixed interest rates at December 31, 2018 and 2017, no sensitivity analysis is provided.

Information with respect to hedging reserve

The hedging reserve results from the three forward-starting interest rate swap contracts (pre-hedges) entered into in 2011 with a face value of TEUR 100,000 each. The related hedging reserve is released in profit or loss in accordance with the recognition of interest expense on the bond, which was issued on July 4, 2013, as the interest rate risk on that bond was hedged. In 2018 and 2017, the release of the hedging reserve through other comprehensive income resulted in interest expense amounting to TEUR 5,840 and a tax benefit amounting to TEUR 1,460.

Exchange rate risk

At December 31, 2018 and 2017, of all accounts receivable: subscribers, distributors and other, net as well as accounts payable trade, only the following are denominated in a currency other than the functional currency of the reporting entities (for foreign exchange rates, see Note (3)):

in TEUR, at December 31		2018			2017	
denominated in	EUR	USD	Other	EUR	USD	Other
Accounts receivable: Subscribers, distributors and other	14,051	12,573	9,543	2,095	9,587	37,647
Accounts payable - trade	90,474	23,736	2,970	70,486	15,832	4,878

At December 31, 2018 and 2017, a change of 10% in the exchange rate for the monetary items listed above (see Note (3)) would increase/decrease foreign exchange rate differences as follows:

in TEUR	2018	2017
Croatian Kuna (HRK)	2,394	2,282
Serbian Dinar (CSD)	2,938	1,792
Belarusian Rouble (BYN)	736	400

No sensitivity analysis was performed for other accounts receivable or for accounts payable denominated in foreign currencies, as there is no significant risk.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from accounts receivable trade and investment activities. Due to internal guidelines and counterparty limits there is neither significant credit risk nor concentration.

Financial investments and cash and cash equivalents

A1 Telekom Austria Group's investments are generally of a short-term nature and entered into only with those counterparties holding investment grade ratings. If no such external rating is available, an internal rating based on quantitative ratios is carried out. Therefore, no exposure to any significant credit risk was identified for financial investments and cash and cash equivalents.

The carrying amount of financial assets and cash and cash equivalents represents the maximum credit risk exposure (see Notes (9) and (19)):

in TEUR, at December 31	2018	2017
Investments	11,475	12,891
Cash and cash equivalents	63,631	202,390
Carrying amount	75,106	215,281

Accounts receivable: Subscribers, distributors, contract assets and other assets

A1 Telekom Austria Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or group of customers. The demographics of A1 Telekom Austria Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk.

Within the framework of the applicable legal regulations, each new customer is analyzed individually for creditworthiness. Credit risk or the risk of default in payment by contractual partners is monitored via credit checks, credit limits and verification routines. Due to the large number of customers and the high level of diversification of the portfolios, the default of any single debtor would not entail grave consequences (low concentration risk) in respect of the Consolidated Financial Statements. Within A1 Telekom Austria Group, operative credit risk management functions are performed at the operating company level.

The following table sets forth the maximum exposure to credit risk for contract assets, other financial assets and accounts receivable: subscribers, distributors and other, net, which equals the carrying amount (see Notes (10), (13), (14) and (20)):

in TEUR, at December 31	2018	2017
Accounts receivable: Subscribers, distributors and other	830,375	679,292
Financial assets	15,962	161,022
Contract assets	141,114	0
Carrying amount	987,451	840,314

Accounts receivable from related parties are not included as they are immaterial.

As a result of the low concentration of credit risk described above, A1 Telekom Austria Group has no insurance for its accounts receivable. However, based on the credit assessment of retail and wholesale customers, A1 Telekom Austria Group requires bank guarantees, comfort letters and cash deposits (see Notes (22) and (26)).

in TEUR, at December 31	2018	2017
Cash deposits	11,391	10,666
Guarantees	17,012	9,165

A1 Telekom Austria Group uses a provision matrix to calculate expected lifetime credit losses for accounts receivable: subscribers, distributors and other as well as contract assets. The following table sets forth total gross book values at default in payment ("Gross") and the expected average credit loss ("ECL") in 2018, calculated with the provision matrix, as well as gross and valuation allowance ("VA") in 2017 for accounts receivable: subscribers, distributors and other as well as other financial assets:

in TEUR, at December 31	Gross 2018	ECL 2018	Gross 2017	VA 2017
unbilled & not yet due	744,324	16,446	733,633	21,137
Past due 0-30 days	54,434	5,112	52,166	5,249
Past due 31-60 days	26,980	5,803	26,504	6,537
Past due 61-90 days	10,465	4,992	16,798	5,700
More than 90 days	252,060	209,573	247,321	197,485
Total	**1,088,264**	**241,927**	1,076,422	236,108

The cumulated effect of the initial application of IFRS 15 and IFRS 9 was recognized in the opening balance at January 1, 2018 in accordance with the modified retrospective approach (see Note (3) – Impact at January 1, 2018).
In 2018, financial assets amount to TEUR 16,686 gross and TEUR 724 ECL (see Notes (13) and (20)).

A1 Telekom Austria Group has grouped accounts receivable according to loss patterns observed in the past (accounts receivable: subscribers, installments, distributors, interconnection and roaming) and the provision rates are based on days past due. The provision matrix is based on A1 Telekom Austria's historically observed default rates, which are updated on a yearly basis. Due to the large number of customers and the high degree of diversification of the portfolios, forward-looking information, such as forecasts of changes in unemployment rates or gross domestic product, has no substantial impact on default rates.

The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit losses is a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions. A1 Telekom Austria Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Impairment losses of contract assets and accounts receivable: subscribers, distributors and other are measured at the expected full lifetime credit loss (see Note (6)).

The following table shows the development of the allowance for other financial assets and accounts receivable: subscribers, distributors and other, net:

in TEUR	2018	2017
At January 1	**234,110**	225,654
Foreign currency adjustment	563	-763
Change in reporting entities	27	1,035
Reversed	-5,389	-6,353
Charged to expenses	50,518	60,419
Amounts written-off	-37,901	-43,883
At December 31	**241,927**	236,108

The cumulated effect of the initial application of IFRS 15 and IFRS 9 amounting to TEUR 1,998 was recognized in the opening balance at January 1, 2018 in accordance with the modified retrospective approach (see Note (3) – Impact at January 1, 2018).
In 2018, the charge to expenses includes the valuation allowance of TEUR 154 for a financial asset (see Note (13)).

The following table shows the development of the valuation allowance of contract assets:

in TEUR	2018
At January 1	**3,344**
Foreign currency adjustment	12
Reversed	-5,524
Charged to expenses	5,964
At December 31	**3,796**

The cumulated effect of the initial application of IFRS 15 and IFRS 9 was recognized in the opening balance at January 1, 2018 in accordance with the modified retrospective approach (see Note (3) – Impact at January 1, 2018).

Upon recognition of contract assets, the related impairment loss is recognized at the credit default rate of the receivables "not yet billed as well as billed and not yet due". Upon reclassification to receivables, the impairment of contract assets is derecognized.

The maximum credit risk of accounts receivable: subscribers, distributors and other, net broken down by geographic region as well as the breakdown of the allowance are:

in TEUR, at December 31	2018	2017
Domestic	961,342	818,399
Foreign	110,236	80,000
Allowances	−241,204	−219,106
Accounts receivable: Subscribers, distributors and other	830,375	679,292
Thereof		
Specific allowance	7,360	6,799
General allowance	233,843	212,307

The increase in accounts receivable is due to the change in recognition of installment sales receivables (see Note (3) – Impact at January 1, 2018).

If there is objective evidence that A1 Telekom Austria Group will not be able to collect all amounts due according to the original terms, a default in payment is expected and an impairment is recorded (specific allowance). Serious financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered to be indicators that the receivable is impaired. Furthermore, a default in payment of a financial asset is expected if contractual payments are more than 90 days overdue. A financial asset is impaired if the collection of contractual cash flows cannot be reasonably expected. In 2018 and 2017, income from impaired receivables that are still in the process of debt collection amounted to TEUR 6,958 and TEUR 10,701, respectively, and was recognized in other operating income (see Note (5)).

Accounts receivable: subscribers, distributors and other from A1 Telekom Austria Group's customer with the highest turnover amount to TEUR 17,225 and TEUR 1,749 at December 31, 2018 and 2017, respectively. Thus, no major concentration of credit risk exists.

Classification of financial instruments

Financial assets and financial instruments are classified at initial recognition.

Financial assets and financial liabilities are recognized when A1 Telekom Austria Group becomes a party to a financial instrument. A1 Telekom Austria Group uses the settlement date for recording regular purchases and sales of financial assets. Derivative financial instruments are recognized at the trade date and derecognized when settled. Financial assets and financial liabilities are initially recognized at the fair value of the consideration given or received. Transaction costs are included in the initial measurement, except for financial instruments, which are recognized at their fair value through profit or loss.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The business models of A1 Telekom Austria Group are "hold to collect" and "hold to collect and sell", respectively, and no derivative financial instruments are held. The contractual cash flows of non-derivative financial instruments consist mainly of principal and interest.

Financial assets include in particular cash and cash equivalents, accounts receivable: subscribers, distributors and other, net as well as contract assets, other receivables and receivables due from related parties, which are measured at the lower of cost or net realizable value. Furthermore, financial instruments are included that are measured at fair value (see Note (19)).

Financial liabilities include, in particular, accounts payable trade, issued bonds, other financial liabilities and payables due to related parties and are recognized initially in the amount corresponding to the financial inflow. Differences between the amount received and the amount to be repaid are recognized over the term of the liability in the financial result (amortized cost) using the effective interest rate method. For financial liabilities carried at amortized cost, gains or losses are recognized in profit or loss when the financial liability is derecognized.

Financial assets and financial liabilities are offset and the net amount is presented in the Statements of Financial Position only when A1 Telekom Austria Group has a contractual right to offset the recognized amounts and intends to settle on a net basis.

Fair value of financial instruments

According to IFRS 13, the fair value is the price that would be received to sell an asset or paid to transfer a liability. A three-level hierarchy is to be applied. Level 1 contains financial assets and liabilities based on quoted prices in active markets for identical assets or liabilities. Level 2 contains financial assets and liabilities based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 contains financial assets and liabilities based on inputs that are unobservable. When determining the fair value, the risk of non-fulfilment is taken into account as well.

The following table shows the carrying amounts and the fair values of the financial instruments per class of financial assets:

in TEUR, at December 31	Carrying amount 2018	Fair value	Carrying amount 2017	Fair value
Financial assets				
Cash and cash equivalents	63,631	63,631	202,390	202,390
Accounts receivable: Subscribers, distributors and other	830,375	830,375	679,292	679,292
Receivables due from related parties	1,382	1,382	944	944
Other current financial assets	6,771	6,771	111,631	111,631
Other non-current financial assets	9,191	9,191	49,390	49,390
Investments at amortized cost	3,330	3,330	0	0
Financial assets at amortized cost	914,680	914,680	1,043,648	1,043,648
Equity instruments at fair value through profit or loss - mandatory	3,705	3,705	0	0
Debt instruments at fair value through other comprehensive income - mandatory	2,826	2,826	0	0
Debt instruments at fair value through profit or loss - mandatory	1,614	1,614	0	0
Financial assets at fair value	**8,145**	**8,145**	0	0
Available-for-sale investments	0	0	11,345	11,345

At December 31, 2017, other current and non-current financial assets comprised installment sales receivables that are reported in accounts receivable: subscribers, distributors and other, net as of 2018 (see Note (3) – Impact of IFRS 15).
At December 31, 2017, financial assets at amortized cost were classified into cash and cash equivalents and loans and receivables. For details on the classification of financial assets and investments in the course of the implementation of IFRS 9 see Note (3) – Impact of IFRS 9.

Cash and cash equivalents, accounts receivable: subscribers, distributors and other as well as receivables due from related parties are generally not discounted. As their carrying amounts reported approximate their fair values, no further information on the classification in the fair value hierarchy is provided.

At December 31, 2017, other financial assets essentially comprised installment sales receivables (see Notes (13) and (20)), the fair values corresponded to the present values of the payments related to the assets. At December 31, 2018, TEUR 199,952 of the carrying amount of accounts receivable: subscribers, distributors and other relate to installment sales in all segments and have a fair value of TEUR 194,036. The calculation of the fair values takes into account the current interest rates that reflect market and partner-based changes to terms, conditions and expectations and are thus classified as Level 2 of the fair value hierarchy.

Fair value hierarchy of financial investments

The following table shows the fair value hierarchy of financial investments measured at fair value that reflects the market proximity of the inputs in such fair value measurements:

in TEUR	Level 1	Level 2	Level 3	Total
At December 31, 2018				
Financial assets measured at fair value	7,136	1,009	0	8,145
At December 31, 2017				
Available-for-sale investments	10,765	580	0	11,345

The following table shows the carrying amounts and the fair values of the financial instruments per class of financial liabilities (debts):

	Carrying amount 2018	Fair value	Carrying amount 2017	Fair value
Financial liabilities				
Liabilities to financial institutions	245,000	245,051	17	17
Bonds	2,536,417	2,743,779	2,533,262	2,818,434
Other current financial liabilities	33,780	33,780	51,309	51,309
Lease obligations	632	632	894	894
Other non-current liabilities	17,600	17,600	19,942	19,942
Accounts payable - trade	745,377	745,377	592,032	592,032
Payables due to related parties	528	528	554	554
Accrued interest	29,990	29,990	29,990	29,990
Financial liabilities at amortized cost	3,609,324	3,816,737	3,228,000	3,513,172

Accounts payable trade and other liabilities have predominantly maturities below one year. Thus their carrying amounts approximate their fair values and no further information on the classification in the fair value hierarchy is provided.

The fair values of the quoted bonds (EMTN bonds and Eurobonds) equal the face value multiplied by the price quotations at the reporting date and are thus classified as Level 1 of the fair value hierarchy.

The fair values of bank and leasing liabilities and of other financial liabilities are measured at the present values of the cash flows associated with the debt, based on the applicable yield curve and credit spread curve for specific currencies, and are thus classified as Level 2 of the fair value hierarchy.

(34) Companies and Business Combinations

Name and company domicile	Capital share at December 31, 2018 in %	Method of consolidation*	Capital share at December 31, 2017 in %	Method of consolidation*
Segment Austria				
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00	FC	100.00	FC
Telekom Austria Personalmanagement GmbH, Vienna	100.00	FC	100.00	FC
Telekom Austria Beteiligungen GmbH, Vienna	100.00	FC	100.00	FC
CableRunner GmbH, Vienna	76.00	FC	76.00	FC
CableRunner Austria GmbH & Co. KG, Vienna	76.00	FC	76.00	FC
World-Direct eBusiness solutions Gesellschaft m.b.H., Vienna	100.00	FC	100.00	FC
paybox Bank AG, Vienna	100.00	FC	100.00	FC
paybox Service GmbH, Vienna	100.00	FC	100.00	FC
wedify GmbH, Vienna (2017: 3G Mobile Telecommunications GmbH)	100.00	FC	100.00	FC
mk Logistik GmbH, Vienna	100.00	FC	100.00	FC
JetStream Hungary Kft., Budapest	100.00	FC	100.00	FC
JetStream Slovakia s.r.o., Bratislava	100.00	FC	100.00	FC
JetStream RO s.r.l., Bucharest	100.00	FC	100.00	FC
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00	FC	100.00	FC
JetStream Switzerland GmbH, Zurich	100.00	FC	100.00	FC
JetStream Poland Spolka Z Ograniczona Odpowiedzialnoscia, Warsaw	100.00	FC	100.00	FC
JetStream Germany GmbH, Frankfurt on the Main	100.00	FC	100.00	FC
JetStream Italy S.r.l., Milan	100.00	FC	100.00	FC
TA CZ sítě s.r.o., Prague	100.00	FC	100.00	FC
JetStream BH d.o.o. drustvo za telekomunikacije, Sarajevo	100.00	FC	100.00	FC
JetStream England Limited, London	100.00	FC	100.00	FC
Segment Bulgaria				
A1 Bulgaria EAD, Sofia (2017: Mobiltel EAD)	100.00	FC	100.00	FC
Cabletel-Prima AD, Nessebar	51.00	FC	51.00	FC
Citynet TV OOD, Aytos	ME	-	51.00	FC
Cable Information System AD, Russe	LIQ	-	87.55	NC

Name and company domicile	Capital share at December 31, 2018 in %	Method of consolidation*	Capital share at December 31, 2017 in %	Method of consolidation*
Segment Croatia				
A1 Hrvatska d.o.o., Zagreb (2017: Vipnet d.o.o.)	100.00	FC	100.00	FC
Vipnet usluge d.o.o., Zagreb	ME	-	100.00	FC
Metronet Telekomunikacije d.d., Zagreb	ME	-	100.00	FC
Segment Belarus				
Unitary enterprise velcom, Minsk	100.00	FC	100.00	FC
Unitary enterprise TA-Engineering, Minsk	100.00	FC	100.00	FC
Adelfina Ltd. i.Liqu., Minsk	100.00	FC	100.00	FC
Unitary enterprise Solar Invest, Bragin town	100.00	FC	100.00	FC
Vitebskiy oblastnoy technotorgovyi tsentr Garant i.Liqu, Vitebsk	100.00	FC	-	-
A1 Content, Minsk	100.00	NC	-	-
Gomel Regional Technological Trade Center "Garant" Open Joint-Stock Company, Gomel	LIQ	-	98.70	FC
Segment Macedonia				
one.Vip DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
Telemedia DOOEL, Skopje (2017: Vip operator uslugi DOOEL)	100.00	FC	100.00	FC
Astra Plus DOOEL, Kocani	ME	-	100.00	FC
Digi plus Multimedia DOOEL, Skopje	ME	-	100.00	FC
Segment Serbia				
Vip mobile d.o.o., Belgrade	100.00	FC	100.00	FC
Amis Telekomunikacije d.o.o., Belgrade	LIQ	-	100.00	FC
Segment Slovenia				
A1 Slovenija d.d., Ljubljana	100.00	FC	100.00	FC
Telekomunikacijski sistem Radvanje Pekre Limuš d.d., Maribor	50.02	FC	11.52	NC
Corporate & Other				
Telekom Projektentwicklungs GmbH, Vienna	ME	-	100.00	FC
Telekom Finanzmanagement GmbH, Vienna	100.00	FC	100.00	FC
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00	FC	100.00	FC
mobilkom Bulgarien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
SB Telecom Ltd., Limassol	100.00	FC	100.00	FC
A1 Digital International GmbH, Vienna	100.00	FC	100.00	FC
A1 Digital Deutschland GmbH, Munich	100.00	FC	100.00	FC
Akenes S.A., Lausanne	88.83	FC	88.83	FC
Akenes GmbH, Berlin	100.00	NC	100.00	NC
Telecom Liechtenstein AG, Vaduz	24.90	EQ	24.90	EQ

* FC – full consolidation, EQ – equity method, LIQ – liquidation, ME – merged, NC – not consolidated because not material, SO – sold
All affiliated companies have December 31 as their reporting date.

According to IFRS 3, business combinations are accounted for using the acquisition method at the acquisition date, which is the date when the acquirer obtains control over the acquiree. Goodwill is measured as the difference between the aggregate of the fair value of the consideration transferred as of the acquisition date, the amount of any non-controlling interest, and, in a business combination achieved in stages, the fair value of the acquirer's previously-held equity interest in the acquiree less the fair value of the identifiable assets acquired and the liabilities assumed. Non-controlling interests are not measured at fair value but at their share of the fair value of identified net assets of the acquiree. In accordance with IFRS 3.45, goodwill may be adjusted for subsequent changes in the estimated purchase price. If the fair value of the assets acquired exceeds the consideration transferred, the gain resulting from bargain purchase is immediately recognized in other operating income in profit or loss. Transaction costs are expensed as incurred. In case of an acquisition achieved in stages, the previously held interest is restated at fair value and any resulting difference is recognized in profit or loss. All transactions with non-controlling interest holders are directly recognized in stockholder's equity. In the course of purchase price allocations, fair values of assets and liabilities acquired are determined based on state-of-the-art discounted cash flow methods. The input factors used are categorized as Level 3 of the fair value hierarchy defined by IFRS 13.

On April 24, 2018, A1 Telekom Austria Group acquired 97.07% of Vitebskiy oblastnoy technotorgovyi tsentr Garant ("Vitebsk Garant") via its Belarusian subsidiary velcom. In the second quarter, the remaining shares were acquired, the fair value of shares outstanding was already included in the total purchase consideration and no non-controlling interest was recognized at initial consolidation. Vitebsk Garant is a broadband-, cable- and IP-TV-operator in Belarus providing services mainly for residential customers in both, Vitebsk and other small cities in the region. The fair values of the assets acquired and liabilities assumed at the acquisition date are reported in the segment Belarus:

Acquisition of Vitebsk Garant in TEUR	Fair values on acquisition date
Property, plant and equipment	3,636
Intangible assets	973
Other assets and receivables	388
Cash and cash equivalents	145
Deferred tax liabilities	–390
Accounts payable	–851
Net assets acquired	**3,900**
Goodwill	173
Total purchase consideration	**4,073**
Cash and cash equivalents acquired	–145
Net cash outflow	3,928

The factors contributing to goodwill are expectations of positive returns due to regional synergies, upselling of cable TV customers and further cost synergies.

In the second quarter 2018, A1 Telekom Austria Group acquired the non-controlling interest of 49.0% in "City TV OOD" in Bulgaria with a carrying value of TEUR 75 for a consideration of TEUR 100 as well as the non-controlling interest of 1.3% in "Gomel Garant" in Belarus with a carrying value of TEUR 6 for a consideration of TEUR 5. The excess of the purchase price over the carrying value of the non-controlling interest, amounting to TEUR 24, is recorded in retained earnings.

On November 2, 2018, A1 Telekom Austria Group acquired the remaining non-controlling interest of 31.69% of Telekomunikacijski sistem Radvanje Pekre Limuš d.d („TS RPL Slovenia") via its Slovenian subsidiary A1 Slovenija. The fair value of the previously held share of 18.34% was remeasured and the resulting loss of TEUR 44 was recognized in the financial result. TS RPL Slovenia is a provider of Internet and cable TV in Slovenia. The fair values of the assets acquired and liabilities assumed at the acquisition date are reported in the segment Slovenia:

Acquisition of TS RPL Slovenia in TEUR	Fair values on acquisition date
Property, plant and equipment	445
Other assets and receivables	46
Cash and cash equivalents	340
Accounts payable	–120
Net assets acquired	**711**
Non-controlling interests	–355
Gain resulting from bargain purchase	–138
Consideration transferred	**218**
Shares already held	–79
Cash and cash equivalents acquired	–340
Net cash outflow	**–201**

Since the effect of the acquired entities on the Consolidated Financial Statements of A1 Telekom Austria Group is not considered significant, no pro-forma information is presented.

(35) Commitments and Contingent Assets and Liabilities

In the normal course of business, A1 Telekom Austria Group is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to network access. Such matters are subject to many uncertainties, and the outcomes are not predictable with certainty. Consequently, Management is unable to ascertain the ultimate aggregate amount of the monetary liability or the impact on the financial position of A1 Telekom Austria Group with respect to these matters at December 31, 2018. These matters could affect the operating results or cash flows of any quarter when resolved in future periods. However, Management believes that, after final settlement, any monetary liability or financial impact on A1 Telekom Austria Group, beyond such provided for at year-end, would not be material to its Consolidated Financial Statements.

(36) Remuneration Paid to the Management Board and Supervisory Board

At December 31, 2018, the Management Board of Telekom Austria AG consists of three members: Thomas Arnoldner as Chief Executive Officer (CEO), Alejandro Plater as Chief Operating Officer (COO) and Siegfried Mayrhofer as Chief Financial Officer (CFO). On April 19, 2018, Thomas Arnoldner was nominated as new CEO of Telekom Austria AG by the two main shareholders, América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB). The appointment of Thomas Arnoldner was resolved by the Supervisory Board. He took office on September 1, 2018.

At December 31, 2017, the Management Board of Telekom Austria AG was composed of Alejandro Plater as CEO and at the same time as COO, as well as Siegfried Mayrhofer as CFO. Since March 6, 2015, Alejandro Plater has been a member of the Management Board and, since August 1, 2015, CEO. Since June 1, 2014, Siegfried Mayrhofer has been a member of the Management Board.

The following table summarizes the remuneration of members of the Management Board and Supervisory Board:

in TEUR	2018	2017
Basic remuneration (fixed salary incl. remuneration in kind)	1,224	1,026
Variable remuneration	1,370	1,087
Share-based compensation (Long Term Incentive Program)*	534	110
Total	3,129	2,224
Compensation Supervisory Board	357	358

* See Note (31)

Hannes Ametsreiter resigned from his function as CEO as per July 31, 2015 and his employment relationship was amicably terminated at the same date. Günther Ottendorfer's CTO contract with a term until August 31, 2016 was prematurely terminated as per March 5, 2015. Hans Tschuden's CFO contract with a term until March 31, 2015 was prematurely terminated as per March 31, 2014. The share-based compensation for LTI 2015 amounting to TEUR 290 and paid in 2018 as well as the share-based compensation for LTI 2014 of TEUR 222 and paid in 2017 to former Management Board members is not included in the table of management remuneration.

(37) Employees

The average number of employees during the years 2018 and 2017 was 18,847 and 18,659, respectively. At December 31, 2018 and 2017, A1 Telekom Austria Group employed 18,705 and 18,957 employees (full-time equivalents), respectively.

(38) Subsequent Events

On January 15, 2019, A1 Telekom Austria Group entered into a committed credit line with a total volume of TEUR 150,000 and a term until January 15, 2020. A further committed credit line with a total volume of TEUR 50,000 and a term until year-end 2019 was entered into on January 28, 2019.

(39) Release for Publication

On February 11, 2019, the Management Board approved the Consolidated Financial Statements for submission to the Supervisory Board. The Supervisory Board will review the Consolidated Financial Statements and report its decision on approval.

Vienna, February 11, 2019

CEO Thomas Arnoldner

COO Alejandro Plater

CFO Siegfried Mayrhofer

Auditor's Report [1)]

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of **Telekom Austria Aktiengesellschaft, Vienna,** and of its subsidiaries (the Group) comprising the consolidated statement of financial position as of December 31, 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2018 and its financial performance for the year then ended in accordance with the International Financial Reportings Standards (IFRS) as adopted by EU, and the additional requirements under Section 245a Austrian Company Code UGB.

Basis for Opinion

We conducted our audit in accordance with the regulation (EU) no. 537/2014 (in the following "EU regulation") and in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing (ISA). Our responsibilities under those regulations and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We considered the following matters as key audit matters for our audit:

- 1. Valuation of property, plant and equipment and intangible assets, including goodwill
- 2. Revenues and related IT systems including the first-time adoption of "International Financial Reporting Standard 15 – Revenue from Contracts with Customers"

1. Valuation of property, plant and equipment and intangible assets, including goodwill

Description

A1 Telekom Austria Group shows significant amounts of goodwill (mEUR 1,278), intangible assets (mEUR 1,783) and property, plant and equipment (mEUR 2,716) in its consolidated financial statements as of December 31, 2018.

1) This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

Under IFRS, an entity is required to annually test the amount of goodwill and intangible assets with an indefinite life for impairment. For intangible assets with a definite life as well as property, plant and equipment, it is required to assess on each balance sheet date whether impairment indicators exist and if they exist, an impairment test is required for these assets.

A1 Telekom Austria Group's disclosures about goodwill, intangibles assets and property, plant and equipment and related impairment testing are included in Note 4 (Estimations), Note 15 (Property, plant and equipment), Note 16 (Intangibles) and Note 17 (Goodwill) in the consolidated financial statements.

We considered the impairment testing of property, plant and equipment and intangible assets, including goodwill, as a key audit matter as the related asset amounts are significant and the assessment process itself is complex and requires judgment. The impairment tests include assumptions that are affected by future market or economic conditions.

How our audit addressed the matter

Our audit procedures included, among others, the following:

We tested the design and operating effectiveness of the controls over the impairment testing process and evaluated management's identification of cash generating units (CGU's).

With the assistance of EY valuations specialists, we challenged the main assumptions in management's valuation models including forecasted revenues, EBITDA margins, capital expenditure and changes in working capital as well as discount rates and growth rates. Furthermore, we reconciled the key assumptions to the plans submitted to the audit committee and tested the mathematical accuracy of the models.

We also assessed the adequacy of disclosures made regarding impairment testing and related assumptions.

2. Revenues and related IT systems including the first-time adoption of "International Financial Reporting Standard 15 – Revenue from Contracts with Customers"

Description

A1 Telekom Austria Group's revenues in 2018 resulted from various revenue streams and IT systems processing millions of records per day. A1 Telekom Austria Group implemented the new standard on revenue recognition "International Financial Reporting Standard 15 – Revenue from Contracts with Customers" (IFRS 15) as of January 1, 2018 and used the option on initial application to recognize the cumulative effect of the transition directly in equity in accordance with the transitional provisions. The transition to IFRS 15 lead to an increase in equity of mEUR 42.4 as of January 1, 2018. For multiple-element arrangements for mobile communication services, the application of IFRS 15 leads to a shift from services revenues to equipment revenues due to changed allocation of the transaction price to the individual performance obligations from 2018 onwards.

A1 Telekom Austria Group's disclosures about revenues and the first time application of IFRS 15 are included in Note3 (Basis of Presentation) and 5 (Revenues) in the consolidated financial statements.

Revenues and related IT systems were important for our audit as there is an industry inherent risk around the accuracy of revenues recorded given the complexity of systems and the large volume of data processed as well as the impact of changing pricing models to revenue recognition (tariff structures, incentive arrangements, discounts etc.).

How our audit addressed the matter

Our audit procedures included, among others, the following:

We verified the accounting policies relating to revenue recognition (including multiple element contracts as well as customer loyalty programs) and the impact of new business models. With regard to the initial application of IFRS 15 as of January 1, 2018, we assessed the A1 Telekom Austria Group's process for assessing the impact and implementing the new standard. As part of these audit procedures, we challenged the key accounting estimates and judgements made under IFRS 15.

Furthermore, we tested the design and operating effectiveness of the controls over the revenue processes including the revenue related IT systems (rating, billing and other support systems) and IT general controls with involvement of EY IT specialists. We also assessed the design of processes and controls implemented by management to ensure the appropriate application of the new standard and the related implications on IT systems.

We performed substantive audit procedures on revenues to corroborate the results of the design and implementation assessment of controls over revenue related processes and IT systems.

Responsibilities of Management and of the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a Austrian Company Code UGB for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Comments on the Management Report for the Group

Pursuant to Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion

In our opinion, the management report for the Group was prepared in accordance with the valid legal requirements, comprising the details in accordance with Section 243a Austrian Company Code UGB, and is consistent with the consolidated financial statements.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor’s report thereon. The annual report is estimated to be provided to us after the date of the auditor’s report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether – based on our knowledge obtained in the audit – the other information is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

Additional information in accordance with article 10 EU regulation

We were elected as auditor by the ordinary general meeting at May 30, 2018. We were appointed by the Supervisory Board on October 15, 2018. We are auditors without cease since 2015.

We confirm that the audit opinion in the Section “Report on the consolidated financial statements” is consistent with the additional report to the audit committee referred to in article 11 of the EU regulation.

We declare that no prohibited non-audit services (article 5 par. 1 of the EU regulation) were provided by us and that we remained independent of the audited company in conducting the audit.

Responsible Austrian Certified Public Accountant

The engagement partner is Mr. Erich Lehner, Certified Public Accountant.

Vienna, February 11, 2019

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Erich Lehner mp Wirtschaftsprüfer / Certified Public Accountant	Mag. (FH) Severin Eisl mp Wirtschaftsprüfer / Certified Public Accountant

Declaration of the Management Board

We confirm to the best of our knowledge that the consolidated financial statements prepared according to the applicable accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and that the Group management report describes the development and performance of the business and the position of the Group in a way that it gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Group management report describes the principal risks and uncertainties the Group faces.

The Management Board

Thomas Arnoldner, CEO
A1 Telekom Austria Group

Alejandro Plater, COO
A1 Telekom Austria Group

Siegfried Mayrhofer, CFO
A1 Telekom Austria Group

Telekom Austria AG Financial Statements 2018

Separate Financial Statements according to Austrian Commercial Code – UGB

Annex

Annex I/1
Statement of Financial Position as of 31 December 2018

Assets

A. Long-term assets	31.12.18 EUR	31.12.17 TEUR
Financial assets		
1. Investments in affiliated companies	7,840,615,987.29	7,834,702
2. Other investments	543,341.86	543
	7,841,159,329.15	7,835,245
B. Current assets		
I. Stocks		
1. work in progress	1,300,000.00	0
II. Receivables		
1. Accounts receivable - trade	8,795.37	317
thereof with a remaining maturity of > 1 year: EUR 0.00 previous year: TEUR 0		
2. Receivables - affiliated companies	157,444,652.96	146,842
thereof with a remaining maturity of > 1 year: EUR 0.00 previous year: TEUR 0		
3. Receivables - associated companies	15,206.23	16
thereof with a remaining maturity of > 1 year: EUR 0.00 previous year: TEUR 0		
4. Other accounts receivable	554,805.59	544
thereof with a remaining maturity of > 1 year: EUR 0.00 previous year: TEUR 0		
	158,023,460.15	**147,719**
III. Cash and cash equivalents	**0.00**	**0** [1]
	159,323,460.15	147,719
C. Prepaid expenses	**6,516,934.78**	**7,808**
D. Deferred tax assets	**42,341,024.34**	**64,787**
	8,049,340,748.42	**8,055,559**

1) small amount

Annex I/2

Liabilities and stockholders' equity

	31.12.18 EUR	31.12.17 TEUR
A. Stockholders' equity		
I. Common stock issued		
Common stock	1,449,274,500.00	1,449,275
less Treasury shares	-905,461.78	-905
	1,448,369,038.22	**1,448,369**
II. Additional paid-in capital		
1. Appropriated	1,582,004,573.67	1,582,005
2. Appropriated for treasury shares	905,461.78	905
	1,582,910,035.45	**1,582,910**
III. Retained earnings		
1. Other reserves (unrestricted reserves)	2,402,075,118.76	2,051,552
IV. Net income	243,706,000.00	345,500
thereof carried forward: EUR 212,683,031.80		
previous year: TEUR 280,383		
	5,677,060,192.43	**5,428,331**
B. Provisions		
1. Provisions for severance obligations	5,744,151.45	5,567
2. Tax provisions	10,810,251.00	17,076
3. Other provisions	8,213,717.43	7,508
	24,768,119.88	**30,151**
C. Liabilities		
1. Subordinated capital/hybrid bond	0.00	600,000
thereof with a remaining maturity of < 1 year: EUR 0 previous year: TEUR 600,000		
thereof with a remaining maturity of > 1 year: EUR 0.00 previous year: TEUR 0		
2. Liabilities to banks	240,000,342.02	30,791
thereof with a remaining maturity of < 1 year: EUR 240,000,342.02 previous year: TEUR 30,791		
thereof with a remaining maturity of > 1 year: EUR 0.00; previous year: TEUR 0		
3. Accounts payable – trade	4,431,659.27	3,333
thereof with a remaining maturity of < 1 year: EUR 4,431,659.27 previous year: TEUR 3,333		
thereof with a remaining maturity of > 1 year: EUR 0.00; previous year: TEUR 0		
4. Liabilities due to affiliated companies	2,101,224,226.56	1,962,036
thereof with a remaining maturity of < 1 year: EUR 301,224,226.56 previous year: TEUR 162,036		
thereof with a remaining maturity of > 1 year: EUR 1,800,000,000.00 previous year: TEUR 1,800,000		
5. Other liabilities	1,856,208.26	917
thereof with a remaining maturity of < 1 year: EUR 1,856,208.26 previous year: TEUR 917		
thereof with a remaining maturity of > 1 year: EUR 0.00; previous year: TEUR 0 thereof from taxes: EUR 0.00; previous year: TEUR 0		
thereof with a remaining maturity of < 1 year: EUR 0.00; previous year TEUR 0		
thereof with a remaining maturity of > 1 year: EUR 0.00; previous year TEUR 0		
thereof to social security: EUR 666,489.02; previous year: TEUR 598		
thereof with a remaining maturity of < 1 year: EUR 666,489.02 previous year: TEUR 598		
thereof with a remaining maturity of > 1 year: EUR 0.00; previous year: TEUR 0		
Total liabilites	**2,347,512,436.11**	**2,597,077**
thereof with a remaining maturity of < 1 year: EUR 547,512,436.11 previous year: TEUR 797,077		
thereof with a remaining maturity of > 1 year: EUR 1,800,000,000.00 previous year: TEUR 1,800,000		
	8,049,340,748.42	**8,055,559**

Annex II

Statement of Profit or Loss for 2018

	2018		2017	
	EUR	EUR	TEUR	TEUR
1. Revenues		35,020,593.47		32,688
2. Other operating income				
a) Income from the reversal of accruals	75,000.00		1,495	
b) Other	58,906.71	133,906.71	211	1,706
3. Personnel expenses				
a) Salaries	-32,759,717.11		-27,872	
b) Social security contributions,	-8,708,220.91		-7,334	
thereof pension expense EUR 878,798.79; previous year: TEUR 826				
aa) Expenses for severance payments and payments to staff contribution plans EUR 537,423.21; previous year: TEUR 554				
bb) Expenses for statutory social security and payrol related l taxes and contributions EUR 7,184,904.71; previous year: TEUR 5,866		-41,467,938.02		-35,206
4. Other operating expenses		-28,440,241.95		-32,182
thereof other business taxes EUR 79,904.18; previous year: TEUR 140				
5. Subtotal from line 1 to 4 (operating result)		**-34,753,679.79**		**-32,994**
6. Income from investments		423,381,347.57		318,298
thereof from affiliated companies: EUR 423,049,967.57; previous year: TEUR 317,833				
7. Other interest income		223,333.33		2,408
thereof from affiliated companies: EUR 223,333.33; previous year TEUR 0				
8. Income or expenses from the impairment or the reversal of simpairment losses on long-term financial assets		23,000,000.00		873,781
9. Expenses for long-term financial assets		-36,000,000.00		0
thereof: a) impairment losses: EUR 36,000,000.00; previous year: TEUR 0				
b) expenses from affiliated companies: EUR 0.00; prev.year: TEUR 0				
10. Interest and similar expenses		-64,430,208.20		-94,926
thereof related to affiliated companies: EUR 61,360,052.08; previous year: TEUR 59,827				
11. Subtotal from line 6 to 10 (financial result)		**346,174,472.70**		**1,099,561**
12. Result before income taxes (Subtotal from line 5 and line 11)		**311,420,792.91**		**1,066,567**
13. Income taxes		70,125,146.59		-6,077
thereof deferred taxes: EUR -22,445,535.89; previous year: TEUR -80,133				
thereof additional charges to group parent: EUR 106,922,504.50; previous year: TEUR 94,633				
14. Earnings / loss after income taxes		**381,545,939.50**		**1,060,490**
15. Transfer from net income to other reserves		-350,522,971.30		-995,373
16. Profit carried forward from prior year		212,683,031.80		280,383
17. Retained Profit		**243,706,000.00**		**345,500**

Annex III

Notes to the Financial Statements for the Year 2018

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Roundings: Since there are rounded figures and percentages accumulated in the notes, some rounding differences may occur.

1 Accounting Principles

1.1 General Principles

The financial statements have been prepared in accordance with the provisions of the Austrian Commercial Code (UGB), taking the generally accepted accounting principles of Austria into account and in compliance with the general principle of providing a true and fair view of the net assets, financial position and result of operations of the Company.

The financial statements were prepared by adhering to the principle of completeness.

The principles of individual measurement and going concern were complied with in measuring assets and liabilities.

The principle of prudence was observed in that only profits realized as of the reporting date were recognized. All identifiable risks and contingent losses were taken into account.

The statement of profit and loss was prepared in accordance with the total cost format. The figures presented in the notes to the financial statements are shown in thousands of Euros (TEUR). The reporting date is 31 December.

1.2 Long-term Assets

Investments in affiliated companies and Other investments are measured at acquisition cost. Impairment losses are recognized if the fair value at the reporting date is lower than the carrying amount of the asset and is expected to be permanent in duration. Impairment losses are reversed if the reason for the impairment no longer exists.

The determination of fair values is based on the Discounted Cash-Flow method. Significant assumptions of the calculation were made for: sales development, cost drivers, adjustment of the Working Capital, asset additions, growth rate and discount rate. The applied discount rates before taxes were between 7% and 18.40%. These rates derive from market data for each valuation unit, considering risks related to the valuation unit. The applied growth rates for the perpetual annuity were between 1.3% and 8.50%. These growth rates are based on the general growth rate, the company's past revenue growth and detail plans. Cash-Flow estimates are based on a five years business plan.

1.3 Current Assets

Receivables are measured at their nominal value unless the lower realizable net value is recognized in the event of identifiable individual risks. Specific valuation allowances are recognized to account for default risks. Receivables denominated in foreign currencies are measured at the Euro reference rate of the European Central Bank at the date of accrual or at the lower rate of the Euro reference rate of the European Central Bank at the reporting date.

Work in progress is measured at acquisition costs.

1.4 Provisions

Provisions for severance obligations are recognized for the legal and contractual obligations to members of the Management Board and for employees, whose employment with Telekom Austria Aktiengesellschaft started before 1 January 2003. The calculation is based on the principles of actuarial mathematics using the projected unit credit method according to the basis of actuarial calculation of retirement insurance for employees issued by the Austrian Actuarial Association (Tafelwerk AVÖ 2018 P Angestellte – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler) applying an interest rate of 2% (previous year: 2%), based on a future pay increase of 3% (previous year: 3%) and an employee turnover rate of 0.50% (previous year: 0.50%). The retirement age was calculated in compliance with the retirement age according to the Austrian Ancilliary Budget Act (Budgetbegleitgesetz) 2011, using 62 years for female and male employees considering the transitional provisions. **Provisions for anniversary bonuses are similar to those for severance obligations** and are measured in the same way as the provision for severance obligations, calculated with an interest rate of 1.25% (previous year: 1%), based on a future pay raise of 3% for employees, 4.40% for civil servants or rather 3.50% for civil servants released from duties (previous year: 3% for employees, 4.40% for civil servants or rather 3.50% for civil servants released from duties).

A duration for provisions for severance obligations of 11.31 years (previous year: 11.14 years) and for provisions for anniversary bonuses of 4.36 years (previous year: 5.04 years) was assumed.

Like in the previous year, no long-term tax provisions were shown.

Other provisions are recognized at the estimated amount of the obligation and take identifiable risks into account as well as uncertain amounts regarding liabilities incurred. Like in the previous year, no long-term provisions were shown, except for the LTI Program (see 4.2).

1.5 Liabilities

Liabilities are recognized at the settlement amount taking into account the principle of prudence. Foreign currency liabilities are valued at the rate of the Euro reference rate of the European Central Bank at the date of accrual or at the higher rate of the Euro reference rate of the European Central Bank at the reporting date. Roaming liabilities are valued at the settlement rate for special drawing rights or the higher rate of the Euro reference rate of the European Central Bank.

2 Notes on Statement of Financial Position

2.1 Long-term Assets

The development of the individual fixed asset items is shown in the schedule of long-term assets (Appendix 1).

The composition of investments in affiliated companies is shown in the schedule of investments (Appendix 2).

According to the resolution of the Management Board from 14 March 2018 Telekom Austria AG bought the 1% share in Telekom Projektentwicklungs GmbH (TPEG) from A1 Telekom Austria AG at a price of TEUR 14. With the merger agreement of 23 April 2018, Telekom Projektentwicklungs GmbH was merged into its 100% subsidiary Telekom Finanzmanagement GmbH (TFG) by universal succession in order to simplify the group structure. The merger had a retroactive effect as of 31 December 2017.

Telekom Austria AG concluded a profit and loss exclusion contract with its 100% subsidiary Telekom Finanzmanagement GmbH. This contract replaces the contract of 2009 between Telekom Austria AG, Telekom Projektentwicklungs GmbH (upon approval of A1 Telekom Austria AG) and Telekom Finanzmanagement GmbH. The new contract became effective on 1 January 2018 and can be terminated in writing by either contractual party at the end of each financial year with a notice period of six months.

2.2 Receivables

Receivables due from related parties contain trade receivables in the amount of TEUR 7,803 (previous year: TEUR 4,086), financial receivables in the amount of TEUR 0 (previous year: TEUR 4,815) and other receivables in the amount of TEUR 149,642 (previous year: TEUR 137,941). Receivables due from affiliated companies contain trade receivables in the amount of TEUR 15 (previous year: TEUR 16).

As in the previous year, other receivables do not include any material earnings for which payment will be received after the reporting date.

2.3 Work in progress

Due to an internal project concerning the whole A1 Group work in progress includes services not yet invoiced in the amount of TEUR 1.300 (previous year: TEUR 0).

2.4 Prepaid Expenses

Prepaid expenses mainly comprise discounts for the placement of intra-company loans resulting from the issue of bonds by Telekom Finanzmanagement GmbH (TFG) in 2016 and 2017.

2.5 Deferred Tax Assets

According to Section 198 (9) of the Austrian Commercial code large corporations are obliged to recognize a deferred tax asset if differences arise. The most important differences causing a deferred tax asset are partial depreciations of investments, costs for the procurement of funds as well as employee benefit obligations. Deferred tax assets are recognized with a tax rate of 25% as stipulated in the Austrian Corporate Tax Law (Körperschaftsteuergesetz). As in relation to the Austrian Tax Authority every tax saving has an impact of 25% on Telekom Austria AG. In the reporting period, the deferred tax assets decreased to TEUR 42,341 (prior year: TEUR 64,787), with the highest amount in the partial depreciations of investments. The optional right to capitalize tax losses carried forward was not executed.

As a profit and loss elimination agreement was concluded between the company and TFG, the settlement of the tax allocation between these companies remains undone. According to AFRAC expert opinion 30 (AFRAC Fachgutachten 30) the deferred tax assets of TFG are recognized in the parent company Telekom Austria AG (controlling company of the profit and loss elimination agreement). The deferred tax assets were also recognized with a tax rate of 25%. The most notable differences of TFG for deferred tax assets are due to costs for the procurement of funds and partial depreciations of investments.

In the financial year 2018, the deferred tax assets changed as follows:

	2018 TEUR	2017 TEUR
Deferred tax asset Telekom Austria AG	42,319	64,727
Deferred tax asset Telekom Finanzmanagement GmbH	22	60
Total tax income	**42,341**	**64,787**

2.6 Share Capital

The share capital of Telekom Austria AG amounts to TEUR 1,449,275 and is divided into 664,500,000 no-par shares. ÖBIB holds 28.42 %, América Móvil holds 51 %, 20.52 % of the shares are attributable to the free float and the remaining 0.06 % are held as treasury shares. Treasury shares amount to TEUR 905 of the share capital, equal to 415,159 shares and were acquired in September 2007.

Pursuant to the resolution of the Annual General Meeting on 29 May 2013, the Management Board is authorized to use treasury shares for the issue to employees, senior staff and members of the Management Board/management of the Company and its affiliated companies and/or to service stock options from performance share programs either in return for payment or gratuitously. The Management Board was also authorized to use treasury shares as consideration for the acquisition of companies, business operations, business units or shares in one or more companies, both in the home country and abroad. The Management Board was also authorized to sell treasury shares in accordance with Section 65 (1b) of the Austrian Stock Corporation Act (AktG) via the stock exchange at any time or by public offer for a period of five years in any other legally admissible manner, including off-market, whereby the Management Board may also decide to exclude the public from buying.

2.7 Dividends

The Management Board will propose the Supervisory Board to distribute a dividend of EUR 0.21 (previous year: EUR 0.20) per eligible share. The remaining net income shall be carried forward.

2.8 Provisions

Other provisions include provisions for:

	31.12.2018 TEUR	31.12.2017 TEUR
Personal	5,494	4,303
Long Term Incentive Program (LTI)	2,231	2,969
Other	489	236
	8,214	**7,508**

2.9 Liabilities

On 24 January 2013, Telekom Austria AG placed an interest-bearing, perpetual hybrid bond with a volume of over EUR 600 million and a coupon of 5.625 %. The bond was placed at a reoffer price of 98.943 % and the first reset date was stipulated on 1 February 2018. The bond was redeemed on the earliest date possible (1 February 2018).

In the reporting period as well as in the previous year no liabilities with a maturity of more than 5 years are recognized in neither accounts payable-trade nor in other liabilities.

Liabilities due to affiliated companies contain accounts payable-trade in the amount of TEUR 2,006 (previous year: TEUR 3,285), financial liabilities in the amount of TEUR 2,098,540 (previous year: TEUR 1,957,725) and other liabilities in the amount of TEUR 678 (previous year: TEUR 1,026). In the reporting period the financial liabilities contain liabilities due to affiliated companies in the amount of TEUR 750,000 (previous year: TEUR 1,050,000) with a maturity of more than 5 years.

As in the previous year, other liabilities do not include any material expenses for which payment is made after the reporting date.

Contingent Liabilities

	31.12.2018 TEUR	31.12.2017 TEUR
Guarantees as part of the EMTN Programs	1,800,000	1,800,000
Guarantee as part of the 2016 bond	500,000	500,000
Guarantee as part of the tap issuance of the 2016 bond	250,000	250,000
Bank guarantees	1,316,244	1,555,945
	3,866,244	**4,105,945**

In March 2012, Telekom Austria AG and Telekom Finanzmanagement GmbH initiated a new Euro Medium Term Note (EMTN) Program with a volume of TEUR 2,500,000. All payments from bonds issued by Telekom Finanzmanagement GmbH under this program are irrevocably and unconditionally guaranteed by Telekom Austria AG.

On 2 April 2012, TFG issued a TEUR 750,000 bond with a fixed interest rate of 4 % and a term of ten years under the EMTN Program. Telekom Austria AG has signed an irrevocable and unconditional guarantee in favor of the bondholder.

On 4 July 2013, TFG issued a TEUR 300,000 bond with a fixed interest rate of 3.5 % and a term of ten years under the EMTN Program. Telekom Austria AG has signed an irrevocable and unconditional guarantee in favor of the bondholder.

On 3 December 2013, TFG issued a TEUR 750,000 bond with a fixed interest rate of 3.125 % and a term of eight years under the EMTN Program. Telekom Austria AG has signed an irrevocable and unconditional guarantee in favor of the bondholder.

On 7 December 2016, TFG issued a TEUR 500,000 bond with a fixed interest rate of 1.5 % and a term of ten years. Telekom Austria AG has signed an irrevocable and unconditional guarantee in favor of the bondholder.

On 14 July 2017 a tap issuance in the amount of TEUR 250,000 relating to Telekom Austria Group's benchmark bond issued in December 2016, maturing in 2026 with a coupon of 1.5 % p. a., was settled. Telekom Austria AG has signed an irrevocable and unconditional guarantee in favor of the bondholder. The total volume of the bond amounts to TEUR 750,000.

On 22 January 2018, TGF issued a committed credit line with a total volume of TEUR 300,000 and a maturity until the end of 2018. Telekom Austria AG has signed an irrevocable and unconditional guarantee in favor of the bondholder.

All contingent liabilities are, as in the previous year, due to affiliated companies. Bank warranty declarations contain guarantees in the amount of TEUR 1,300,000 (previous year: TEUR 1,550,000) for TFG.

On 10 November 2008, the company signed a guarantee due to Telekom Austria Personalmanagement GmbH (TAP), which ensures TAP that A1 Telekom Austria AG will perform its respective duties, according to the profit and loss elimination agreement. Furthermore, the company guarantees in the case of non-fulfillment of the duties of A1 Telekom Austria AG to provide Telekom Austria Personalmanagement GmbH with sufficient liquidity to meet all its financial liabilities.

3 Notes on the Statement of Profit or Loss

3.1 Revenues

Revenues of TEUR 35,021 (previous year: TEUR 32,688) relate mainly to services such as public relations and communications work, coordinating product development and the technical infrastructure, legal and tax advice and investment controlling, services in conjunction with the Department of Human Resource and Civil Service Regulations (Beamtendienstrecht) together with salary and collective agreement negotiations that are predominantly charged to A1 Telekom Austria AG, A1 Digital International GmbH (formerly Telekom Austria Group M2M GmbH), Telekom Austria Personalmanagement GmbH, A1 Bulgaria EAD (formerly MobilTel EAD), A1 Slovenija (formerly Si.mobil d.d.), Vip mobile d.o.o., one.VIP DOOEL, A1 Hrvatska d.o.o. (formerly VIPnet d.o.o.) and Unitary enterprise Velcom on the basis of intercompany agreements.

3.2 Personnel Expenses

Personnel Expenses were as follows:

	2018 TEUR	2017 TEUR
Salaries	32,760	27,872
Expenses for statutory social security and payroll related taxes and contributions	7,185	5,866
Severance expense	154	266
Pension expenses	879	826
Other social benefits	107	88
Payments to staff contributions plans	383	288
	41,468	**35,206**

Salaries include expenses of TEUR 48 (previous year: TEUR 10 expenses) resulting from changes in the anniversary benefit obligation.

Changes in provisions are presented in the statement of profit and loss in the following items:

- Anniversary benefit obligation and other provisions in salaries
- Severance obligation in severance expenses and payments to staff contribution plans
- Pension expenses in other social benefits
- Payroll related expenses for other provisions in expenses for statutory social security and payroll related taxes and contributions

The average number of full-time employees was 312 (previous year: 259). The average number of full-time civil servants was 10 (previous year: 11).

3.3 Severance expenses and pension expenses

Severance expense and payments to staff contribution plans as well as pension expenses were as follows:

	2018 TEUR	2017 TEUR
Members of the Management Board	158	24
Senior staff	40	46
Other employees	1,219	1,310
	1,416	**1,380**

3.4 Other Operating Expenses

	2018 TEUR	2017 TEUR
Other operative taxes	80	140
Other charges	5,569	7,335
Intercompany charges	13,486	12,598
Legal and other consulting	1,658	2,537
Other	7,647	9,572
	28,440	**32,182**

Other operating expenses include expenses related to services of A1 Telekom Austria AG amounting to TEUR 13,724 (previous year: TEUR 14,795).

3.5 Income from Investments

Income from investments includes dividend income from A1 Telekom Austria AG in the amount of TEUR 317,000 (previous year: TEUR 302,000) as well as dividend income from mobilkom Belarus Beteiligungsverwaltungs GmbH in the amount of TEUR 83,000 and from Mobilkom Beteiligungsgesellschaft mbH in the amount of TEUR 8,000.

Due to the profit and loss elimination agreement with TFG an income in the amount of TEUR 15,050 (previous year: TEUR 15,833 expenses) was generated.

Furthermore income from other investments includes dividend income from CEESEG Aktiengesellschaft amounting to TEUR 331 (previous year: TEUR 465).

3.6 Income from the Reversal of Impairment Losses of Long-Term Financial Assets

Pursuant to Section 208 (1) of the Austrian Commercial Code (UGB) the reversal of previously recognized impairment losses of TEUR 23,000 (previous year: TEUR 873,781) was required for the financial asset mobilkom Mazedonien Beteiligungsgesellschaft GmbH.

In the previous year, reversals of the impairment losses were recognized in an amount of TEUR 116,700 related to A1 Kroatien Beteiligungsverwaltung GmbH, in the amount of TEUR 350,021 for A1 Telekom Austria AG, in the amount of TEUR 129,540 for mobilkom Bulgarien BeteiligungsverwaltungsgmbH, in the amount of TEUR 69,100 for mobilkom CEE Beteiligungsverwaltungs GmbH, in the amount of TEUR 150 for mobilkom Mazedonien Beteiligungsverwaltungs GmbH and in the amount of TEUR 208,270 for mobilkom Belarus Beteiligungsverwaltungs GmbH.

3.7 Expenses for Long-Term Financial Assets

Impairment losses in the amount of TEUR 20,000 related to mobilkom CEE Beteiligungsverwaltungs GmbH and in the amount of TEUR 16,000 for Kroatien Beteiligungsverwaltung GmbH were recognized. No impairment losses were recognized in the previous year.

3.8 Income taxes

The company is the head of a taxation group as defined in Section 9 of the Austrian Corporate Tax Law (KStG) and has concluded a group and tax allocation agreement with wedify GmbH (formerly: 3G Mobile Telecommunications GmbH), Telekom Austria Personalmanagement GmbH, A1 Telekom Austria Aktiengesellschaft, Telekom Finanzmanagement GmbH (TFG), World-Direct eBusiness solutions Gesellschaft m.b.H., Telekom Austria Beteiligungen GmbH, paybox Bank AG, mk Logistik GmbH and paybox Service GmbH as members of the tax group.

As of 1 January 2017, all group members have to pay to the head of the tax group for all profits allocated to the head of the tax group a linear tax rate of 23%, independent of the actual tax paid by the head of the tax group.

Tax group members transferring a tax loss to the head of the group receive no compensation, but can carry forward this tax loss as an intra-group tax loss carry forward and offset the entire amount with future taxable profit within the group. Therefore, tax allocation is not required for intragroup loss carry forward. Intragroup loss carry forwards not yet offset at the time the group member leaves the tax group are compensated to the extent required by Austrian corporate law upon termination of the agreement.

In the financial period 2018 the total tax income in the amount of TEUR 70,125 (previous year: TEUR 6,077) contains in the financial period 2018 an income of the tax group allocation in the amount of TEUR 106,922 (previous year: TEUR 94,633) which results from the current result. Due to the change in deferred tax assets, a tax expense of TEUR 22,446 (previous year: tax income of TEUR 80,133) was booked in the financial period.

Intragroup loss carry forward for which no provisions were recognized amounted to TEUR 38,597 (previous year: TEUR 37,839). For all companies with a valid profit and loss elimination agreement with a group member no provisions for intragroup loss carry forwards were recognized.

Details to Income Tax 2018

	2018 TEUR	2017 TEUR
Corporate tax (other) current	-13,852	-20,541
Corporate tax (group) current	106,923	94,633
Corporate tax (other) previous periods	-500	-37
Corporate tax (group) previous periods	0	0
Total tax income	**92,571**	**74,056**
Changes in deferred tax assets	-22,446	-80,133
Total tax	**70,125**	**-6,077**

In the current financial year, the head of the group was required to use tax loss carry forwards in the amount of TEUR 166,210 (previous year: TEUR 246,424).

4 Other Information

4.1 Remuneration of the Management and Supervisory Board of the Company

In 2018, remuneration of the members of the Management Board amounted to TEUR 2,594 (previous year: TEUR 2,114). Benefits paid under the Long Term Incentive Program are not included in the amount of remuneration of members of the Management Board. These benefits are included in section 4.2.

In the current financial year remuneration of members of the Supervisory Board amounted to TEUR 357 (previous year: TEUR 358).

4.2 Long Term Incentive (LTI) Program

On December 9, 2009, the Supervisory Board of Telekom Austria AG approved the LTI Program, in particular the first tranche of 2010, and announced further tranches. The second tranche was approved on 21 February 2011. The third tranche was approved on 7 May 2012. A fourth tranche was approved on 6 May 2013. A fifth tranche was approved on 1 July 2014. The sixth tranche was approved on 21 April 2015. The seventh tranche was approved on 26 April 2016 and allocated on 1 September 2016. The eighth tranche was approved on 26 April 2017 and allocated on 1 June 2017. The ninth tranche was approved on 19 April 2018 and allocated on 1 September 2018. Participants are required to make a personal investment in Telekom Austria AG shares in an amount depending on the annual gross basic salaries and the management level of the entitled employee and to hold these shares until the end of the holding period. Participants from the eighth and ninth tranche are exclusively members of the Management Board of the company. For each tranche, the number of shares granted is calculated based on the average Telekom Austria AG stock price for a defined period. This right is not transferrable.

For the tranches of the years 2013, 2014, 2015, 2016, 2017 and 2018 a performance period of three years was defined. For the tranches of the years 2013, 2014 and 2015 net income, EBITDA and relative total shareholder return (determined on a basis of a weighted comparison group of nine European telecommunications providers) were defined. For the tranches 2016, 2017 and 2018 return on invested capital (ROIC) and the revenue market share of Telekom Austria Group (each weighted at 50%) were defined as key performance indicators. At the beginning of a tranche the key performance indicators are set.

At the vesting date, if the targets are reached, bonus shares double to the personal investment will be allocated to the participants, settlement will be in cash. If the targets are exceeded, additional shares will be allocated proportionally up to a maximum of 175% of the shares or a maximum of 350% based on meeting the targets with 100%. In case of significant underperformance, no shares are allocated.

The Program LTI 2015 was exercised in the financial year 2018. 1,748 bonus shares per share of personal investment were allocated at a share price of 7.88. The settlement was in cash.

LTI 2015	Personal investment in shares as exercised
Dipl.Ing. Siegfried Mayrhofer	24,134
Alejandro Douglass Plater	14,650
Senior staff	3,700
Other employees	32,214
Total Company	**74,697**
Members of Management and Supervisory Boards and entitled employees of subsidiaries	94,248

On the reporting date, a provision is recognized for the share of the future anticipated expense of the LTI program already earned, which was measured at fair value. The fair value is determined by using the expected achievement of the performance criteria and the expected share price, which is based on the binomial tree process. Expected dividends were also considered in measuring the fair value. The provision is recognized over the service period.

	LTI 2018	LTI 2017	LTI 2016
Program start	1 January 2018	1 January 2017	1 January 2016
Grant date	1 September 2018	1 June 2017	1 September 2016
End of vesting period	31 December 2020	31 December 2019	31 December 2018
Vesting date	1 September 2021	1 June 2020	1 September 2019

Personal investment in shares as of 31 December 2018	**LTI 2018**	**LTI 2017**	**LTI 2016**
Members of Management Board			
Dipl.Ing. Siegfried Mayrhofer	18,859	24,750	24,750
Alejandro Douglass Plater	22,421	29,521	33,638
Mag. Thomas Arnoldner	17,439	0	0
Senior staff	0	0	3,200
Other employees	0	0	35,993
Total Company	**58,719**	**54,271**	**97,581**
Members of Management and entitled employees of subsidiaries	0	0	83,938

LTI 2016	**2018**	**2017**	**2016**
Expected bonus shares	220,533	223,179	258,571
Maximum bonus shares	341,534	313,520	371,882
Fair value in TEUR	1,453	1,678	1,352

LTI 2017	**2018**	**2017**
Expected bonus shares	125,473	132,311
Maximum bonus shares	189,947	189,947
Fair value in TEUR	809	987

LTI 2018	**2018**
Expected bonus shares	151,143
Maximum bonus shares	205,517
Fair value in TEUR	945

Expenses for the LTI Program in the amount of TEUR 622 (previous year: TEUR 1,748) are recognized in the income statement.

4.3 Other Information

Telekom Austria Aktiengesellschaft has a group relationship with América Móvil, S.A.B. de C.V., Mexico City, and its affiliated companies and is fully consolidated in its consolidated financial statements since 1 July 2014, which is the largest group of companies for which group financial statements are prepared. América Móvil Group is listed on the Mexican Stock Exchange, the NASDAQ New York and on the New York Stock Exchange. Consolidated financial statements of América Móvil, S.A.B. de C.V. are filed with the SEC (U.S. Securities and Exchange Commission) in Washington, D.C.

The Company is a parent company required to prepare consolidated financial statements in accordance with Section 244 Austrian Commercial Code (UGB). The consolidated financial statements are filed with the commercial register at the Commercial Court in Vienna.

Related party transactions were always effected at arm's-length.

In accordance with the last sentence of Section 238 paragraph 1 No. 18 UGB, the Company exercises the right not to disclose information on expenses for the auditor.

The Company is a company of public interest in accordance with Section 189a UGB. Therefore, it is a large corporation in accordance with Section 221 UGB.

4.4 Subsequent Events

On 15 January 2019, A1 Telekom Austria Group took out a committed credit line with a total volume of TEUR 150,000 and the maturity date 15 January 2020 through Telekom Austria AG and Telekom Finanzmanagement GmbH. Telekom Austria AG signed an irrevocable and unconditional guarantee for Telekom Finanzmanagement GmbH.

On 28 January 2019, A1 Telekom Austria Group took out a committed credit line with a total volume of TEUR 50,000 and a maturity until the end of 2019 through Telekom Austria AG and Telekom Finanzmanagement GmbH. Telekom Austria AG signed an irrevocable and unconditional guarantee for Telekom Finanzmanagement GmbH.

5 Members of the Management Board and Supervisory Board

Management Board

Mag. Thomas Arnoldner	Chairman of the Management Board, since 1 September 2018
Alejandro Douglass Plater	Deputy Chairman since 1 September 2018
Dipl. Ing. Siegfried Mayrhofer	Deputy Chairman until 31 August 2018

Supervisory Board

Dr. Edith Hlawati	Chair of the Supervisory Board since 30 Mai 2018
Dr. Wolfgang Ruttenstorfer	Chairman of the Supervisory Board until 30 Mai 2018
Carlos García Moreno Elizondo	Deputy Chairman
Silvia Bauer	until 12 October 1018
Dr. Karin Exner-Wöhrer	
Dr. Peter Hagen	
Ing. Walter Hotz	
Carlos M. Jarque M.Sc.Ph.D.	
Alejandro Cantú Jiménez	
Ing. Gottfried Kehrer	
Dr. Peter F. Kollmann	
Mag. Reinhard Kraxner	until 30 May 2018
Werner Luksch	
Mag. Stefan Pinter	until 30 Mai 2018
Mag. (FH) Alexander Sollak	
Oscar Von Hauske Solís	
Mag. Bettina Glatz-Kremsner	since 30 May 2018
Daniela Lecuona Torras	since 30 May 2018
Renate Richter	since 12 October 2018

Vienna, 11 February 2019
The Management Board

Thomas Arnoldner, CEO

Alejandro Plater, COO

Siegfried Mayrhofer, CFO

Attachment 1

Movement Schedule of Investments for the Fiscal Year 2018

Financial assets	Balance at 01.01.18 TEUR	Accesses TEUR	Disposals TEUR	Balance at 31.12.18 TEUR	Balance at 01.01.18	Additions	Balance at 31.12.18	Carrying amount as of 31.12.18 TEUR	Carrying amount as of 31.12.17 TEUR
1. Shares in capital of affiliated companies									
Telekom Projekt-entwicklungs GmbH	4,157	1,414	0	0	2,766	0	0	0	1,391
mobilkom Bulgarien Beteiligungs verwaltungsgmbH	988,682	0	0	988,682	0	0	0	988,682	988,682
mobilkom Mazedonien Beteilungsverwaltung GmbH	260,040	0	0	260,040	57,970	23,000	34,970	225,070	202,070
Mobilkom Beteiligungs-gesellschaft mbH	387,832	17,500	0	405,332	0	0	0	405,332	387,832
mobilkom CEE Beteili-gungsverwaltung GmbH	392,131	0	0	392,131	65,700	0	85,700	306,431	326,431
mobilkom Belarus Beteiligungs-verwaltung GmbH	974,700	0	0	974,700	0	0	0	974,700	974,700
Kroatien Beteiligungs-verwaltung GmbH	698,790	0	0	698,790	341,800	0	357,800	340,990	356,990
Telekom Finanzmanagement GmbH	0	0	0	5,571	0	0	2,766	2,805	0
A1 Telekom Austria Aktiengesellschaft	4,596,606	0	0	4,596,606	0	0	0	4,596,606	4,596,606
	8,302,938	**18,914**	**0**	**8,321,852**	**468,236**	**23,000**	**481,236**	**7,840,616**	**7,834,702**
2. Other investments									
CEESEG Aktiengesellschaft	**543**	**0**	**0**	**543**	**0**	**0**	**0**	**543**	**543**
	8,303,481	**18,914**	**0**	**8,322,395**	**468,236**	**23,000**	**481,236**	**7,841,159**	**7,835,245**

Attachment 2

Schedule of Shares in Affiliated Companies as of 31 December 2018

	Investment	Currency	Shareholders' equity	Net income/ loss for the year
Shares in capital of affiliated companies				
Telekom Finanzmanagement GmbH, Vienna	100.0 %	TEUR	2,799	15,050
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.0 %	TEUR	340,953	–16,027
A1 Telekom Austria Aktiengesellschaft, Vienna	100.0 %	TEUR	1,290,292	327,228
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.0 %	TEUR	332,139	4,346
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.0 %	TEUR	306,437	–20,035
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.0 %	TEUR	1,168,294	–38,286
mobilkom Mazedonien Beteilungsverwaltung GmbH, Vienna	100.0 %	TEUR	225,042	22,978
mobilkom Bulgarien Beteiligungsverwaltungsgmbh, Vienna	100.0 %	TEUR	968,351	–23

Annex IV

Management Report

of Telekom Austria Aktiengesellschaft for the period 1 January to 31 December 2018

General economic environment[1)]

In 2018, economic growth in Europe continued but gradually decelerated. In a forecast published in November of the year under review, the European Commission estimated that economic growth in the European Union would be 2.1 % in 2018 and thus decreased its spring forecast from 2.3 %. In 2019, the growth is expected to be 1.9 %. The Austrian economy is expected to record 2.7 % growth in 2018. In Bulgaria, the increase in GDP is estimated at 3.5 % in 2018. In Croatia, the economy is set to have expanded by 2.8 % in the same period. An increase in economic output of 4.0 % is expected for Belarus in 2018. Based on European Commission estimates, Slovenia, the Republic of Serbia, and the Republic of Macedonia are expected to have seen an increase in economic output of 4.3 %, 4.1 %, and 2.1 % respectively in 2018.

The European Central Bank (ECB) lowered again the volume of its bond buying program in the year under review. At the beginning in March 2015, the bond buying program amounted to EUR 80 bn per month, but was lowered in 2017 for the first time. Starting from January, the amount was at EUR 30 bn per month, from October until December 2018 it was EUR 15 bn per month and have been stopped since the beginning of 2019. While the ECB kept its key interest rate unchanged at 0.00 % during the year under review, the US Federal Reserve again raised its key interest rate from 1.25-1.50 % to 2.25-2.50 % in three stages in March, June, September and December 2018.

Development of real GDP in the markets of A1 Telekom Austria Group (in %)

	2017	2018e	2019e
Austria	2.6	2.7	2.0
Bulgaria	3.8	3.5	3.7
Croatia	2.9	2.8	2.8
Belarus	2.4	4.0	3.1
Slovenia	4.9	4.3	3.3
Republic of Serbia	1.9	4.1	3.8
Republic of Macedonia	0.0	2.1	2.8

Sources: IMF for Belarus; European Commission for all other countries Industry trends and competition

Industry trends and competition

The positive economic development in recent years continued in 2018 in the relevant markets for the A1 Telekom Austria Group. Nevertheless, the market environment in both the fixed-line and the mobile communications markets proved to be highly competitive once again. This was visible in the no-frills segment, as there was sustained pressure on prices due to the aggressive pricing policy of mobile virtual network operators (MVNOs). Furthermore, regulatory provisions continued to negatively impact revenues and earnings. In particular, the abolition of retail roaming in the EU as of June 15, 2017 affected the Group's results. In addition, there was a further termination rate cut in the Republic of Serbia.

The A1 Telekom Austria Group counters these factors through the systematic implementation of its convergence strategy, a clear focus on high-value customers, innovative products and services, as well as strict cost management. As already decided in 2017, the A1 Telekom Austria Group continued to harmonize the brands within the Group which has already happened in Slovenia, Bulgaria and Croatia.

1) Sources: GDP for Belarus: IMF IMF https://www.imf.org/~/media/Files/Publications/WEO/2018/October/English/main-report/Text.ashx?la=en, dated October 2018, page 64; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Serbia and Republic of Macedonia: https://ec.europa.eu/info/sites/info/files/economy-finance/ip089_en_0.pdf, dated November 2018, pages 89, 107, 125, 133, 145, 149, 199

In Austria, the A1 Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed-line and mobile communications solutions. The latest market report issued by the regulatory authority, which tracked the most recent market data in Austria up to the end of the second quarter of 2018, describes the following average trends across all operators: [2)]

- The number of SIM cards increased by 7.0% year-on-year from 14.6 million in the second quarter of 2017 to 15.7 million in the second quarter of 2018. As previously, the strongest stimulus for this trend came from smartphone users[3)], where an increase of 13.6% to more than 5.5 million users was recorded. Total retail customer revenues also recorded growth of 0.9% year-on-year.
- In the Austrian fixed-line market, the number of fixed access lines in the second quarter 2018 decreased by 1.2% year-on-year. The amount of voice minutes via the fixed-line network also decreased by 9.8% in the same period.
- The NGA coverage (next generation access) is in Austria with 90% in the top third of the EU, while the number of accesses above 30 Mbps is with 27.2% in the lowest third of the EU. [4)]
- In Q2 2018, the broadband market recorded 10.1 million mobile and fixed-line broadband connections, whereas the growth was somewhat weaker at 3.3% year-on-year.
- Rapid growth of data volume in overall mobile telecommunications, which consists of pure mobile broadband as well as smartphone users according to the definition of the regulatory authority, also continued in the second quarter of 2018 with an increase of 46.4% year-on-year.

According to Statistics Austria, the share of Austrian households with broadband connections in 2018 remained constant at 88%, while the share among companies rose from 98% to 99%. [5)]

In Bulgaria, the trend continued and the Internet penetration rate across all households increased to 72.1% in 2018 compared to 67.3% in 2017. [6)]

In Croatia, broadband penetration in the fixed-line business increased to 26.0% in the third quarter of 2018 (Q3 2017: 25.3%), while mobile broadband penetration increased slightly from 81.2% to 83.6% in the same period. [7)]

In Belarus, the ICT market has developed strongly in recent years, which has led to a steady increase in the number of Internet customers, while the number of mobile network users continued to stagnate in 2017. At the end of 2017, the proportion of households with Internet access was 67.2% (2016: 62.5%). [8)]

In Slovenia, the Internet penetration rate increased from 81.7% in the previous year to 86.7% in the year under review. 93.7% of these users with Internet access also utilized a mobile device to access the web (2017: 85.1%). [9)]

In the Republic of Serbia, the increase in the number of Internet connections continued, with 72.9% of households having Internet access in 2018 (2017: 68.0%). Meanwhile, 93.0% of all Serbian households also own mobile telephones (2017: 90.5%) and 72.1% have a computer (2017: 68.1%). [10)]

According to the Statistical Office of the Republic of Macedonia, 79.3% of all Macedonian households had Internet access in the first quarter of 2018 (2017: 73.6%), of which 81.0% also used a mobile device to access the web (2017: 82.5%). [11)]

Financial Key Performance Indicators

Total assets as of 31 December 2018 remained stable with EUR 8,049.3 million compared to EUR 8,055.6 million in the previous year.

Long-term assets remained stable with EUR 7,841.2 million compared to EUR 7,835.2 million in the previous year. As shown in the tables below, current company valuations resulted in various impairment losses and reversals of past impairment losses in long-term financial assets of affiliated companies:

2) https://www.rtr.at/de/inf/telekom-monitor-q22018/RTR_Telekom_Monitor_Q2_2018.pdf; A1 Telekom Austria Group calculations
3) The significant decrease in mobile broadband as well as the increases in smartphone tariffs are due to changes in query definitions and allocations. (Source: RTR Telekom Monitor Q2 2018)
4) https://www.rtr.at/de/inf/GlasfaserOe2018/RTR_Glasfaser-Internetanschluesse_Oesterreich_10_2018.pdf
5) http://www.statistik.at/web_de/statistiken/informationsgesellschaft/index.html
6) http://www.nsi.bg/sites/default/files/files/pressreleases/ICT_hh2018_en_KV45Z0R.pdf
7) https://www.hakom.hr/UserDocsImages/2018/e_trziste/KVA%20ENG%20Q3%202018%20Fixed%20broadband%20penetration.pdf; https://www.hakom.hr/UserDocsImages/2018/e_trziste/KVA%20ENG%20Q3%202018%20Mobile%20broadband%20penetration.pdf
8) http://www.belstat.gov.by/en/ofitsialnaya-statistika/real-sector-of-the-economy/communication-and-ict/communication/annual-data/main-indicators-of-general-use-communications-development/; Statistical Yearbook of the Republic of Belarus, 2018: http://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/statistical-publications-data-books-bulletins/public_compilation/index_12543/?sphrase_id=474137/, page 342; Note: Figures for Belarus are available for 2017 only.
9) https://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre_Repozitorij/&lang=1
10) http://www.stat.gov.rs/en-us/oblasti/upotreba-ikt/upotreba-ikt-domacinstva/; http://publikacije.stat.gov.rs/G2017/PdfE/G20176006.pdf; http://data.stat.gov.rs/Home/Result/270101?languageCode=en-US
11) http://www.stat.gov.mk/PrikaziSoopstenie_en.aspx?rbrtxt=77

The increase in current assets from EUR 147.7 million to EUR 159.3 million as of 31 December 2018 resulted most notably from higher income tax receivables within the taxation group.

As of 31 December 2018, shareholders' equity amounted to EUR 5,677.1 million (31 December 2017: EUR 5,428.3 million). The increase resulted from the annual result of 2018 in conjunction with retained earnings and the changes in the deferred tax assets.

The decrease in liabilities by EUR 249.6 million to EUR 2,347.5 million is most notably due to the redemption of the hybrid bond in the amount of EUR 600.0 million, the drawing of the credit facility in the amount of EUR 240.0 million and the increase in loans (set-off) to Telekom Finanzmanagement GmbH.

The services rendered by the management holding led to an increase in revenues up to EUR 35.0 million in 2018 compared to EUR 32.7 million in 2017. The increase is most notably due to an increase in personnel expenses charged to A1 Digital International GmbH.

Personnel expenses increased from EUR 35.2 million in the previous year to EUR 41.5 million in 2018, most notably due to an increasing number of personnel working for A1 Digital International GmbH.

Other operating expenses also contained other services from A1 Telekom Austria AG presented in other charges, intercompany charges and other expenses.

As a result of the developments described above, the operating loss amounted to EUR -34.8 million in 2018 compared to EUR –33.0 million in 2017.

Income from investments increased from EUR 318.3 million in 2017 to EUR 423.4 million in 2018, above all due to higher dividends distributed within the Group in 2018.

Reversal of impairment losses from assets of affiliated companies

in EUR million

	2018	2017
A1 Telekom Austria Aktiengesellschaft	0.0	350.0
Kroatien Beteiligungsverwaltung GmbH	0.0	116.7
mobilkom Belarus Beteiligungsverwaltung GmbH	0.0	208.3
mobilkom Bulgarien Beteiligungsverwaltungs GmbH	0.0	129.5
mobilkom Mazedonien Beteiligungsverwaltung GmbH	23.0	0.2
mobilkom CEE Beteiligungsverwaltung GmbH	0.0	69.1
Total	**23.0**	**873.8**

Impairment losses from assets of affiliated companies

in EUR million

	2018	2017
mobilkom CEE Beteiligungsverwaltung GmbH	20.0	0.0
Kroatien Beteiligungsverwaltung GmbH	16.0	0.0
Total	**36.0**	**0.0**

Income from reversal of impairment losses on long-term financial assets amounting to EUR 23.0 million (2017: EUR 873.8 million) is shown in more detail in the table above. Expenses form long-term financial assets amounted to EUR 36.0 million in 2018 compared to EUR 0.0 million in 2017. Interest expenses, predominantly attributable to affiliated companies, decreased by EUR 30.5 million from EUR 94.9 million in the previous year to EUR 64.4 million in 2018. The decrease is a result of the redemption of the hybrid bond.

Due to the factors described above, the income before income taxes amounted to EUR 311.4 million, compared to EUR 1,066.6 million in 2017.

In 2018 income tax gains amount to EUR 70.1 million. In 2017 income tax expenses amounted to EUR 6.1 million. The difference results most notably from lower deferred tax expenses.

Overall, these developments result in a net income in the amount of EUR 381.5 million for the 2018 financial year (2017: EUR 1,060.5 million). In 2018 an amount of EUR 350.5 million was allocated from net income to other reserves (2017: EUR 995.4 million).

The Management Board plans, with the approval of the Supervisory Board, to propose at the Annual General Meeting a dividend of EUR 0.21 (last year: EUR 0.20) per eligible share, to be distributed from net income.

The following section briefly explains the main financial and operational KPIs.

- In accordance with section 23 of the Austrian Company Reorganization Act (URG), the equity ratio amounted to 70.5 % as of 31 December 2018 (31 December 2017: 67.4 %). This ratio is calculated by dividing equity by total assets.
- The notional debt repayment period as set out in Section 24 URG amounted to 7.6 years as of 31 December 2018. As of 31 December 2017 it amounted to more than 15 years. The notional debt repayment rate indicates the number of years until all debts are repaid on the basis of earnings/loss before income taxes.
- The earnings before interest and income tax (EBIT) corresponds to the earnings/loss before income taxes adjusted by interest income and interest expense. The EBIT decreased from EUR 1,159.1 million in 2017 to EUR 375.6 million in this financial year. This is mainly due to the reversal of impairment losses in the amount of EUR 23.0 million mentioned above, compared to EUR 873.8 million in the previous year.
- As a result of the developments described above the return on equity (ratio of EBIT to stockholders' equity) decreased from 21.4 % in 2017 to 6.6 % in 2018. The return on assets (ratio of EBIT to liabilities and stockholders' equity) decreased from 14.4 % in 2017 to 4.7 % in 2018.
- The net debts comprise interest-bearing liabilities less cash and cash equivalents. Net debt as of 31 December 2018 decreased to EUR 2,344.5 million compared to EUR 2,589.5 million in the previous year.
- The cash flow from operating activities increased to EUR 396.9 million compared to EUR 220.8 million in 2017.
- Cash flow from investing activities amounts to EUR –18.9 million most notably due to grants given to subsidiaries compared to EUR –142.0 million in 2017.
- Cash flow from financing activities changed from EUR –282.3 million in 2017 to EUR –382.8 million in 2018. The cash flow from financing activities (set-off) derived for the most part from the redemption of the hybrid bond.

Equity Investments

In addition to Austria, the A1 Telekom Austria Group is successfully positioned in another six European Countries as of 31 December 2018. At the end of 2018, the Group provided mobile communication services to around 21.0 million customers (2017: 20.7 million); in the fixed-line business revenue generating units (RGUs) amounted to around 6.3 million, representing an increase of 3.7 % compared to the previous year.

In 2018, A1 Telekom Austria AG experienced an increase of its overall customer base for mobile communication by 0.5 % to about 5.4 million customers. Its mobile market share declined slightly to 37.8 % (2017: 38.8 %). Mobile penetration was 160.5 % (2017: 156.2 %). Average revenues per mobile communication customer increased from EUR 15.6 in the year 2017 to EUR 16.1 in 2018. In the fixed-line business RGUs declined by 1.9 % to about 3.3 million. Average revenues per fixed access line amounted to EUR 30.7 (2017: EUR 29.1).

A1 Bulgaria EAD saw a decrease in the number of mobile customers by 1.1 % to 3.9 million in 2018. A1 Bulgaria, Bulgaria's leading communication provider, saw its market share rise from 38.7 % to 39.4 % in the reporting period. The mobile penetration rate was at 142.8 % in Bulgaria (2017: 145.6 %). The number of RGUs in the segment Bulgaria declined slightly by 2.4 % to 1.0 million per end of 2018.

At A1 Hrvatska d.o.o., Croatia's second largest mobile communication provider, the number of mobile customers rose by 3.4 % in 2018 to 1.8 million customers. At the end of 2018, A1 Croatia held a market share of 36.5 % (2017: 36.5 %). The mobile penetration rate in Croatia at the end of the year was 121.5 % (2017: 117.5 %). RGUs rose in 2018 by 4.2 % to 681,800.

In 2018, Unitary Enterprise velcom, experienced a slight increase by 0.2 % in its mobile customer base to 4.9 million customers compared to the previous year. As at the end of December 2018 velcom, the second largest mobile communication provider in Belarus, held a market share of 42.0 % (2017: 42.5 %). The mobile penetration rate in Belarus was 122.4 % (2017: 120.5 %). The segment Belarus recorded 657,300 RGUs as per year-end 2018 (2017: 463,400) amongst the acquisition of the fixed-line operator Vitebsk Garant.

As of the end of 2018, A1 Slovenija d.d., the second largest mobile communication provider in Slovenia, had 0.9 % less customers, lowering the total to 697,100. The market share lessened to 28.1 % (2017: 29.1 %). At the end of 2018, the mobile penetration rate in Slovenia was 119.6 % compared to 116.0 % in 2017. The number of RGUs decreased by 0.5 % to 182,100 in 2018.

Vip mobile d.o.o., the third largest mobile communication provider in the Republic of Serbia, saw the number of mobile customers rose by 0.6 % to 2.2 million customers, holding a market share of 23.8 % at the end of 2018 (2017: 24.1 %). By the end of 2018 the mobile penetration rate in the Republic of Serbia was at 132.3 % (2017: 128.6 %).

one.Vip DOOEL had 1.1 million customers per year-end 2018, representing a decline of 1.5 %. The market share increased from 47.8 % at the end of 2017 to 48.9 % at the end of 2018. As of 31 December 2018, the mobile penetration rate in the Republic of Macedonia was at 104.1 % (2017: 108.1 %). In the fixed-line business RGUs rose by 12.5 % to 383,100 in 2018.

Changes to the Management Board and the Supervisory Board

At the Annual General Meeting on May 30, 2018, the Supervisory Board mandates of Carlos García Moreno Elizondo, Carlos M. Jarque and Oscar von Hauske Solís were extended. Edith Hlawati was elected as Chairperson of the Supervisory Board, while Bettina Glatz-Kremsner and Daniela Lecuona Torras were elected as members after Wolfgang Ruttenstorfer, Stefan Pinter, and Reinhard Kraxner left the Supervisory Board.

Telekom Austria Aktiengesellschaft: members of the Supervisory Board

Name (year of birth)	Date of first appointment	End of current term of office/ leaving date
Alejandro Cantú Jiménez (1972)	14.08.2014	2019 1)
Karin Exner-Wöhrer (1971)	27.05.2015	2020 2)
Carlos García Moreno Elizondo, first Deputy Chairman (1957)	14.08.2014	2023 5)
Bettina Glatz-Kremsner (1962)	30.05.2018	2023 5)
Peter Hagen (1959)	25.05.2016	2019 1)
Edith Hlawati (1957), Chair 6)	28.06.2001 to 29.05.2013, reappointed on 30.05.2018	2023 5)
Carlos M. Jarque (1954)	14.08.2014	2022 4)
Peter F. Kollmann (1962)	20.09.2017	2021 3)
Reinhard Kraxner (1970)	14.08.2014	30.05.2018
Daniela Lecuona Torras (1982)	30.05.2018	2022 4)
Stefan Pinter (1978)	14.08.2014	30.05.2018
Wolfgang Ruttenstorfer, Chairman (1950) 7)	27.05.2010 to 14.08.2014, reappointed on 27.05.2015	30.05.2018
Oscar Von Hauske Solís (1957)	23.10.2012	2023 5)

Members of the Supervisory Board delegated by the Staff Council		
Silvia Bauer (1968)	30.01.2009 to 03.11.2010, 26.07.2012 to 12.10.2018	
Walter Hotz (1959)	Re-delegated on 06.05.2011	
Werner Luksch (1967)	03.08.2007 to 20.10.2010, Re-delegated on 11.01.2011	
Renate Richter (1972)	12.10.2018	
Alexander Sollak (1978)	03.11.2010	
Gottfried Kehrer (1962)	27.10.2010	

1) The term of office ends at the Annual General Meeting for the 2018 financial year (May 29, 2019).
2) The term of office ends at the Annual General Meeting for the 2019 financial year (provisionally May 2020).
3) The term of office ends at the Annual General Meeting for the 2020 financial year (provisionally May 2021).
4) The term of office ends at the Annual General Meeting for the 2021 financial year (provisionally May 2022).
5) The term of office ends at the Annual General Meeting for the 2022 financial year (provisionally May 2023).
6) Chairperson since May 30, 2018.
7) Chairperson until May 30, 2018.

Thomas Arnoldner was elected Chief Executive Officer (CEO) of Telekom Austria Aktiengesellschaft as of September 1, 2018 for a term of three years with an extension option of two additional years. The contracts of Alejandro Plater, Chief Operating Officer (COO), and Siegfried Mayrhofer, Chief Financial Officer (CFO), were renewed and run just as long as Thomas Arnoldner's contract until August 31, 2021 with an extension option of two additional years to August 31, 2023.

Non-financial performance indicators

In addition to the information below we refer to the separate consolidated non-financial report in accordance with Section 267a (6) UGB.

Corporate social responsibility

Telekom Austria AG and its subsidiaries, hereinafter referred to as the A1 Telekom Austria Group, strive to increase enterprise value in a sustainable manner, while taking into account all relevant economic, ecological and social aspects. This goal is supported by the Group's commitment to the Austrian Corporate Governance Code and the application of all the requirements of the internal control system, the Code of Conduct and the compliance guidelines. Integrated sustainability management, which comprises defined standards, processes and reporting, compliance with the principles of the UN Global Compact and regard for human rights ensure the development of strategies and goals oriented towards sustainability and the involvement of all business units and hierarchies.

The environmental management system at A1 Telekom Austria Aktiengesellschaft in Austria, A1 Slovenija d.d. in Slovenia, Vip mobile d.o.o. in the Republic of Serbia and one.Vip DOOEL in the Republic of Macedonia is certified in accordance with ISO 14001. Furthermore, EMAS (eco management and audit scheme) requirements in Austria and Slovenia are met. Energy management at A1 Telekom Austria Aktiengesellschaft is also ISO 50001 certified. Since 2014, A1 Telekom Austria Aktiengesellschaft has been the first carbon neutral network in Austria to be assessed and validated by TÜV SÜD in line with the PAS 2060 international standard.

Employees

The A1 Telekom Austria Group had 18,705 employees at the end of 2018 (2017:18,957). Headcount in the Austria segment was reduced by 2.9% to 8,010 employees as part of the ongoing restructuring measures. Around 45% of existing employees in Austria have civil servant status (2017: 47%). The number of employees in the CEE segments was in total slightly declining. The increase in "Holding incl. A1 Digital" is attributable to the continued increase in the workforce of the subsidiary A1 Digital, which was founded in the previous year.

To further expand its competitiveness and innovative drive, the A1 Telekom Austria Group invests in sound professional training for its employees on an ongoing basis. For this purpose the use of its central e-learning platform should be enhanced to provide training to all its employees throughout the company at any time and in any place. The platform currently comprises 15 learning providers and 1,920 online courses (2017: 894 online courses) and virtual classes. 99,578 online courses were completed in 2018. Furthermore, employee skills are also developed using a group-wide collaborative tool that ensures virtual teamwork within the company. The A1 Learning Hub functions as a development platform. It developed and organized more than 42 training opportunities for 526 participants (2017: over 500) in the course of 2018. In addition to this central training, the A1 Telekom Austria Group subsidiaries have also developed their own training programs tailored to the needs of their respective markets. To meet future requirements for experts and managers, the A1 Telekom Austria Group in Austria is particularly committed to apprenticeship training and offers university and college graduates a twelve-month graduate program, as well as a dual study program in cooperation with University of Applied Sciences Technikum.

Innovation and technology

The further development of the network infrastructure will play a central role in ensuring that the Group is optimally equipped for the dynamically growing requirements in an era of digital change and because this forms the basis for innovative products and services. Accordingly, the Group's mobile and fixed network infrastructure was continuously expanded once again in 2018. Convergence, i.e. the intelligent combination of the mobile and fixed network infrastructure, enables efficient and extended regional coverage with increasingly large bandwidths.

State-of-the-art, highly secure data centers will continue to gain in importance in the future. Accordingly, they represent the third pillar of the A1 Telekom Austria Group's infrastructure strategy alongside mobile and fixed-line. In this context, the A1 Telekom Austria Group successfully completed the construction of another ultra-modern data center in Vienna in 2018.

In Austria, the fixed-line broadband expansion was continuously driven forward by the accelerated fiber roll-out in the form of FTTC (fiber to the curb), FTTB (fiber to the building) and FTTH (fiber to the home). While fiber is coming closer and closer to the customer, the capacity of existing copper lines is also being increased. This is being done with a combination of vectoring – a technology for suppressing interfering signals – with transmission technologies such as VDSL2 and G.fast. In order to meet the requirements of future mobile communication technologies such as 5G and the accompanying new services, the Group has also continued to press ahead with the roll-out of fiber to all mobile base stations.

The A1 Telekom Austria Group offers the LTE (long-term evolution) mobile communication standard in Austria, Bulgaria, Croatia, Slovenia, the Republic of Serbia, and the Republic of Macedonia. The further acceleration of the roll-out of 4G LTE Advanced Pro in 2018 led to a significant expansion in the supply of superfast mobile internet in Austria, Bulgaria, Croatia, Slovenia, the Republic of Serbia, and the Republic of Macedonia. To achieve even faster mobile internet, the A1 Telekom Austria Group is using LTE carrier aggregation with 256 QAM (a complex modulation technique) at selected locations in Austria, Croatia, and the Republic of Serbia, enabling data rates of up to 400 Mbps. As part of the roll-out of 4G LTE Advanced Pro in all countries covered by the A1 Telekom Austria Group, 4x4 MIMO (multiple input multiple output) is also being used to increase data transmission speeds on a targeted basis where these capacities are required.

Disclosure in accordance with Section 243a of the Austrian Business Enterprise Code ("UGB")

Shareholder structure and capital disclosures

At the end of 2018, a total of 51.00% or 338,895,000 shares of Telekom Austria Aktiengesellschaft were held by América Móvil B.V., Netherlands ("América Móvil B.V."; formerly Carso Telecom B.V.), a wholly owned subsidiary of América Móvil, S.A.B. de C.V. ("América Móvil"). The Republic of Austria holds 28.42% via Österreichische Bundes- und Industriebeteiligungen GmbH ("ÖBIB")[12], while the remaining 20.58% of the shares are in free float. 0.1% or 0.4 million shares of the latter were held by the company itself. Employee shares that are being held in a collective custody account are also part of the free float. The associated voting rights are exercised by a custodian (notary). The total number of no-par value shares remains at 664,500,000.

	2018	2017	Change in %
Treasury Shares	415,159	415,159	0.0

Further details on treasury shares are provided in Section 28 of the Notes.

Standard change-of-control clauses that could ultimately lead to the termination of contracts affect the majority of financing agreements. None of these clauses came into effect in the 2018 financial year or up until the date of this report.

The following information concerning the shareholders' agreement is based solely on publicly available information.[13] The company has no additional information. The shareholders' agreement between ÖBIB, América Móvil and América Móvil B.V., Netherlands ("América Móvil B.V."; formerly "Carso Telecom B.V."), came into force on 27 June 2014 (see Note (28)). Under the terms of the shareholders' agreement, the parties have undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria Aktiengesellschaft by exercising their voting rights on a concerted basis. The shareholders' agreement also contains provisions on the joint exercise of voting rights in the committees of the company for the election of Supervisory Board and Management Board members and restrictions on the sale of shares. The Supervisory Board of the company consists of ten shareholder representatives, of which eight members are nominated by América Móvil B.V. and two by ÖBIB. ÖBIB has the right to nominate the chairman of the Supervisory Board. América Móvil B.V. has the right to nominate the deputy chairman. The Management Board of the company consists of three members. Two members are nominated by América Móvil B.V., while one member of the Management Board, namely the Chief Executive Officer (CEO), is nominated by ÖBIB. The Extraordinary General Meeting on 14 August 2014 also amended the Articles of Association to state that, as long as the Republic of Austria directly or indirectly holds at least 25% plus one share of the share capital of the company, resolutions on capital increases and the issue of instruments containing a conversion right or a conversion obligation for shares of the company and amendments to the provisions of the Articles of Association relating to capital increases and such instruments shall require a majority of at least three quarters of the share capital represented at the vote on the resolution.

ÖBIB and América Móvil B.V. have agreed that at least 24% of the shares of the company should be in free float while the shareholders' agreement is in place. This minimum free float requirement is based on ÖBIB's maximum equity interest of 25% plus one share. If ÖBIB holds more than 25% plus one share of the share capital of the company, the minimum free float requirement decreases accordingly so that América Móvil can retain an equity interest in the company of 51%. If the number of shares in free float falls below the minimum while the shareholders' agreement is in place, (i) América Móvil B.V. undertakes to sell shares within the next 24 months and (ii) América Móvil undertakes to ensure that neither it nor its subsidiaries purchase any additional shares until the minimum free float requirement is restored.

As long as ÖBIB holds 25% plus one share or more of the share capital of Telekom Austria Aktiengesellschaft, ÖBIB shall have the following rights of codetermination in accordance with the voting rights agreement: the right to veto capital increases of Telekom Austria Aktiengesellschaft and its subsidiaries, the issue of certain convertible instruments, the appointment of the auditor of the financial statements, related party transactions, the relocation of the registered office of the company and material business functions, including research and development, the disposal of the company's core business, and

12) ÖBIB will be transformed into a stock company due to the change of the "ÖIAG Gesetz 2000" according to Sec 245ff AktG. The company will be transformed into Österreichische Beteiligungs AG.

13) Information on the takeover offer (9 May 2014): https://www.a1.group/en/ir/12474
Information on the capital increase as of 7 November 2014: https://www.a1.group/en/ir/14887

changes to the name of Telekom Austria Aktiengesellschaft and the brands of Telekom Austria Aktiengesellschaft, among other things. ÖBIB shall also be granted the blocking minority rights accruing by law to a minority shareholder with an equity interest of 25 % plus one share. ÖBIB's veto rights in connection with capital increases and the issue of certain convertible instruments are also set out in the Articles of Association of the company. If ÖBIB's equity interest falls below 20 % but remains above 10 %, ÖBIB shall retain certain veto rights. The voting rights agreement shall expire automatically if the equity interest held by one of the parties falls below 10 %.

Risk management

Principles and methods

As one of the leading telecommunications companies in Austria as well as Central and Eastern Europe, the A1 Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. The A1 Telekom Austria Group's risk management system analyses risk areas systematically, assesses the potential impact, improves existing risk avoidance and risk elimination measures, and reports on the status and developments in the Supervisory Board. In this process, the A1 Telekom Austria Group relies on close cooperation between Group officers and the local risk officers. The risk management system is made up of seven risk categories.

Risk management is performed by analyzing risks and opportunities in connection with the short-term and medium-term planning and ongoing business operations. One key element for risk management is to develop effective measures for reducing and perceiving risks. These are continuously updated by way of monthly performance calls (MPC) and leadership team meetings (LTM) and by analyzing critical deviations and initiated measures. The overall risk situation of this risk category is derived from the sum of the individual risks. In addition to the fixed-line and mobile communications market in Austria, the A1 Telekom Austria Group holds leading positions in six other telecommunications markets abroad. This ensures diversification in terms of both sectors and geographical regions. The risk sets of the respective markets vary, which is why risk management is the responsibility of the local operational units. Risk management is controlled by the holding company. In addition to the regular operating meetings (MPC) and strategic meetings (LTM), a multi-year plan is also created. This close integration of business planning and risk management ensures appropriate risk control.

A1 Telekom Austria Group's risk management is monitored by the Audit Committee of the Supervisory Board.

The most important risk categories and individual risks that could materially influence the net assets, financial position and results of operations of the A1 Telekom Austria Group are explained below.

Risks

1. Market and strategic risks

High competitive intensity in the A1 Telekom Austria Group's markets is leading to price reductions in both mobile communications and data traffic. There is a risk that competition will increase amidst the infrastructure by Open Access Network providers (OAN). Additional competition is arising from innovative over-the-top players (OTTs), who are able to offer their services without owning a network. There is a risk that traffic volume growth cannot offset these price declines. In addition, the monitoring of key macroeconomic indicators in order to assess any changes in consumer behavior is an important aspect of risk management as well as strategic pricing and product design.

The telecommunications sector is facing the challenge of being able to offer new services and products at increasingly faster rates. Cloud services, over-the-top services and machine-to-machine are just a few examples of new business areas where the A1 Telekom Austria Group is convinced of their growth potential. In addition, the growing importance of digitalization is taken into account with A1 Digital International GmbH. However, shorter innovation cycles are also associated with innovation risks. Within the América Móvil Group, the A1 Telekom Austria Group is involved in the discussion on innovations.

2. Compliance risks

The annual compliance risk assessment process – which is an essential element of the A1 Telekom Austria Group's compliance management system – identifies relevant compliance risks on the basis of structured management interviews and workshops and defines risk-mitigating measures. The A1 Telekom Austria Group focuses on prevention by means of training and uncompromising application of internal and external guidelines – such as capital market compliance and a focus on compliance at management level (tone at the top). The Compliance Management System (CMS) is also regularly reviewed internally and externally.

Data protection risks are a relevant section of compliance risks. The products and services of the A1 Telekom Austria Group are subject to data protection and data security risks, particularly with regard to unauthorized access to customer, partner or employee data. Violations of the EU General Data Protection Regulation (GDPR), which has been in force since May 25, 2018, may result in considerable legal and financial risks. To minimize potential risk, the EU General Data Protection Regulation has been implemented in interdisciplinary projects within the A1 Telekom Austria Group since early 2016. Technical and organizational measures have also been implemented on the basis of risk assessments. All companies of the A1 Telekom Austria Group undertake to comply with the most stringent data protection and data security standards. In 2018, there was a particular focus on data privacy during the compliance risk assessment in order to check the implementation of GDPR.

3. Physical risks

Technical and topographical risks

Maintaining availability and a high level of reliability of the services and products offered is a key aspect of operational risk management, as different threats such as natural disasters, major technical disruptions, third-party construction work, hidden faults or criminal activities can all impair their quality. Long-term planning takes technological developments into account. The redundancy of critical components ensures failure safety, and efficient organizational structures for operations and security serve to secure high standards of quality. Furthermore, a separate Group guideline ensures uniform methods for the recognition and management of the most important risks. The ongoing identification and assessment of risks flows into the decision-making process in terms of the implementation of risk minimization measures and the self-sustaining ability of the A1 Telekom Austria Group. Whenever a major disruption occurs, causes are clarified and conclusions are drawn on ways to reduce the risks of repeating the same causes of error. A central approach of insurance against physical damage also helps to minimize the financial effects.

Environmental risks

Climate change can give rise to risks for the A1 Telekom Austria Group's network infrastructure (ranging from rising average temperatures and high rainfall levels through to flooding, mudslides, etc.). The A1 Telekom Austria Group is actively committed to climate protection and continuously observes developments in this area in order to ensure that it can initiate measures to protect its infrastructure facilities as necessary. The impact of this risk category on financials and customer experience was limited in recent years.

4. Cyber risks

The A1 Telekom Austria Group places great emphasis on the implementation of cyber security standards. These are covered by a series of internal guidelines and procedures that are controlled, implemented and monitored for effectiveness in critical situations by means of defined responsibilities. Prevention of possible risks is the primary focus in critical and important network elements as well as business and operational support systems (BSS & OSS). The A1 Telekom Austria Group uses the international IT standards for security techniques (ISO 27001) as a basis and has defined uniform and state-of-the-art security information standards and security information policies.

Essential elements in managing cyber risks are continuous assessments and software updates to the infrastructure to be protected as well as employee training. The A1 Telekom Austria Security Committee is made up of highly qualified security experts from all countries in which the A1 Telekom Austria Group operates and regularly exchanges information about the latest local, regional, and global cyber risks and cyber-attacks. This working group also discusses and coordinates cross-country protection measures in critical situations.

5. Operational risks

In addition to operational management of business-critical systems (billing, call servers, gateways, etc.), which is performed by means of redundancies, standard processes, and authorization as well as access management, this category includes **personnel risks.**

The A1 Telekom Austria Group counters personnel-related risks in various ways. For example, young talent is recruited as part of the "1A Career" program, which focuses on graduates, students and apprentices and ensures diversity in the company. The risk of losing key employees is counteracted by means of forward-looking skill management, succession planning, and Group-wide talent management. The in-house A1 Learning Hub development platform supports employees in the development of their skills and abilities and serves as a platform for the Group-wide transfer of expertise. A central e-learning platform provides training at any time and in any place throughout the Group. In addition to business-plan-oriented cost planning, human resources planning includes measures aimed at encouraging employee mobility.

In 2018, management of personnel risks added the challenge of developing digital competencies in all departments to its focus. These digital competencies are an essential pillar of a future-oriented company and allow an optimization of human resources by means of a digital shift of sales, service, and monitoring processes. They are also essential to do more than just survive in new markets and with digitalized business models. This is being initiated via the integration of start-ups, broad-based development measures, and the digital development of key employees of the A1 Telekom Austria Group and will be focused on in the coming years.

In 1996, civil servants of the Republic of Austria were allocated to Telekom Austria Aktiengesellschaft or predecessor companies until their retirement in accordance with the Austrian Postal Services Structure Act ("Poststrukturgesetz"). Transfers within and outside the A1 Telekom Austria Group are limited. Civil servants are employed in accordance with public law. The rights and duties associated with their employment status are exclusively based on provisions under public law, particularly the Public Sector Employment Law of 1979 ("Beamten-Dienstrechtsgesetz 1979").

Civil servants cannot be laid off. Therefore, their employment contract cannot be unilaterally terminated if the need for their employment no longer exists. In the event of a breach of duty, performance deficiencies, or a permanent incapacity to work, complex administrative procedures are necessary. Due to their salary structure, civil servants normally move to the next remuneration level every two years.

Around 45 % of employees in the Austria segment have civil servant status. This corresponds to around 19 % at Group level. To address the structure of employee costs, the Austria segment has developed not only several social plans in cooperation with employee representatives, but also models that enable employees with civil servant status to transfer to government ministries. Civil servants are also encouraged to take part in internal mobility initiatives within the context of integrated skill management .

6. Financial risks

A1 Telekom Austria Group is exposed to market risks, including liquidity risk, interest rate and foreign currency exchange rate risk and credit risk associated with underlying financial assets, liabilities and anticipated transactions.

Liquidity risk is the risk that A1 Telekom Austria Group will not be able to meet its financial obligations as they fall due. A1 Telekom Austria Group's approach to managing liquidity is to ensure that A1 Telekom Austria Group will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. For this purpose a monthly rolling consolidated liquidity planning is drawn up, which serves as the basis for determining the liquidity requirement. Furthermore there is a liquidity reserve in the form of committed credit lines.

Interest rate and foreign currency exchange rate risk is the risk that the income of A1 Telekom Austria Group or the value of a financial instrument held by A1 Telekom Austria Group is influenced by changing foreign exchange rates and interest rates. The objective of risk management is to manage and control these risk exposures within acceptable parameters.

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from accounts receivable trade and investment activities. Due to internal guidelines and counterparty limits there is neither significant credit risk nor concentration.

Investment risks

In general, the A1 Telekom Austria Group counters investment risks through measures such as the active management of equity investments by means of target requirements, coordination processes and, where acquisitions of equity interests are concerned, thorough due diligence and enterprise valuation.

It should also be mentioned that there is a profit and loss elimination agreement in place between A1 Telekom Austria AG and Telekom Austria Personalmanagement GmbH. Based on this agreement, A1 Telekom Austria AG takes on the profit or loss of Telekom Austria Personalmanagement GmbH and ensures its liquidity. In addition, there is a profit and loss elimination agreement in place between Telekom Austria AG and Telekom Projektentwicklungs GmbH (TPG) and Telekom Finanzmanagement GmbH (TFG), on the basis of which TFG must transfer its profit or loss to TPG, which must accept the profit or loss of TFG, and TPG must transfer its profit or loss to Telekom Austria AG, which must accept the profit or loss of TPG.

7. Political, legal and regulatory risks

Telecommunications services offered by a provider with significant market power are subject to extensive network access and price regulations. In Austria, the A1 Telekom Austria Group is classified as this kind of provider in several sub-markets. Regulation at the wholesale level restricts operational flexibility with regard to products. There is also an obligation to provide access to infrastructure and fixed-line services to alternative providers. The foreign subsidiaries are also subject to regulatory frameworks. Additional regulatory decisions, such as further reductions in mobile and fixed-line termination rates as a result of the European Commission's new legal framework (European Electronic Communications Code) as well as the reduction of surcharges for international calls within the EU, could negatively affect the A1 Telekom Austria Group's earnings development.

The new regulation on net neutrality and roaming has been in force since 2016. In accordance with the regulation, Internet access service providers must treat all data traffic equally regardless of transmitter, receiver, application, or device. In addition to Internet access services, specialized services can also be offered, although this has certain limitations. However, the regulation on net neutrality establishes few details regarding implementation, which resulted in different interpretations in practice. A1 Telekom Austria AG is currently objecting to two decisions by the Austrian regulatory authority regarding net neutrality at the Austrian Federal Administrative Court. The proceedings are not yet complete.

The contents of the roaming regulation have already been fully implemented in all the companies of the A1 Telekom Austria Group that operate in the EU member countries Austria, Bulgaria, Croatia, and Slovenia. The named provisions have a long-term negative impact on roaming revenues.

In 2016, the European Commission presented the first draft of a new directive revising the current framework, access, authorization, and universal service directives and introducing a range of new regulations (European Electronic Communications Code – EECC). This initial proposed legislation was negotiated in the European Parliament and at the level of the EU member states. An agreement on this was reached in mid-2018. The European Parliament has again brought forward a previous proposal for the abolition of surcharges for international calls within the EU. It is now included in a package of measures in a somewhat weaker form. The final directive was issued in December 2018. This will involve both legal-regulatory risks as well as financial risks in future. In particular, the reduction of surcharges for international calls to a maximum of 19 Euro cents per minute and for SMS of 6 Euro cents per text message starting May 15, 2019 will have negative financial effects on the entire telecommunications industry.

The frequency allocation of the 3.4–3.8 GHz band is imminent in Austria. The bidding documents were published in September 2018, while the auction itself will take place in the first quarter of 2019. The multi-band auction for 700, 1500, and 2100 MHz is planned for the first quarter of 2020.

The A1 Telekom Austria Group and its subsidiaries are party to a number of legal proceedings both in and out of court with public authorities, competitors, and other parties. An ongoing dialog with the stakeholders involved and a regular exchange of information on controversial issues that could pose a threat to the company enable the Group to identify problems at an early stage and develop measures to counteract them in a targeted manner if need be.

Internal control system for financial reporting

The Telekom Austria Aktiengesellschaft has an internal control system (ICS) for the financial reporting process, as required by law. The ICS is intended to provide reasonable assurance regarding the reliability, completeness, and accuracy of external financial reporting in compliance with international and national accounting standards. Regular internal reporting to Management and the review of the internal control system by Internal Audit also ensure that weaknesses are identified promptly or at an early stage as well as reported and eliminated accordingly. The most important content and principles apply to all A1 Telekom Austria Group subsidiaries. The effectiveness of this system is reviewed, analyzed and assessed at regular intervals. At the end of each year, the Group's Management carries out an assessment of the ICS for relevant companies with the involvement of the respective business units. Based on the findings of this assessment and the defined criteria, the Management has determined that the internal control system regarding financial reporting as of December 31, 2018 is effective.

Due to the listing of the ultimate parent, América Móvil, on the New York Stock Exchange (NYSE), the implementation of the U.S. Sarbanes-Oxley Act (SOX) is required. To this end, an adjustment and amendment of the internal control system to reflect this standard was implemented in the 2015 financial year.

Outlook

In 2018, A1 Telekom Austria Group again achieved growth in its revenues and its EBITDA adjusted for one-off and FX effects as well as restruc-turing charges. This was achieved thanks to a clear focus on high-value customers in the mobile business and an ongoing strong fixed-line business with increasing significance of TV content and a growing solutions & connectivity business. Demand for mobile WiFi routers also increased. In Austria, the competition launched convergent offerings for the first time in autumn 2018. In the mobile market, the dynamics in Austria and most CEE markets were relatively unchanged year-on-year. At the same time, the economic situation remained positive in all of the Group's markets. The Belarusian Rouble depreciated by 9.3 % against the Euro (based on the period average). Ongoing cost efficiency in-creases enabled the translation of the solid revenue growth into solid growth of operational EBITDA.

For the full year 2019, most of the market dynamics mentioned above are expected to remain. In Austria, development with regard to the new convergent providers is yet to be seen, while the competitive environment in the mobile markets of the CEE are expected to show similar trends as in 2018. However, demand for fixed-line services is expected to serve as a positive driver across all markets. As in 2018, TV con-tent and solutions & connectivity will be an important element here.

In this business environment, the Management of A1 Telekom Austria Group remains committed to its growth strategy, which is focused on three strategic elements: exceling in the core business, expanding the portfolio, and targeted M&A. As in previous years, results are expected to gain support from ongoing efforts to continuously increase operating efficiency.

Vienna, February 11, 2019
The Management Board

Thomas Arnoldner, CEO

Alejandro Plater, COO

Siegfried Mayrhofer, CFO

Auditor's Report[1)]

Report on the Financial Statements

Audit Opinion

We have audited the financial statements of **Telekom Austria Aktiengesellschaft, Vienna,** These financial statements comprise the balance sheet as of December 31, 2018, the income statement for the fiscal year then ended and the notes.

Based on our audit the accompanying financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Company as of December 31, 2018 and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles.

Basis for Opinion

We conducted our audit in accordance with the regulation (EU) no. 537/2014 (in the following "EU regulation") and in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing (ISA). Our responsibilities under those regulations and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accor¬dance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the fiscal year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We considered the following matter as key audit matter for our audit:

Valuation of investments

Description

Telekom Austria Aktiengesellschaft shows significant investments in subsidiaries (mEUR 7.841) in its single financial statements as of December 31, 2018 according to Austrian GAAP and recorded impairments (mEUR 36) as well as reversals of impairments (mEUR 23) in the 2018 income statement.

Telekom Austria Aktiengesellschaft's disclosures related to investment in subsidiaries as well as the corresponding reversal of impairments are included in Note 1.2 (Long-term Assets), Note 2.1 (Long-term Assets) and Note 3.6 (Income from the Reversal of Impairment Losses on Long-Term Financial Assets) as well as note 3.7 (Expenses for Long-Term Financial Assets).

1) This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the financial statements together with our auditor's opinion is only allowed if the financial statements and the management report are identical with the German audited version. This audit opinion is only applicable to the German and complete financial statements with the management report. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

We considered the valuation of investments as a key audit matter as the related asset amounts are significant and the assessment process itself is complex and requires judgment. The impairment tests include assumptions that are affected by future market and economic conditions.

How our audit addressed the matter:

Our audit procedures included, among others, the following:

We tested the design and operating effectiveness of the controls over the impairment testing process and evaluated management's identification of cash generating units (CGU's).

With the assistance of EY valuations specialists, we challenged the main assumptions in management's valuation models including forecasted revenues, EBITDA margins, capital expenditure and changes in working capital as well as discount rates and growth rates. Furthermore, we reconciled the key assumptions to the plans submitted to the audit committee and tested the mathematical accuracy of the models.

We also evaluated the adequacy of disclosures made regarding impairment.

Responsibilities of Management and of the Audit Committee for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles, for them to present a true and fair view of the assets, the financial position and the financial performance of the Company and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Comments on the Management Report

Pursuant to Austrian Generally Accepted Accounting Principles, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the management report was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report in accordance with Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report.

Opinion

In our opinion, the management report for the Company was prepared in accordance with the valid legal requirements, comprising the details in accordance with Section 243a Austrian Company Code UGB, and is consistent with the financial statements.

Statement

Based on the findings during the audit of the financial statements and due to the thus obtained understanding concerning the Company and its circumstances no material misstatements in the management report came to our attention.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements, the management report and the auditor's report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether – based on our knowledge obtained in the audit – the other information is materially inconsistent with the financial statements or otherwise appears to be materially misstated.

Additional information in accordance with Article 10 EU regulation

We were elected as auditor by the ordinary general meeting at May 30, 2018. We were appointed by the Supervisory Board on October 15, 2018. We are auditors without cease since 2015.

We confirm that the audit opinion in the Section "Report on the financial statements" is consistent with the additional report to the audit committee referred to in Article 11 of the EU regulation.

We declare that no prohibited non-audit services (article 5 par. 1 of the EU regulation) were provided by us and that we remained independent of in conducting the audit.

Responsible Austrian Certified Public Accountant

The engagement partner is Mr. Erich Lehner, Certified Public Accountant.

Vienna, February 11, 2019

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Erich Lehner mp Wirtschaftsprüfer / Certified Public Accountant	Mag. (FH) Severin Eisl mp Wirtschaftsprüfer / Certified Public Accountant

Declaration of the Management Board

We confirm to the best of our knowledge that the separate financial statements prepared according to the applicable accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and that the management report describes the development and performance of the business and the position of the company in a way that it gives a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the management report describes the principal risks and uncertainties of the company.

The Management Board

Thomas Arnoldner, CEO A1 Telekom Austria Group	Alejandro Plater, COO A1 Telekom Austria Group	Siegfried Mayrhofer, CFO A1 Telekom Austria Group

Report by the Supervisory Board

Dear shareholders,

The A1 Telekom Austria Group successfully continued its growth trends in the financial year 2018. This was achieved through the systematic, earnings-oriented implementation of its corporate strategy, a clear focus on convergence and high-value customer segments, innovative products and services, and strict cost management. Additionally, the Group is particularly emphasizing on the uplift of growth and efficiency potential in the course of digital transformation.

Despite ongoing strong competition, the A1 Telekom Austria Group increased its revenues by 1.9 % and its EBITDA by 3.6 % on an operating basis (excluding one-offs and FX effects as well as restructuring charges) in 2018. This was achieved thanks to a clear focus on high-value customers in mobile communications and consistently strong fixed-line business with increasing significance of TV content in some markets and growth in the solutions and connectivity business. We recorded customer growth in the mobile segment as well as in broadband and TV products and made rapid progress with our infrastructure expansion. EUR 771 mn was invested on a group-wide basis, with the broadband expansion being one of the focal points.

The harmonization of the brands within the A1 Telekom Austria Group that was resolved in 2017 continued in 2018 and is already complete in Bulgaria, Croatia, and Slovenia.

In the financial year 2018, the Supervisory Board held seven Supervisory Board meetings and numerous committee meetings to discuss in detail the strategic orientation, investment and financing decisions, the composition of the Management Board as well as the business performance of the A1 Telekom Austria Group and its subsidiaries. Following an extensive discussion on strategic opportunities and challenges as well as potential courses of action to optimize business performance, the budget for 2019 was approved in December 2018.

There was a change in the Supervisory Board at the Annual General Meeting on May 30, 2018: Wolfgang Ruttenstorfer, Reinhard Kraxner, and Stefan Pinter stepped down with effect from May 30, 2018. Bettina Glatz-Kremsner, Daniela Lecuona Torras and myself were elected as members of the Supervisory Board by the Annual General Meeting on May 30, 2018. The Supervisory Board mandates of Carlos García Moreno Elizondo, Oscar Von Hauske Solís, and Carlos M. Jarque were renewed. In October 2018, Renate Richter was appointed to the Supervisory Board by the Works Council to replace Silvia Bauer. I would like to take this opportunity to express gratitude on behalf of the Supervisory Board to Wolfgang Ruttenstorfer, Reinhard Kraxner, Stefan Pinter, and Silvia Bauer for their high commitment and good cooperation.

Ernst & Young Wirtschaftsprüfungs-GmbH was also reappointed as the auditor at the Annual General Meeting on May 30, 2018. The Supervisory Board and the Audit Committee discussed the selection of the auditor in detail and made a corresponding recommendation to the Annual General Meeting to appoint Ernst & Young Wirtschaftsprüfungs-GmbH.

The Supervisory Board of Telekom Austria AG is committed to compliance with the Austrian Corporate Governance Code (ACGC) and to responsible corporate management and control aimed at generating sustainable enterprise value. All ten shareholder representatives have declared their independence within the meaning of Rule 53 of the ACGC. Due to the open discussion culture within the Supervisory Board, the annual self-evaluation of the Supervisory Board as stipulated in Rule 36 of the ACGC is performed every two years. The most recent self-evaluation was performed for the financial year 2016. Due to the reconstitution of the Supervisory Board, it was agreed by the Supervisory Board that the next self-assessment will take place in the financial year 2019.

In accordance with Rule 62 of the ACGC, the A1 Telekom Austria Group's compliance with the provisions of the ACGC and the accuracy of its public reporting in association with this are assessed externally every three years. The most recent evaluation, which was performed by Ernst & Young Wirtschaftsprüfungs-GmbH at the beginning of 2017, found no facts that conflicted with the declaration made by the Management Board and the Supervisory Board in the financial year 2016 concerning observance of and compliance with the "comply or explain" rules or the recommendations of the ACGC.

In 2018, the Audit Committee of the Supervisory Board held five meetings to address financial reporting within the scope of preparing its Annual and Quarterly Financial Statements, and also performed its supervisory duties to monitor the effectiveness of the internal control system, the risk management system and internal auditing. The findings of the Audit Committee meetings were reported to the Supervisory Board on an ongoing basis. As part of its reporting, Ernst & Young Wirtschaftsprüfungs-GmbH credibly demonstrated its impartiality to the Audit Committee in accordance with Section 270 (1a) of the Austrian Business Enterprise Code (UGB).

At its meeting in July 2018, the Staff and Nomination Committee addressed the appointment of Thomas Arnoldner to the Management Board and the extension of the Management Board contracts of Alejandro Plater and Siegfried Mayrhofer.

The Remuneration Committee of the Supervisory Board addressed the remuneration of the Management Board and the contracts of the Management Board members at one meeting and in three resolutions adopted by written procedure.

The Annual Financial Statements of Telekom Austria AG and the Consolidated Financial Statements for the year ending December 31, 2018, were issued with unqualified audit opinions by Ernst & Young Wirtschaftsprüfungs-GmbH. The Management Report and the Group Management Report are consistent with the Annual Financial Statements and the Consolidated Financial Statements respectively. After prior consultation with the Audit Committee and following an extensive discussion and review, the Supervisory Board approved the Annual Financial Statements for 2018, which have therefore been adopted in accordance with Section 96 (4) of the Austrian Stock Corporation Act (AktG). After prior consultation with the Audit Committee and following an extensive discussion and review, it also agreed on the Consolidated Financial Statements prepared in accordance with IFRS as prescribed by Section 245a UGB, the Management Report, the Group Management Report and the Corporate Governance Report. Telekom Austria Aktiengesellschaft publishes a separate consolidated non-financial report in accordance with Section 267a UGB.

The Supervisory Board approves the Management Board's proposal for the distribution of profit, namely the distribution of a dividend of EUR 0.21 per eligible share for the financial year 2018, with the remaining amount being carried forward to new account.

On behalf of the Supervisory Board, I would like to thank the management and all employees, whose dedication and commitment allowed the A1 Telekom Austria Group to continue on its successful path in the financial year 2018. I also wish to express my particular gratitude to the customers and shareholders of the A1 Telekom Austria Group for the confidence they have placed in us. The Supervisory Board will continue to address in detail and actively press ahead with the long-term strategic orientation and development of the A1 Telekom Austria Group going forward.

Edith Hlawati
Chair of the Supervisory Board
Vienna, March 2019

Consolidated non-financial report

Consolidated non-financial report [1] of Telekom Austria Aktiengesellschaft in accordance with Section 267a of the Austrian Company Code (UGB) on environmental, social and employee matters, human rights, and combating corruption and bribery

The Telekom Austria AG, listed on the Vienna Stock Exchange, is a leading provider of digital services and communications solutions in Central and Eastern Europe with around 25 million customers in seven countries: Austria, Bulgaria, Croatia and Slovenia (A1), Belarus (velcom), the Republic of Serbia (Vip mobile), and the Republic of Macedonia (one.Vip). Via its affiliated company A1 Digital International GmbH (hereinafter referred to as A1 Digital), the Telekom Austria AG offers digital solutions in its core markets as well as in Germany and Switzerland. See the 2018 Group Management Report and Consolidated Financial Statements for information on business operations and the scope of consolidation.

Telekom Austria AG and its affiliated companies, hereinafter referred to as the A1 Telekom Austria Group, strive to increase enterprise value in a sustainable manner, while taking into account all relevant economic, ecological and social aspects. This goal is supported by the Group's commitment to the Austrian Corporate Governance Code and the application of all the requirements of the internal control system, the Code of Conduct and the compliance guidelines. Integrated sustainability management, which comprises defined standards, processes and reporting, compliance with the principles of the UN Global Compact and regard for human rights ensure the development of strategies and goals oriented towards sustainability and the involvement of all business units and hierarchies.

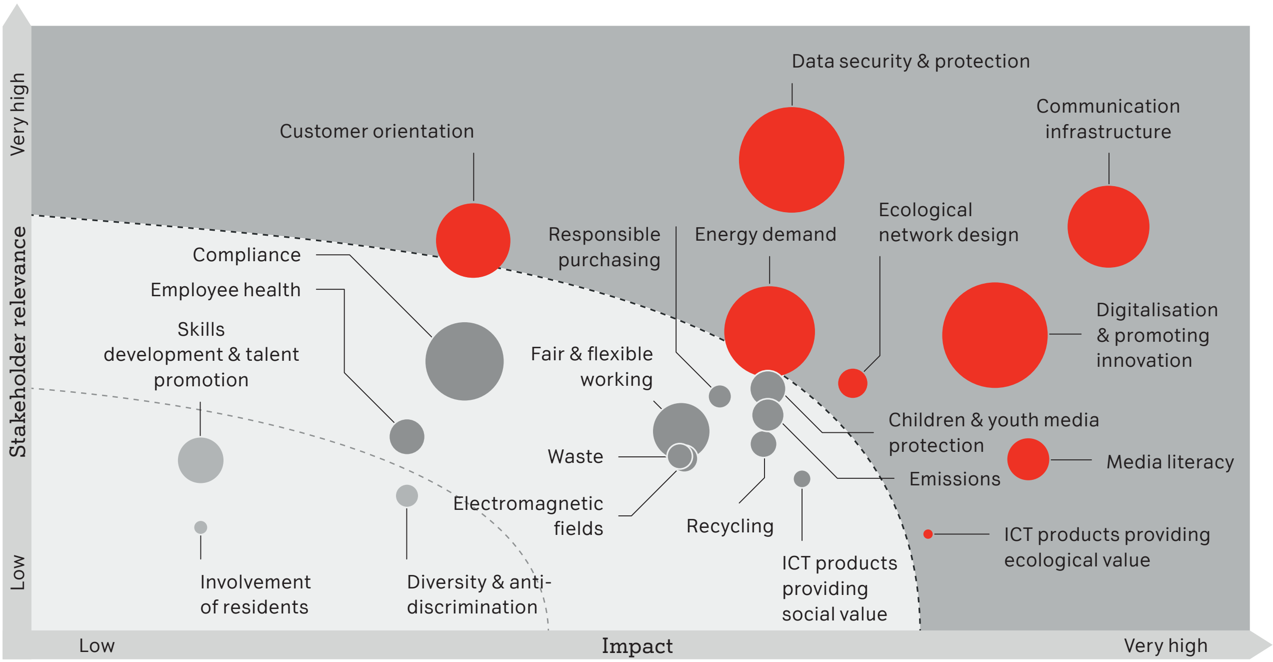
A materiality analysis was conducted with the help of various interest groups to identify central sustainability issues and material impacts. The analysis takes place on a regular (every two to three years) basis. Goals, which will be reviewed on an annual basis and adjusted if necessary, were derived from the results of the materiality analysis.

1) The German text of the signed statement, which refers to the German Version of the Report, is the only binding one. The English translation is not binding and shall not be used for the interpretation.

Identifying topics in the context of sustainability

	Involved stakeholders
1. Topic identification ▪ Identifying 68 relevant topics considering the requirements of the GRI Reporting Standard (topics, indicators, sector supplement). Topics determined in the course of the ongoing stakeholder dialogue as well as sector-specific topics were also covered in the process. ▪ Two-stage evaluation process resulting in 21 summarised topic groups ▪ Topic validation by external and internal experts	Internal experts, external experts from the fields of science, research and from NGOs
2. Impact evaluation ▪ Evaluation of potential impact of selected topics in the course of a workshop and in talks with external and internal experts (on a scale of 1 to 4 depending on impact magnitude) ▪ Assessment of relevant initiatives' contribution in the light of the UN's Sustainable Development Goals	(as above)
3. Online survey ▪ Assessment of the 21 selected topic groups by internal and external stakeholders in the course of an online survey (response: 700 participants) ▪ Selection and rating of top 10 topics in order of importance	Employees, customers, suppliers, the economy, politicians & special interest groups, media, the scientific, research & education communities

Materiality matrix



Bubble size represents business relevance for A1 Telekom Austria Group.

1. Information on the topics derived for the A1 Telekom Austria Group from the materiality analysis 2017

A topic's materiality (see the graphic "Identifying topics in the context of sustainability") is based on its impacts on the environment, society and economy as well as how interesting it is to A1 Telekom Austria Group's stakeholders. Thus, the topics most important to A1 Telekom Austria Group are those that have the biggest impact and those that are most relevant to the stakeholders. As an additional dimension, the topics were assessed with regard to their business relevance for A1 Telekom Austria Group. This allows for a perspective that takes into account the topics' sustainability context and their economic significance for the company.

In the following, the A1 Telekom Austria Group reports on its own activities and measures with regard to all topics derived from the analysis and from the Austrian Sustainability and Diversity Improvement Act. Within the A1 Telekom Austria Group, responsibilities for all of these topics have been defined in one or several departments.

2. Topics relating to business operations

The materiality analysis 2017 revealed the following topics relating to business operations: security and data protection, communication infrastructure, digitalization & promoting innovation, and customer orientation.

Security and data protection

The topic of security and data protection was identified as material by all stakeholder groups in the materiality analysis 2017. Through its business operations, the A1 Telekom Austria Group directly contributes to data protection in its markets.

The A1 Telekom Austria Group reports on the material risks relating to security and data protection in the risk report of the 2018 Group Management Report. These risks include the unauthorized use of personal data and cyberattacks on IT infrastructure. Compliance with high data protection standards is a fundamental requirement for the A1 Telekom Austria Group and safeguards customers' trust in the Group and thus solidifies its reputation. Long-standing trust and a heightened reputation in this field can lead to a competitive advantage. Various measures are taken in order to guard appropriately against risks and make the best possible use of opportunities, ranging from access policies and user access management to standardized and group-wide policies (e. g. information security policy) and training for employees. Certifications such as ISO 27001 (in Austria, Bulgaria, Croatia, and the Republic of Macedonia), the security information policy, security information standards and business continuity plans are included in the management approaches applied (see also 2018 Group Management Report). These aim to guarantee state-of-the-art data protection and a high security standard in order to avoid negative impacts within and outside the company as best as possible. Also used for this purpose are is the implementation of teams that specialize in responding rapidly and efficiently to cyber incidents (e. g. A1 CERT; computer emergency response team). Important security aspects are coordinated group-wide, such as the implementation of the EU General Data Protection Regulation (GDPR) – supported by sharing experiences in national (e. g. Cyber Security Platform of the Federal Chancellery) and international security associations (e. g. ETIS). The service lines, employees in shops, support communities, and contact forms on the websites are available as complaint mechanisms to all stakeholders. The position of data protection officer has also been created within the A1 Telekom Austria Group in response to the broader requirements for companies imposed by the General Data Protection Regulation of the European Union. The core of this regulation is the protection of personal data. The EU General Data Protection Regulation entered into force on May 25, 2018, and the A1 Telekom Austria Group has gradually implemented it in the countries covered by the regulation, starting in 2016. With regards to projects and products process adjustments were made and the annual risk assessment was adapted in order to comply with the requirements of the General Data Protection Regulation.

Furthermore, the A1 Telekom Austria Group encourages training and further education regarding security and data protection. Management systems are evaluated regularly. For example, the ISO certifications are evaluated annually and these were also carried out in 2018. Effectiveness is reviewed and monitored regularly on the basis of predefined key figures, which are not disclosed for competitive reasons. Adjustments are made on an intra-year basis, if necessary, for example in the event of attacks on databases such as the one in Austria in early October 2018. Besides extensive cooperation with the data protection authorities, measures such as the blocking of access were taken immediately. In addition, more than 23,800 e-learning modules on the topic of data protection were completed group-wide in 2018 (2017: 32,246).

Communication infrastructure

In the materiality analysis 2017, the topic "communication infrastructure" was identified as material both by stakeholders (particularly business representatives, customers, and the media) and with regard to impacts. The A1 Telekom Austria Group directly contributes in its markets by means of its business operations, which include the installation of communication infrastructure.

The A1 Telekom Austria Group is pursuing demand-oriented infrastructure expansion with the goal of driving forward digitalization in its markets. The infrastructure expansion is an important part of A1 Telekom Austria Group's technology strategy. The strategy takes the approach of ensuring a secure and stable network with a high level of system stability and the best possible transmission rates. Complaint mechanisms such as stores, service lines, and contact forms on the websites are available to all stakeholders.

The A1 Telekom Austria Group reports on the material risks relating to communication infrastructure in the risk report of the 2018 Group Management Report. Potential risks to an uninterrupted, seamless supply of bandwidth through the communication infrastructure include natural disasters caused by climate change (e. g. mudslides, avalanches, and floods) and human error (e. g. operating errors and insufficient redundancies). Measures to minimize risks include certification, the standardization of processes and the guarantee of multiple redundancies (multiple network layers that can temporarily compensate for the loss of a single level). With regard to opportunities, the ongoing protection and continuous improvement of communication infrastructure and supply performance provide a quality advantage as well as an enhanced image and reputation and thus potentially a competitive advantage.

The further development of the network infrastructure will play a central role in ensuring that the Group is optimally equipped for the dynamically growing requirements in an era of digital change. This also forms the basis for innovative products and services. Accordingly, the Group's mobile and fixed network infrastructure was continuously expanded once again in 2018. Convergence, i. e. the intelligent combination of the mobile and fixed network infrastructure, enables efficient and extended regional coverage with increasingly large bandwidths.

State-of-the-art and highly secure data centers will continue to gain in importance in the future. Accordingly, they represent the third pillar of the A1 Telekom Austria Group's infrastructure strategy alongside mobile and fixed-line. In this context, the A1 Telekom Austria Group successfully completed the construction of another ultra-modern data center in Vienna in 2018.

In Austria, the fixed-line broadband expansion was continuously driven forward by the accelerated fiber roll-out in the form of FTTC (fiber to the curb), FTTB (fiber to the building) and FTTH (fiber to the home). While fiber is coming closer and closer to the customer, the capacity of existing copper lines is also being increased. This is being done with a combination of vectoring – a technology for suppressing interfering signals – with transmission technologies such as VDSL2 and G.fast. In order to meet the requirements of future mobile communication technologies such as 5G and the accompanying new services, the Group has also continued to push the roll-out of fiber to all mobile base stations.

The A1 Telekom Austria Group offers the LTE (long-term evolution) mobile communication standard in Austria, Bulgaria, Croatia, Slovenia, the Republic of Serbia, and the Republic of Macedonia. The further acceleration of the roll-out of 4G LTE Advanced Pro in 2018 led to a significant expansion in the supply of superfast mobile Internet in Austria, Bulgaria, Croatia, Slovenia, the Republic of Serbia, and the Republic of Macedonia. To achieve even faster mobile Internet, the A1 Telekom Austria Group is using LTE carrier aggregation with 256 QAM (a complex modulation technique) at selected locations in Austria, Croatia, and the Republic of Serbia, enabling data rates of up to 400 Mbps. As part of the roll-out of 4G LTE Advanced Pro in all countries covered by the A1 Telekom Austria Group, 4x4 MIMO (multiple input multiple output) is also being used to increase data transmission speeds on a targeted basis where these capacities are required.

In the area of management systems, the A1 Telekom Austria Group has initiated the development of the future operations support system (future OSS). Systems of this type differ from existing management systems in that the data to be processed is stored in a data lake and processed from there. This open structure makes it possible to respond to new requirements extremely quickly and to address new questions in service assurance in a short space of time. In addition, the use of established management systems such as ISO 9001 will also continue.

Management systems are evaluated regularly. For example, the ISO certifications are evaluated annually and were also carried out successfully in 2018. Effectiveness is reviewed and monitored regularly, as well as adjusted if necessary, on the basis of predefined key figures, which are not published for competitive reasons.

Digitalization and promoting innovation

The materiality analysis 2017 determined that the topic of digitalization and promoting innovation is considered as material – both to stakeholders (particularly those in science and education, business representatives and the media) and with regard to the impacts. Digitalization is promoted primarily by telecommunications companies, whereby the A1 Telekom Austria Group has a direct and indirect impact on society, the environment, and the economy with regards to this issue.

The A1 Telekom Austria Group understands digitalization and the promotion of innovation as opportunities, as they offer potential to tap into new business areas in line with the cororate strategy and allow customer requirements to be identified at an early stage in order to design appropriate products and bring them to market. With regard to digitalization, it is particularly important within the company to help employees develop the skills and abilities required.

The A1 Telekom Austria Group sees itself as an enabler of digitalization with the aim of driving it forward in its markets. The growing significance of digitalization is taken into account with A1 Digital International GmbH and A1 Digital Deutschland GmbH. A1 Digital advises companies in digital transformation and assists them with the digitalization of their business areas. The focus lies on sector-specific applications for the Internet of Things (IoT), cloud-based products for the modern workplace, and security solutions.

Another concept to encourage innovation is the support for new companies as part of the "A1 Start Up Campus" initiative by the Austrian subsidiary A1. By 2018, 19 start-ups had already been promoted since the initiative started in 2011. Research partnerships with notable scientific and industrial partners and joint projects with national and international institutions are supporting the A1 Telekom Austria Group in the launch of technologies of the future for market- and customer-oriented communications solutions. The A1 Telekom Austria Group is also a partner of the Industry 4.0 platform and is addressing the interoperability of IoT platforms within the Europe-wide H2020 project symbIoTe.

Customer orientation

In the materiality analysis 2017, the topic of customer orientation was identified as material by stakeholders (especially by customers, suppliers, business representatives, and employees), therefore the A1 Telekom Austria Group focuses on this topic.

The A1 Telekom Austria Group's objective is, in addition to providing high-performance fixed-line and mobile infrastructure, to become the first point of contact and key partner for digital transformation in order to unlock new potential in digital services. A variety of management systems, such as ISO 18295-1 for customer contact centers, are used for this purpose in order to offer customers the best possible service. Complaint mechanisms such as service lines, e-mails, and contact form on the company websites are available to all stakeholders in the A1 Telekom Austria Group.

The effectiveness of the management system is reviewed on a regularly basis and then measures are taken and adjustments are made if necessary, based on predefined key figures, which are not published for competitive reasons.

Key figures: RGUs and mobile communication

RGUs [1] (in '000)	2018	2017	Change
in Austria	3.327,7	3.390,4	-1,9%
in Bulgaria	1.029,0	1.005,0	2,4%
in Croatia	681,8	654,1	4,2%
in Belarus	657,3	463,4	41,8%
in Slovenia	182,1	183,0	-0,5%
in the Republic of Macedonia	383,1	340,7	12,5%
Total	**6.260,9**	**6.036,5**	**3,7%**
of which Broadband-RGUs in Austria	1.434,8	1.447,3	-0,9%
of which Broadband-RGUs in Bulgaria	448,3	434,8	3,1%
of which Broadband-RGUs in Croatia	254,0	250,0	1,6%
of which Broadband-RGUs in Belarus	246,7	212,0	16,4%
of which Broadband-RGUs in Slovenia	73,7	70,4	4,8%
of which Broadband-RGUs in Macedonia	131,6	114,6	14,8%
TV-RGUs	**1.646,9**	**1.421,4**	**15,9%**
Mobile communication customers (in '000)			
in Austria	5.363,7	5.335,2	0,5%
in Bulgaria	3.934,3	3.977,1	-1,1%
in Croatia	1.833,3	1.772,7	3,4%
in Belarus	4.873,0	4.864,2	0,2%
in Slovenia	697,1	703,3	-0,9%
in the Republic of Serbia	2.195,2	2.182,8	0,6%
in the Republic of Macedonia	1.056,5	1.072,3	-1,5%
Total	**20.999,6**	**20.657,7**	**1,7%**

1) Revenue Generating Unit

3. Material environmental issues

In terms of environmental issues, the material impact by the A1 Telekom Austria Group is energy consumption. Approximately 80% of its total energy consumption results from the electricity consumption to operate its network. This includes the most important environmental measures to achieve maximum efficiency in this regard and to reduce the energy demand as far as possible. The materiality analysis 2017 showed that the most material issues with regard to the environment are energy demand, ecological network design, and information and communication technology (ICT) products providing ecological value. Unless otherwise stated, the risks and their management can be found in the risk report of the 2018 Group Management Report.

Besides natural disasters caused partly by climate change (see "Communication infrastructure"), CO_2 emissions due to communication infrastructure's energy demand are also a risk in terms of the environment. In terms of opportunities, digital and ICT products can help to lower emissions by increasing the efficiency of processes and either saving or significantly reducing the consumption of resources – e. g. due to reduced travel activities. To reduce the risks, 100% of electricity is sourced from renewable energy in Austria, solar power is promoted throughout the Group, and numerous measures are taken to use the required energy as efficiently as possible. These measures can range from using low-consumption equipment to increasing average temperatures at IT locations in order to reduce the need for cooling.

The environmental management system at A1 Telekom Austria Aktiengesellschaft in Austria, A1 Slovenija d.d. in Slovenia, Vip mobile d.o.o. in the Republic of Serbia and one.Vip DOOEL in the Republic of Macedonia is certified in accordance with ISO 14001. Furthermore, EMAS (eco management and audit scheme) requirements in Austria and Slovenia are met. Energy management at A1 Telekom Austria Aktiengesellschaft is also ISO 50001 certified. Since 2014, A1 Telekom Austria Aktiengesellschaft has been the first carbon neutral network in Austria to be assessed and validated by TÜV SÜD in line with the PAS 2060 international standard.

Energy demand and ecological network design

In the materiality analysis 2017, the topic of energy demand was identified as material with regard to impacts and by stakeholders (especially business representatives, politicians, and the media). The A1 Telekom Austria Group has a direct impact primarily through operating the communication infrastructure as part of its business operations. The topic of ecological network design, which includes the activities and measures for sustainably creating the company's own infrastructure, was identified as being material in the materiality analysis 2017 with regard to the impacts. The A1 Telekom Austria Group has a direct impact on the environment through the installation and operation of communication infrastructure.

The A1 Telekom Austria Group has set itself the goal of stabilizing or rather reducing energy demand and, at the same time, reducing CO_2 emissions. The Austrian subsidiary A1 is doing this with the help of recognized management systems such as ISO 50001 for energy management and ISO 14001 for environmental management. The latter is also implemented in Slovenia and the Republic of Serbia. The network design should be carried out as ecologically as possible, depending on the framework conditions. The A1 Telekom Austria Group has summarized its commitment in a group-wide environmental policy. It has set itself the goal of reducing electricity demand per transferred data volume (energy efficiency indicator) by 30% from 2015 to 2018 (based on 2015, measured by MWh per terabyte) and reduce CO_2 emissions by 25% by 2020 (based on 2012). The latter A1 Telekom Austria Group has not been able to come closer (status: +11% CO_2 emissions) by now due to acquisitions. In 2018, the energy efficiency indicator was 0.18 (2017: 0.24) MWh/terabyte. From 2015 to 2018, the electricity demand for transported data volumes had already been reduced by 69%. The target was thus overachieved.

Management systems are evaluated regularly. For example, the ISO certifications are evaluated annually and were successfully acquired for 2018. Effectiveness is reviewed and monitored regularly on the basis of predefined key figures. Adjustments are made throughout the year if necessary.

Direct and indirect energy (in MWh)

In accordance with the GRI Standard for Sustainability Reports: 302-1, 302-4

2018	Electricity[1]	Heating fuels[2]	District Heating	Fuels[3]	Total energy-consumption
Austria	300,611	14,304	30,165	46,544	391,624
Bulgaria	116,747	114	325	11,374	128,561
Croatia	65,423	3,716	3,378	5,942	78,459
Belarus	84,684	0	3,684	4,887	93,255
Slovenia	30,024	0	255	595	30,875
Republic of Serbia	51,613	82	1,430	2,896	56,020
Republic of Macedonia	30,173	0	0	1,976	32,148
A1 Telekom Austria Group	**679,275**	**18,216**	**39,238**	**74,213**	**810,942**
2017					
Austria	298,853	16,572	29,321	48,297	393,044
Bulgaria	108,380	126	298	12,170	120,973
Croatia	59,643	3,798	3,861	4,602	71,904
Belarus	75,548	0	3,346	4,809	83,703
Slovenia	29,984	0	278	626	30,887
Republic of Serbia	43,772	81	1,452	2,797	48,102
Republic of Macedonia	28,127	2,085	0	1,917	32,129
A1 Telekom Austria Group	**644,307**	**22,662**	**38,556**	**75,218**	**780,742**
Change (in %)					
Austria	1%	-14%	3%	-4%	0%
Bulgaria	8%	-9%	9%	-7%	6%
Croatia	10%	-2%	-13%	29%	9%
Belarus	12%	n. m.	10%	2%	11%
Slovenia	0%	n. m.	-8%	-5%	0%
Republic of Serbia	18%	1%	-2%	4%	16%
Republic of Macedonia	7%	-100%	n. a.	3%	0%
A1 Telekom Austria Group	**5%**	**-20%**	**2%**	**-1%**	**4%**

At the time of preparation, the environmental indicators for fiscal year 2018 were not yet available. In the table above, the figures include the period from November 1, 2017 to October 31, 2018, which can be considered a representative comparison period forfiscal year 2018. There were no significant requirement changes wherefore no fluctuations are assumed. Tables are subject to rounding differences. 1 joule = 2.77777778 x 10^{-10} MWh

1) Acquisition and own production, as well as diesel for emergency power generator
2) Oil and gas, not climatically adjusted
3) Diesel, petrol, CNG, LPG and natural gas without diesel for emergency power generator

Due to the on-going shift to district heating, fuels for heating were reduced by 14% in Austria. In Macedonia, only one location was heated with fuel. This location has been relinquished, which results in a reduction of heating fuels in Macedonia by 100% from 2017 to 2018. Due to acquisitions the vehicle fleet increased in Croatia and led to an increase in motor fuel by 29% in the same period.

Direct an indirect greenhouse gas emissions (CO_2-equivalents in t)

In accordance with the GRI Standard for sustainability reporting: 305-1, 305-2, 305-5

Energy demand not only represents A1 Telekom Austria Group's most significant environmental impact, but also its most important CO_2 source. Besides the increase of energy efficiency the use of renewable energy are measures to reduce CO_2 emissions. Scope-1-emissions include emissions from combustion of fossil fuels for heating and mobility. Scope-2-emissions indicate emissions, which arise from electric energy and district heating.

	Direct (Scope 1)	Indirect (Scope 2)		Total (Scope 1+2)		Total (Scope1+2+Comp.)	
2018		location-based	market-based	location-based	market-based	location-based	market-based
Austria	16,040	101,101	9,023	117,141	25,063	101,856	9,778
Bulgaria	4,344	66,455	66,455	70,799	70,799	70,799	70,799
Croatia	2,633	29,688	29,688	32,321	32,321	32,321	32,321
Belarus	1,753	22,684	22,684	24,437	24,437	24,437	24,437
Slovenia	158	12,625	18,348	12,783	18,506	12,783	18,506
Republic of Serbia	1,060	44,944	44,944	46,005	46,005	46,005	46,005
Republic of Macedonia	1,015	27,898	26,167	28,913	27,182	28,913	27,182
A1 Telekom Austria Group	**27,003**	**305,395**	**217,310**	**332,398**	**244,313**	**317,113**	**229,028**
2017							
Austria	17,090	100,311	8,777	117,401	25,867	101,483	9,949
Bulgaria	4,443	61,705	61,705	66,148	66,148	66,148	66,148
Croatia	2,319	27,300	27,300	29,619	29,619	29,619	29,619
Belarus	1,744	20,352	20,352	22,097	22,097	22,097	22,097
Slovenia	174	12,614	6,789	12,788	6,963	12,788	6,963
Republic of Serbia	982	38,174	38,174	39,156	39,156	39,156	39,156
Republic of Macedonia	1,115	26,501	26,501	27,615	27,615	27,615	27,615
A1 Telekom Austria Group	**27,867**	**286,957**	**189,599**	**314,824**	**217,466**	**298,906**	**201,548**
Change (in %)							
Austria	-6%	1%	3%	0%	-3%	0%	-2%
Bulgaria	-2%	8%	8%	7%	7%	7%	7%
Croatia	14%	9%	9%	9%	9%	9%	9%
Belarus	1%	11%	11%	11%	11%	11%	11%
Slovenia	-9%	0%	170%	0%	166%	0%	166%
Republic of Serbia	8%	18%	18%	17%	17%	17%	17%
Republic of Macedonia	-9%	5%	-1%	5%	-2%	5%	-2%
A1 Telekom Austria Group	**-3%**	**6%**	**15%**	**6%**	**12%**	**6%**	**14%**

At the time of preparation, the environmental indicators for fiscal year 2018 were not yet available. In the table above, the figures include the period from 1 November 2017 to 31 October 2018, which can be considered a representative comparison period for fiscal year 2018. There were no significant requirement changes wherefore no fluctuations are assumed.
Direct Scope 1 includes direct emissions from combustion of fossil fuels for heating and mobility; emissions from cooling agents are not considered.
Indirect Scope 2 includes indirect emissions from electric energy and district heating.
According to GHG protocol, "location-based scope 2" figures refer to the average emissions factors in the area in which the energy consumption takes place. The average value at national level is used.
According to GHG protocol, "market-based scope 2" figures refer to energy suppliers' emissions factors, insofar as these are available, or an individual energy product.

In Slovenia market-based scope 2 emissions rose by 170%, due to changes in the calculation method – for the first time the calculations were based on energy suppliers' emissions factors.

Fuel consumption by renewable and non-renewable energy source (in MWh)

2018	From non-renewable energy sources[1)]	From renewable energy sources[2)]
A1 Telekom Austria Group	97,013	4,449
2017		
A1 Telekom Austria Group	100,592	4,492
Change in %)		
A1 Telekom Austria Group	-4 %	-1 %

1) Oil, diesel, gasoline, LPG, CNG, and natural gas, including diesel for emergency power generators
2) Share of biofuels in diesel and gasoline

ICT products providing ecological value

Included among ICT products providing ecological value are products and services that make a significant contribution to more efficient use of resources and enable the users to reduce their environmental footprint. In the materiality analysis 2017, the topic was identified as material with regard to the impact. A direct impact within and outside the company is caused by the development of relevant products. Regarding ICT products providing ecological value no risks for the A1 Telekom Austria Group are known.

Regular evaluation of client requirements and innovation management help to develop ICT products with environmental added value, with the potential to contribute to reducing CO_2 emissions and preserving resources. These products include for example videoconference systems to reduce travelling activities. The products are regularly evaluated and assessed with regard to marketability and customer requirements and if necessary adapted or taken off the market. Complaint mechanisms for products such as stores, service lines, and contact forms on the websites are available to all stakeholders.

4. Social issues

With regard to social issues, the A1 Telekom Austria Group fulfills its responsibility to society with a special focus on teaching media literacy and reducing the digital gap in the countries in which it operates.

Media literacy

In the materiality analysis 2017, the topic of media literacy was identified as material with regard to the impact. Secure and competent interaction with new media is essential for employment and therefore also contributes to closing the digital gap. The A1 Telekom Austria Group's "A1 Internet for All" media literacy initiative offers free courses for everyone to encourage interaction with digital media. This has a direct impact on society and the economy. Regarding media literacy no risks for the A1 Telekom Austria Group are known.

The A1 Telekom Austria Group has set itself the goal to make a contribution to closing the digital gap. With the help of the group-wide "A1 Internet for All" initiative, it promotes media literacy in the countries in which it operates. The A1 Telekom Austria Group set itself the goal of reaching 150,000 participants in free Internet training by 2018. The "A1 Internet for All" initiative has already had more than 180,000 participants since 2011 so the goal has been surpassed.

Performance is reviewed and monitored regularly based on predefined key figures, such as the number of participants in media literacy training sessions. In Austria, the initiative is supported and evaluated scientifically by the NPO Center of the Vienna University of Economics. In 2018, the latter reconfirmed that "A1 Internet for All" is making a contribution to closing the digital gap in Austria. Adjustments are made throughout the year if necessary.

Participations in media literacy trainings: “A1 Internet for All”

	2018	2017	Change (in %)
Austria	26,923	26,615	1.2
Bulgaria	2,300	2,087	10.2
Croatia	n. a.	42	n. a.
Belarus	20	20	0.0
Slovenia	n. a.	13	n. a.
Republic of Serbia	21	40	-47.5
Republic of Macedonia	820	n. a.	n. a.
A1 Telekom Austria Group	**30,084**	**28,817**	**4.4**

5. Employee matters

The A1 Telekom Austria Group had 18,705 employees/ full time equivalents (FTE) at the end of 2018 (2017:18,957). Headcount in the Austria segment was reduced by around 3 % to 8,010 employees as part of the ongoing restructuring measures. Around 45 % of existing employees in Austria have civil servant status (2017: 47 %). The number of employees in the CEE segments was in total slightly declining. The increase in “Holding incl. A1 Digital” is attributable to the continued increase in the workforce of its affiliate A1 Digital, which was founded in the previous year.

Employees[1] as of 31 December 2018

	2018	2017	Change (in %)
Austria	8,010	8,246	-2.9
Bulgaria	3,685	3,751	-1.8
Croatia	1,682	1,680	0.1
Belarus	2,581	2,575	0.2
Slovenia	555	565	-1.9
Republic of Serbia	1,032	977	5.6
Republic of Macedonia	785	819	-4.1
Holding incl. A1 Digital	376	345	8.9
A1 Telekom Austria Group	**18,705**	**18,957**	**-1.3**

1) Full-time equivalent

In the A1 Telekom Austria Group’s view, the opportunities and risks in terms of employee matters particularly relate to the promotion of flexible and modern working and guaranteeing the right conditions for maintaining a work-life balance and a healthy work environment. Increased competitiveness as a result of higher employee productivity and the acquisition of qualified employees are seen as opportunities here. There are risks, for example, relating to reputation and the positioning as an attractive employer as well as the lack of key employees or the right skills in the era of digitalization. Measures to minimize risks include regular employee surveys (“Culture Pulse Checks”) and regular employee meetings as part of the “ROAD” performance model in order consequently to derive measures.

To further expand its competitiveness and innovative drive, the A1 Telekom Austria Group invests in sound professional training for its employees on an ongoing basis. For this purpose the use of its central e-learning platform should be enhanced to provide training to all its employees throughout the company at any time and in any place. The platform currently comprises 15 learning providers and 1,920 online courses (2017: 894 online courses) and virtual classes. 99,578 online courses were completed in 2018. Furthermore, employee skills are also developed using a group-wide collaborative tool that ensures virtual teamwork within the company. The A1 Learning Hub functions as a development platform. It developed and organized more than 42 training opportunities for 526 participants (2017: 500) in the course of 2018.

In addition to this central training, the A1 Telekom Austria Group subsidiaries have also developed their own training programs tailored to the needs of their respective markets. To meet future requirements for experts and managers, the A1 Telekom Austria Group in Austria is particularly committed to apprenticeship training and offers university and college graduates a twelve-month graduate program, as well as a dual study program in cooperation with University of Applied Sciences Technikum Wien.

Another core element of the opportunities of employee matters is presented in the topic of fair and flexible working conditions within the company, which came up in the materiality analysis. Fair and flexible working means creating framework conditions that make flexible work in terms of time and location possible, whilst meeting all statutory requirements. With this in mind, the A1 Telekom Austria Group aims to promote virtual collaboration and flexible working time models. In addition, up-to-date performance management is used, which increasingly focuses on further training for employees.

Diversity among employees is seen as the central driver of the company vision "Empowering digital life" and encourages the Guiding Principles of "Team, Trust, and Agility" through communication. Supporting women is one of the core elements of promoting diversity. A1 Telekom Austria Group has set itself the goal of increasing the proportion of women in management positions at the company to 38% by 2018. At the end of 2018, the proportion was 35%. Regarding the occupation of open positions it was not achieved to attract enough women to leadership positions. Therefore, in the year 2018, a 5-year plan was drafted with the focus on reconciling work and family, which should ensure an increase in the proportion of women in management.

Share of female employees and share of female managers as of 31 December 2018

in %	Share of female employees 2018	2017	Share of female managers[1] 2018	2017
Austria	26	26	18	19
Bulgaria	49	49	50	50
Croatia	38	41	36	39
Belarus	60	53	42	46
Slovenia	44	44	43	40
Republic of Serbia	59	58	50	49
Republic of Macedonia	44	45	43	45
A1 Telekom Austria Group[2]	**40**	**38**	**35**	**36**

1) Managers includes all persons with staff responsibility for at least one employee.
2) Including Holding and A1 Digital

Share of locals in leadership teams and share of women in senior management positions

in %	Share of locals in senior management positions[1),2)] 2018	2017	Share of women in senior management positions[2)] 2018	2017
Austria	100	100	33	40
Bulgaria	89	89	22	22
Belarus	57	57	14	0
Cluster Croatia / Macedonia	75	78	13	11
Cluster Serbia / Slovenia	100	100	43	38
A1 Telekom Austria Group[3)]	**84**	**84**	**24**	**21**

1) Locals includes all those who have citizenship for the country in which they work. A leadership team consists of Senior Directors and the respective Chief Executive Officers.
2) Persons in senior management positions correspond to local leadership team
3) Including Holding and A1 Digital

In addition to central innovation and training offers, the A1 Telekom Austria Group subsidiaries have also developed their own training and health initiatives tailored to the needs of their respective markets. For example, this includes company physicians, health days, and blood donation drives.

6. Human rights

With its admission to the UN Global Compact, the A1 Telekom Austria Group has been committed to implementing fundamental requirements in the areas of human rights, work, environment, and combating corruption. This commitment has been acknowledged, for example, by being integrated into the Austrian subsidiary's General Terms and Conditions.

7. Compliance and combating corruption

Acting with honesty, fairness, and transparency is an important component of the corporate culture at the A1 Telekom Austria Group. In order to achieve this standard of integrity, the company has a comprehensive compliance management system. The example set by top management and the responsibility of all employees for their own actions are increasingly important, in particular. With the aim of avoiding potential misconduct, the A1 Telekom Austria Group has determined clear rules for acting in a manner complying with the law and with integrity in all business relationships. In addition, appropriate controls have been integrated within its business processes.

The group-wide Code of Conduct was revised in 2017 and adapted to the new Guiding Principles (see "Employee matters"). In addition to the Code of Conduct, which is available in every national language of the subsidiaries, as well as in English, there are also detailed compliance guidelines providing assistance on specific topics. This includes the Anti-Corruption and Conflicts of Interest guidelines, which were also revised in 2017 and correspond to the ISO 37001 international standard. The compliance guidelines provide support in ensuring that acting with integrity is a natural part of daily work.

Furthermore, the effectiveness of the compliance management system is supported by regular communication measures and training, the "ask.me" helpdesk, internal audits and the whistleblowing platform "tell.me," which can be used anonymously if desired. The needs-based further development of the compliance program is ensured by the annual compliance risk assessment, which defines a catalog of risk-focused measures for the coming year. In 2018, the design of the entire A1 Telekom Austria Group's compliance management system was revised and reviewed by a leading audit firm. The A1 Telekom Austria Group was assured that the principles and measures presented are, with reasonable assurance, suitable both for identifying risks of material violations of applicable corruption requirements, anti-trust law and capital market compliance regulations in due time, and for preventing such violations. In addition, it was attested that the compliance management system conforms to the international ISO 19600 and ISO 37001 standards and meets the requirements of the US Foreign Corrupt Practices Act, the European Cartel Law, and the UN Global Compact.

In order to appropriately highlight the importance of compliance across the entire Group and as a significant preventive measure in the compliance management system, the compliance organization prioritized online and classroom training on the issues of integrity, anti-corruption, capital market compliance, antitrust law, and data protection in 2018. Employees were trained in 7,600 compliance trainings in person and resolved practical questions in a dialog with the compliance managers. In addition, managers and employees completed more than 24,000 e-learnings on the above topics in 2018, especially on the new requirements of the General Data Protection Regulation.

Vienna, January 30, 2019
The Management Board

Thomas Arnoldner, CEO
Telekom Austria Aktiengesellschaft

Alejandro Plater, COO
Telekom Austria Aktiengesellschaft

Siegfried Mayrhofer, CFO
Telekom Austria Aktiengesellschaft

2018 Consolidated Corporate Governance Report

Commitment of the A1 Telekom Austria Group to the Corporate Governance Code

The shares of Telekom Austria AG have been listed on the Vienna Stock Exchange since November 2000, where the Austrian Corporate Governance Code (ACGC) is generally accepted. The current version of this Code (January 2018) can be viewed at www.corporate-governance.at or www.a1.group.

The Corporate Governance Code pursues the goal of responsible management and control of companies geared towards a sustainable and long-term creation of enterprise value. It aims to ensure a high degree of transparency for all stakeholders and to serve as an important guideline for investors. The Code is based on the provisions of Austrian stock company-, stock exchange- and capital market law, EU recommendations and the OECD Principles of Corporate Governance. The A1 Telekom Austria Group has been committed to voluntary compliance with the ACGC since 2003. The Group complies with all the legal requirements set out by the ACGC in what are referred to as the "L" rules.

To explain the deviations from the ACGC's "C" rules, the A1 Telekom Austria Group has made the following statement regarding Rule 36, Rule 42 and Rule 54 of the ACGC:

- Ad C Rule 36: Given the culture of open discussion within the Supervisory Board, the annual self-assessment of the Supervisory Board as stipulated in Rule 36 of the ACGC is performed every two years in principle, and the last such self-assessment was performed for the financial year 2016. The Supervisory Board in its current form was first constituted in May 2018, and therefore only performed its function for seven months as of the end of 2018. In order for the self-assessment to produce representative results, the Supervisory Board therefore agreed in December 2018 to perform the next self-assessment in the financial year 2019.
- Ad C Rule 42: The shareholder representatives on the Supervisory Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB[1)]). The Nomination Committee or the entire Supervisory Board submit nomination proposals to the Annual General Meeting as stipulated by these terms, where required by law.
- Ad C Rule 54: The free float of the company (including treasury shares) is 20.58%. The shareholder representatives on the Supervisory Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and ÖBIB.

In accordance with Rule 62 of the ACGC, the A1 Telekom Austria Group's compliance with the provisions of the ACGC and the accuracy of its public reporting in association with this are evaluated externally every three years. The last evaluation was performed by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. in the first half of 2017. This evaluation found that the Consolidated Corporate Governance Report of Telekom Austria AG for the financial year 2016 ended December 31, 2016 satisfies the legal provisions of section 243b UGB and section 267a UGB in addition to the requirements of the ACGC and the statements made therein.

Composition of executive bodies of the company and executive body remuneration

The Management Board

The members of the Management Board of Telekom Austria AG as of the end of 2018 were Thomas Arnoldner, Chief Executive Officer (CEO), Alejandro Plater, Chief Operating Officer (COO), and Siegfried Mayrhofer, Chief Financial Officer (CFO).

Thomas Arnoldner
Chief Executive Officer (CEO): Member of the Management Board since September 1, 2018.

Thomas Arnoldner became the Chief Executive Officer of the A1 Telekom Austria Group on September 1, 2018. His contract runs until August 31, 2021, with an option to renew the contract until August 31, 2023.

Thomas Arnoldner was born in 1977. He studied business administration at the Vienna University of Economics and Business and at the Stockholm School of Economics. Thomas Arnoldner's professional career began at Alcatel Austria in 2003. After holding various positions within the company, he was made the CEO of Alcatel-Lucent Austria AG in 2013. From 2015 to 2016, he was part of the integration team for Nokia's acquisition of Alcatel-Lucent and developed the combined company's European market strategy. From 2016 to 2017, he was in charge of Nokia's European growth strategy in its Smart City, National Broadband Program, and Public Safety areas and responsible for the country strategies of its key growth markets. He was the Managing Director of T-Systems Austria GesmbH from 2017 to 2018.

1) ÖBIB will be transformed into a stock company due to the change of the "ÖIAG Gesetz 2000" according to Sec 245ff AktG. The company will be transformed into Österreichische Beteiligungs AG (ÖBAG).

Thomas Arnoldner does not hold any supervisory board mandates outside the A1 Telekom Austria Group.

Alejandro Plater

Member of the Management Board (Chief Operating Officer, COO) since March 6, 2015.

Alejandro Plater was appointed as the Chief Operating Officer (COO) of the A1 Telekom Austria Group on March 6, 2015. In the period from August 1, 2015, to August 31, 2018, Alejandro Plater was also the Chief Executive Officer (CEO) in addition to being the COO. His contract runs until August 31, 2021, with an option to renew the contract until August 31, 2023.

Alejandro Plater, born in 1967, has had a long international career in the telecommunications industry. He started at Ericsson in 1997 as Sales Director for Argentina and shortly thereafter took on the responsibility of Head of Business Development. In 2004, he moved to the group's global headquarters in Stockholm, Sweden, to take up the position of Sales Director for the Latin America region. Two years later, Plater was appointed Sales Director for Mexico and, in the following year, he was appointed Vice President and Key Account Manager. Alejandro Plater studied Business Administration at the University of Buenos Aires and has completed several post-graduate management studies at Columbia University and the Wharton School in the USA and at the London Business School in the UK.

Alejandro Plater holds Supervisory Board mandates at the following subsidiaries: A1 Telekom Austria AG (Austria), A1 Bulgaria (Bulgaria), A1 Hrvatska (Croatia), velcom (Belarus), A1 Slovenija (Slovenia), Vip mobile (Republic of Serbia), one.Vip (Republic of Macedonia). Alejandro Plater does not hold any supervisory board mandates outside the A1 Telekom Austria Group.

Siegfried Mayrhofer

Chief Financial Officer (CFO): Member of the Management Board since June 1, 2014. His contract runs until August 31, 2021, with an option to renew the contract until August 31, 2023.

Siegfried Mayrhofer, born in 1967, studied Industrial and Mechanical Engineering at the Graz University of Technology.

He began his professional career in 1994 at Voest Alpine Eisenbahnsysteme in the international division for the acquisition of investments. From 1998 to 2000, he served as a consultant to Constantia Corporate Finance for mergers and acquisitions in various industries.

Siegfried Mayrhofer joined Telekom Austria AG in March 2000. After holding various management positions (including Head of Corporate Planning and Group Controlling, Fixed-Line Controlling, Fixed-Line Accounting), he became CFO of Telekom Austria TA AG in July 2009. Siegfried Mayrhofer was the Chief Financial Officer of A1 Telekom Austria AG from July 8, 2010, to May 31, 2015.

Siegfried Mayrhofer holds Supervisory Board mandates at the following subsidiaries: A1 Telekom Austria AG (Austria), A1 Bulgaria (Bulgaria), A1 Hrvatska (Croatia), velcom (Belarus), A1 Slovenija (Slovenia), Vip mobile (Republic of Serbia), one.Vip (Republic of Macedonia). Siegfried Mayrhofer does not hold any supervisory board mandates outside the A1 Telekom Austria Group.

Report on Management Board remuneration

The Remuneration Committee of the Supervisory Board is responsible for structuring Management Board remuneration. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component was agreed upon with the Management Board members Thomas Arnoldner, Alejandro Plater, and Siegfried Mayrhofer. This performance-based component is contingent upon the achievement of defined targets and is limited to a maximum of 150 % of the basic remuneration. The targets for the reporting year consist of 85 % financial figures – revenue (weighting: 42 %) and operating free cash flow (weighting: 43 %) – and 15 % strategic objectives. The Remuneration Committee decides on the degree of target achievement and the amount of the variable salary component on the basis of the Consolidated Financial Statements and the implementation of strategy. Performance-based remuneration becomes payable after the result for the financial year in question has been resolved, while an advance in the amount of 60 % of the fixed salary is paid in 14 instalments over the current financial year.

Members of the Management Board also participate in the long-term incentive program (LTI). The multi-year share-based incentive program introduced in 2010 continued in the 2018 reporting year with the issue of the 2018 tranche.

The sixth tranche of the LTI program (LTI 2015) was paid out in 2018, following the end of the three-year performance period and the determination by the Remuneration Committee of the degree of achievement. The degree of target achievement for LTI 2015 was 87.4 %. Detailed information about this can be found in the Notes to the Consolidated Financial Statements and the section on the remuneration of the individual members of the Management Board.

The total expense for basic remuneration, including remuneration in kind, of members of the Management Board in 2018 amounted to EUR 1.224 mn (2017: EUR 1.026 mn), and variable remuneration amounted to EUR 1.370 mn (2017: EUR 1.087 mn). EUR 0.534 mn was spent on LTI 2015 for active Management Board members in the 2018 reporting year (amount spent on LTI 2014 in 2017: EUR 0.11 mn).

Assuming 100% target achievement, the members of the Management Board were provisionally allocated the following numbers of notional bonus shares in the context of the new LTI 2018 tranche issued in September 2018: 34,878 shares for Thomas Arnoldner, 44,842 shares for Alejandro Plater, 37,718 shares for Siegfried Mayrhofer. Any actual cash settlement will occur after the end of the three-year performance period, i.e. not before September 1, 2021, commensurate with the level of achievement of objectives as determined by the Remuneration Committee.

In terms of old-age provisions, the Management Board members receive a contribution to their voluntary pension plans, which is paid into a corporate pension fund by the company and amounts to 20% of their respective fixed salaries (excluding expense allowances). Members will receive an eventual payout from the corporate pension fund only when they are over 55 years of age and are no longer in a contractual relationship with the company.

The amount of the severance payment to be paid in the event of the termination of a Board member's appointment is based on the length of their employment and is capped at one year's total remuneration for Siegfried Mayrhofer. The "Mitarbeiter- und Selbstständigenvorsorgegesetz" (BMSVG – Austrian Corporate Employee and Entrepreneur Pension Law) applies to Thomas Arnoldner and Alejandro Plater.

Furthermore, the members of the Management Board are entitled to a company car, and casualty insurance provides cover in the event of death or invalidity. There is also supplementary health insurance cover for Management Board members. The members of the Management Board are included in Telekom Austria AG's D&O insurance policy.

For the Group companies included in the scope of consolidation, the following applies with regard to the key principles of the remuneration policy: The Chair of the Supervisory Board of the respective subsidiary is responsible for structuring Management Board remuneration. The remuneration structure and the respective targets are based on target criteria and weightings defined for the Group as a whole by the Management Board of Telekom Austria AG. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component has been agreed upon with the Management Board members of the respective consolidated subsidiaries. This performance-based component is contingent upon the achievement of defined targets and is limited to an average of 60% of the basic remuneration. The targets for the reporting year consist of 80% financial figures and 20% strategic objectives. The Management Board of Telekom Austria AG decides the degree of target achievement and therefore on the amount of the variable salary component on the basis of the Consolidated Financial Statements, the Annual Financial Statements of the respective company and the implementation of strategy. Performance-based remuneration becomes payable after the result for the financial year in question has been resolved.

Members of the Management Board of the key consolidated subsidiaries participated in the long-term incentive program (LTI) until the LTI 2016 tranche (issued in the financial year 2016 with a term of January 1, 2016, to December 31, 2018).

Remuneration of the individual members of the Management Board

Management Board remuneration in EUR '000	Basic remuneration (fixed salary incl. remuneration in kind)		Variable remuneration[1]		Multi-year share-based remuneration (LTI)		Total remuneration	
	2018	2017	2018	2017	2018	2017	2018	2017
Thomas Arnoldner[2]	182	–	107	–	–	–	290	–
Alejandro Plater	559	559	681	591	202	–	1,442	1,149
Siegfried Mayrhofer	482	468	582	497	333	110	1,397	1,075
Total[3]	**1,224**	**1,026**	**1,370**	**1,087**	**534**	**110**	**3,129**	**2,224**

1) Thomas Arnoldner has been member of the Management Board since September 1, 2018.
2) The variable remuneration for 2018 (2017) also includes variable remuneration components for 2017 (2016), which were paid out in the 2018 (2017) reporting year.
3) There may arise deviations in the totals due to rounding.

Payments to former members of the Management Board (not shown in table):
Hannes Ametsreiter resigned as CEO as of July 31, 2015 and his employment relationship was terminated at the same date by mutual agreement. The remuneration paid in 2018 for LTI 2015 amounts to EUR 77 thousand; the remuneration paid in 2017 for LTI 2014 amounted to EUR 71 thousand.
Günther Ottendorfer's contract with a term until August 31, 2016 was prematurely terminated as of March 5, 2015. The remuneration paid in 2018 for LTI 2015 amounts to EUR 185 thousand; the remuneration paid in 2017 for LTI 2014 amounted to EUR 102 thousand.
Hans Tschuden's contract with a term until March 31, 2015 was prematurely terminated as of May 31, 2014. The remuneration paid in 2018 for LTI 2015 amounts to EUR 28 thousand; the remuneration paid in 2017 for LTI 2014 amounted to EUR 49 thousand.

Long-term incentive programme (LTI)

The A1 Telekom Austria Group's share-based long-term incentive program (LTI) introduced in the financial year 2010 was continued in 2018, with eligible participants restricted to the Management Board of Telekom Austria Aktiengesellschaft. LTI 2018 was issued on September 1, 2018 and has a term of three years.

The LTI is based on the performance-based allocation of notional bonus shares. During the program, participants must hold shares in Telekom Austria AG, the number of which is determined by the defined number of notional bonus shares for each entitled beneficiary. Any payment is made in cash, not in shares. The amount of the payment depends on the achievement of key figures defined by the Supervisory Board within a three-year performance period, ranging from 0% to a maximum of 350% of the participant's investment, with a maximum target achievement of 175%.

The A1 Telekom Austria Group's long-term incentive program is consistent with the requirements of the Austrian Corporate Governance Code. The relevant target performance indicators are based on the long-term development of the company. The targets and key performance indicators are determined by the Supervisory Board at the beginning of each tranche. Each performance period is three years long. The following targets and key performance indicators were set for the LTI 2015 tranche issued in the 2015 reporting year: EBITDA (weighting: 35%), free cash flow (weighting: 30%), and a revenue-based indicator (weighting: 35%). The following targets were set for the LTI 2016, LTI 2017, and LTI 2018 tranches issued in the 2016, 2017, and 2018 reporting years: Return on invested capital (ROIC) (weighting: 50%) and revenue market share (weighting: 50%) of the A1 Telekom Austria Group.

Benefits under the LTI programme in the 2018 reporting year

The sixth LTI tranche (LTI 2015), which had been granted on September 1, 2015, was paid out to the entitled employees of the Group in September 2018 after the end of the three-year performance period and three years after the grant date. The tranche was paid out in line with the target achievement of 87.4% as determined by the Remuneration Committee of the Supervisory Board at the value of 274,527 notional bonus shares in total, measured using the average price of the company's shares for the fourth quarter of 2017 of EUR 7.883, and therefore EUR 2.164 mn (2017: EUR 1.16 mn). Of these amounts, 25,608 shares or EUR 0.202 mn were received by Alejandro Plater (2017: n. a.) and 42,185 shares or EUR 0.33 mn by Siegfried Mayrhofer (2017: EUR 0.11 mn). The following amounts were paid to former Management Board members: 9,752 shares or EUR 0.077 mn to Hannes Ametsreiter (2017: EUR 0.071 mn), 23,436 shares or EUR 0.185 mn to Günther Ottendorfer (2017: EUR 0.102 mn), and 3,594 shares or EUR 0.028 mn to Hans Tschuden (2017: EUR 0.049 mn).

A detailed description of the long-term incentive program can be found in the Notes to the Consolidated Financial Statements.

As of December 31, 2018, the members of the Management Board hold the following numbers of shares in the company, some of which serve to satisfy LTI program participation requirements:

	Shares	Of which for LTI participation
Thomas Arnoldner	17,439	17,439
Alejandro Plater	39,520	33,638
Siegfried Mayrhofer	24,750	24,750

Since the Market Abuse Regulation became effective on July 3, 2016, directors' dealings are no longer disclosed by the Financial Market Authority (FMA) but by the issuer.

Telekom Austria AG operates in accordance with the legal provisions and reports transactions by Management Board and Supervisory Board members and their related parties involving Telekom Austria shares on the company's website.

There were no directors' dealings disclosures in the 2018 reporting year.

Supervisory Board

The Supervisory Board of Telekom Austria AG comprises ten members, elected by the Annual General Meeting. The Central Works Council of A1 Telekom Austria AG delegates four members and one member is delegated by the Staff Council of Telekom Austria AG. Employee co-determination on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria.

There was a change in the Supervisory Board at the Annual General Meeting on May 30, 2018: Wolfgang Ruttenstorfer, Reinhard Kraxner and Stefan Pinter stepped down from May 30, 2018. Edith Hlawati, Bettina Glatz-Kremsner, and Daniela Lecuona Torras were elected as members of the Supervisory Board by the Annual General Meeting on May 30, 2018. The Supervisory Board mandates of Carlos García Moreno Elizondo, Oscar Von Hauske Solís, and Carlos M. Jarque were renewed. Silvia Bauer, who had been appointed by the Central Works Council, stepped down in October 2018, and Renate Richter was appointed to replace her.

In accordance with section 86 (7) AktG, the Supervisory Board must consist of at least 30% women and at least 30% men (gender quota). Based on the declarations by the members of the Supervisory Board on February 28, 2018, in accordance with section 86 (9) AktG, singular fulfilment of the gender quota in the Supervisory Board is required. Consequently, at least three of the ten members of the Supervisory Board elected by the Annual General Meeting or Supervisory Board mandates must be women. As of the end of 2018, four of the ten members of the Supervisory Board elected by the Annual General Meeting are women.

Supervisory Board members

Name (year of birth)	Profession
Edith Hlawati, Chairperson (1957)	Senior Partner at CHSH Cerha Hempel Spiegelfeld Hlawati Rechtsanwälte GmbH
Wolfgang Ruttenstorfer, Chairperson until May 2018 (1950)	
Carlos García Moreno Elizondo, Deputy Chairperson (1957)	CFO América Móvil, S.A.B. de C.V. (Mexico)
Alejandro Cantú Jiménez (1972)	General Counsel América Móvil, S.A.B. de C.V. (Mexico)
Karin Exner-Wöhrer (1971)	CEO Salzburger Aluminium AG
Bettina Glatz-Kremsner (1962)	CFO Casinos Austria Aktiengesellschaft
Peter Hagen (1959)	Business Consultant
Carlos M. Jarque (1954)	Executive Director of International Affairs, Government Relations and Corporate Affairs, América Móvil, S.A.B. de C.V. (Mexico)
Peter F. Kollmann (1962)	CFO Verbund AG
Reinhard Kraxner (1970)	Assistant General Counsel Treasury/Finance, Philip Morris International Inc. (USA)
Daniela Lecuona Torras (1982)	Head of Investor Relations, América Móvil, S.A.B. de C.V. (Mexico)
Stefan Pinter (1978)	Member of the Management Board, GlaxoSmithKline Pharma GmbH
Oscar Von Hauske Solís (1957)	CEO Telmex Internacional (Mexico), Chief Fixed-Line Operations Officer América Móvil, S.A.B. de C.V. (Mexico)

Members of the Supervisory Board delegated by the Staff Council	
Silvia Bauer (1968)	Member of the Central Works Council of A1 Telekom Austria AG Member of the European Works Council of A1 Telekom Austria Group
Walter Hotz (1959)	Chairman of the Staff Committee Vienna, Lower Austria and Burgenland of A1 Telekom Austria AG Chairperson of the European Works Council of A1 Telekom Austria Group
Gottfried Kehrer (1962)	Member of the Central Works Council of A1 Telekom Austria AG
Werner Luksch (1967)	Chairperson of the Central Works Council of A1 Telekom Austria AG Member of the European Works Council of A1 Telekom Austria Group
Renate Richter (1972)	Member of the Central Works Council of A1 Telekom Austria AG
Alexander Sollak (1978)	Chairperson of the Staff Council Committee of Telekom Austria AG Secretary-General of the European Works Council of A1 Telekom Austria Group

1) Term of office ends at the Annual General Meeting dealing with the 2018 financial year May 29, 2019.
2) Term of office ends at the Annual General Meeting dealing with the 2019 financial year (provisionally May 2020).
3) Term of office ends at the Annual General Meeting dealing with the 2020 financial year (provisionally May 2021).
4) Term of office ends at the Annual General Meeting dealing with the 2021 financial year (provisionally May 2022).
5) Term of office ends at the Annual General Meeting dealing with the 2022 financial year (provisionally May 2023).

The "Arbeitsverfassungsgesetz" (Austrian Labor Constitutional Act) imposes special regulations for the fulfilment of the gender ratio among employee representatives, namely that the gender ratio does not apply to employee representatives if there is no group works council.

Independence of the Supervisory Board

The guidelines set out by the Supervisory Board in 2006 to determine the independence of its members were adjusted in 2009 to comply with the modified provisions of the Austrian Corporate Governance Code and are consistent with Annex 1 of the current version of the Code. According to these provisions, the members of the Supervisory Board are deemed to be independent if they have no business or personal relations with the company or its Management Board that could result in a material conflict of interest and thus influence the members' behavior.

The free float of the company (including treasury shares) is 20.58 %. The shareholder representatives on the Supervisory Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and ÖBIB.

Other Supervisory Board mandates and similar functions at other listed companies (as per the ACGC)	First appointed	End of current term of office on Supervisory Board of Telekom Austria AG or date of departure	Independence as per Rule 53 of the ACGC
Österreichische Post Aktiengesellschaft (Chairperson)	Re-delegated on 30.05.2018 28.06.2001 to 29.05.2013 Supervisory Board member	2023[5)]	Yes
Flughafen Wien AG, RHI AG, NIS a.d. (Republic of Serbia)	27.05.2010 to 14.08.2014 Reappointed on 27.05.2015	30.05.2018	Yes
Royal KPN N.V. (Netherlands)	14.08.2014	2023[5)]	Yes
	14.08.2014	2019[1)]	Yes
	27.05.2015	2020[2)]	Yes
EVN AG (Chairperson); Flughafen Wien Aktiengesellschaft (Chairperson)	30.05.2018	2023[5)]	Yes
VOEST Alpine AG	25.05.2016	2019[1)]	Yes
	14.08.2014	2022[4)]	Yes
	20.09.2017	2021[3)]	Yes
	14.08.2014	30.05.2018	Yes
	30.05.2018	2022[4)]	Yes
	14.08.2014	30.05.2018	Yes
	23.10.2012	2023[5)]	Yes

	30.01.2009 to 03.11.2010, Re-delegated on 26.07.2012	12.10.2018	
	Re-delegated on 06.05 2011		
	27.10.2010		
	03.08.2007 to 20.10.2010, Re-delegated on 11.01.2011		
	12.10.2018		
	03.11.2010		

Report on Supervisory Board remuneration

The remuneration of the members of the Supervisory Board for the financial year 2017 was resolved at the Annual General Meeting on May 30, 2018. The remuneration for the Chair of the Supervisory Board was set at EUR 40,000, at EUR 30,000 for the Deputy Chair, and at EUR 20,000 for other members of the Supervisory Board elected by the Annual General Meeting; these figures are therefore unchanged as against the previous year. Members of a committee are paid EUR 10,000 each and the Chair of the committee receives EUR 12,000. Remuneration for committee members is limited to one committee mandate. This stipulates that committee members are each entitled to only one remuneration, even if they sit on more than one committee. Until further notice, attendance fees per member of the Supervisory Board amount to EUR 400 per meeting.

Remuneration for the Supervisory Board for 2017 was paid in June 2018, following the approval of the actions of the Supervisory Board members by the Annual General Meeting. Total remuneration, including attendance fees, of EUR 0.357 mn was paid to members of the Supervisory Board in the financial year 2018 (2017: EUR 0.358 mn). In addition, the members of the Supervisory Board are reimbursed for expenses incurred for travel and accommodation in connection with Supervisory Board meetings.

The members of the Supervisory Board are included in the D&O insurance policy taken out and paid for by Telekom Austria AG.

In the year under review, no member of the Supervisory Board attended fewer than 50 % of the Supervisory Board meetings.

Remuneration of Supervisory Board members

Name	Supervisory Board remuneration awarded for 2017 and paid in 2018 (in EUR)	2018 attendance fees (in EUR)
Edith Hlawati 1)	–	2,000
Wolfgang Ruttenstorfer 2)	52,000	2,400
Carlos García Moreno Elizondo	42,000	4,800
Alejandro Cantú Jiménez	30,000	2,400
Karin Exner-Wöhrer	20,000	2,800
Bettina Glatz-Kremsner 1)	–	2,000
Peter Hagen	30,000	4,000
Carlos M. Jarque	30,000	5,200
Peter Kollmann 3)	8,466	5,200
Reinhard Kraxner 2)	20,000	1,200
Daniela Lecuona 1)	–	1,600
Ronny Pecik 4)	13,151	–
Stefan Pinter 2)	20,000	1,200
Oscar Von Hauske Solís	32,000	5,200
Walter Hotz	–	4,000
Silvia Bauer 5)	–	2,800
Werner Luksch	–	2,800
Renate Richter 6)	–	800
Alexander Sollak	–	5,200
Gottfried Kehrer	–	2,800

1) Attendance fee for the period May 30, 2018 to December 31, 2018.
2) Supervisory Board remuneration for 2017 and attendance fee for the period January 1, 2018 to May 30, 2018.
3) Supervisory Board remuneration for the period September 20, 2017 to December 31, 2017 and attendance for 2018.
4) Supervisory Board remuneration for the period January 1, 2017 to June 9, 2017.
5) Attendance fee for the period January 1, 2018 to October 12, 2018.
6) Attendance fee for the period October 12, 2018 to December 31, 2018.

Information concerning the working methods of the Management Board and the Supervisory Board

The A1 Telekom Austria Group complies with established principles to ensure sustainable, value-enhancing corporate development and is committed to the principles of transparency and a policy of open communication. The group-wide areas of competence and responsibility are clearly regulated by the Articles of Association of Telekom Austria AG and the relevant statutory provisions. In addition, the duties, responsibilities and working methods are also described in greater detail in the Rules of Procedure for the Management Board and the Supervisory Board.

The Management Board defines the strategic focus of the Group in consultation with the Supervisory Board and provides the latter with regular reports on the implementation of the strategy as well as on the company's current situation, including its risk situation. Furthermore, the Supervisory Board is authorized to demand reports from the Management Board at any time on matters concerning the A1 Telekom Austria Group.

The Supervisory Board has set up three committees, which provide effective support by carrying out preparatory work on selected tasks and issues on behalf of the Supervisory Board:

- As of the end of 2018, the **Remuneration Committee** consisted of Edith Hlawati (Chair since May 30, 2018; preceded by Wolfgang Ruttenstorfer), Carlos García Moreno Elizondo (Deputy Chairman), and Oscar Von Hauske Solís. This committee is responsible for regulating relationships between the company and the members of the Management Board, including granting approval for additional occupation. Resolutions concerning the appointment of Management Board members (or revocation thereof) and granting stock options in the company are resolved by the Supervisory Board as a whole. The Remuneration Committee held one meeting in 2018 and adopted three resolutions by written procedure.

- In line with the statutory provisions, at five committee meetings the **Audit Committee** dealt primarily with the audit of and preparation for the adoption of the Annual Financial Statements, the audit of the Consolidated Financial Statements, the proposal for the distribution of profit, the Management Report, the Group Management Report, and the consolidated Corporate Governance Report. High priority was also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system, and the risk management system. Furthermore, the committee prepared the appointment of the auditor and verified the independence of the auditor of the Annual and Consolidated Financial Statements, particularly with regard to the performance of additional services. As of the end of 2018, the Audit Committee consisted of Carlos García Moreno Elizondo, as its Chairman and financial expert (in accordance with section 92(4a) AktG), Bettina Glatz-Kremsner (since May 30, 2018; preceded by Wolfgang Ruttenstorfer), Oscar Von Hauske Solís, Carlos M. Jarque, Peter Hagen and Peter Kollmann in addition to Walter Hotz, Werner Luksch (since May 30, 2018, preceded by Silvia Bauer) and Alexander Sollak as the employee representatives.

- The **Staff and Nomination Committee** submits proposals to the Supervisory Board for appointments to positions on the Management Board and Supervisory Board[2)] that have become vacant, and also deals with questions of succession planning. Its members are Oscar Von Hauske Solís (Chairman), Edith Hlawati (since May 30, 2018; preceded by Wolfgang Ruttenstorfer), Carlos García Moreno Elizondo, Carlos M. Jarque, Alejandro Cantú Jiménez and Peter Kollmann in addition to Walter Hotz, Werner Luksch and Alexander Sollak. The Staff and Nomination Committee held one meeting in the financial year 2018.

In the financial year 2018, the Supervisory Board addressed the strategic orientation of the A1 Telekom Austria Group and its business performance in detail at seven meetings of the Supervisory Board and several committee meetings. The main activities of the Supervisory Board in 2018 are compiled in the Supervisory Board's report to the Annual General Meeting.

To guarantee uniform management of the Group, members of the Management Board of Telekom Austria AG are represented at the following material subsidiaries: A1 Telekom Austria (Austria), A1 Bulgaria (Bulgaria), A1 Hrvatska (Croatia), velcom (Belarus), A1 Slovenija (Slovenia), Vip mobile (Republic of Serbia), and one.Vip (Republic of Macedonia).

Diversity within the A1 Telekom Austria Group (diversity concept)

The A1 Telekom Austria Group taps the valuable potential of its employees through constant evolution in an international work setting, and sees diversity and flexibility as the key to the company's success. Diversity and flexibility form the foundation of the A1 Telekom Austria Group's diversity concept.

Diversity among employees is seen as the central driver of the company vision "Empowering digital life" and encouraged by the communication of the guiding principles "Team, Trust, and Agility". Supporting women is one of the core elements of promoting diversity.

Goals for A1 Telekom Austria Group's diversity concept for 2018–2023:
- 38% women in management positions
- Establishment of flexible working opportunities
- Creation of a general framework to promote continuous learning

Appointment of positions on the Management Board and Supervisory Board of the A1 Telekom Austria Group

When selecting and appointing members of the company's Management Board, the Supervisory Board places emphasis on the skills and expertise necessary to manage a telecommunications company.

Decisions are also based on other criteria such as educational background and career history, age, gender, and general personality traits.

The shareholder representatives on the Supervisory Board and the members of the company's Management Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and ÖBIB[3)].

2) See also information on C Rule 42.
3) See also information on C Rule 42.

Measures to support women

On the Telekom Austria AG Supervisory Board, four of the ten shareholder representatives and one of the five members of the Staff Council are women. There is no female representation on the Management Board of Telekom Austria AG.

At the subsidiaries of the A1 Telekom Austria Group, five management positions (out of a total of 15) and four Supervisory Board positions are held by women.

Supporting women is one of the core elements of promoting diversity. A1 Telekom Austria Group has set itself the goal of increasing the share of women in management positions at the company to 38% by 2018. At the end of 2018, the share was 35%. It was not possible to secure a sufficient number of women for management positions when filling vacancies. In 2018, a five-year plan was therefore designed with a focus on work-life balance which is intended to ensure a higher share of women in management.

Furthermore, women are specifically targeted in the recruitment process, and new organization models and flexible leadership structures – such as part-time managers – are being pushed throughout the Group. Functional leadership in virtual company-wide projects and programs lends women systematic and sustainable support in the context of the diversity concept.

In addition, the company promotes a good work-life balance throughout the Group by means of flexible working environment and working time models and sabbaticals. There are a range of facilities on offer to families, which vary from country to country, including childcare initiatives, paternity leave, and a baby month. The company also provides an expanded range of information for managers and employees and a women's network with regular scheduled events in Austria.

"Directors and Officers" (D&O) insurance

The A1 Telekom Austria Group has taken out a directors and officers (D&O) insurance policy for the members of the Group's Management Board, executives and the members of the Supervisory Board. It also pays the associated costs.

Certified public accountant

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. has credibly demonstrated its impartiality to the Audit Committee of the Supervisory Board, in particular regarding reporting in accordance with Section 270 (1a) of the Austrian Business Enterprise Code (UGB). A detailed analysis by the Audit Committee revealed no legal impediment to the appointment of Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. The Annual General Meeting appointed Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as the auditor of the Annual and Consolidated Financial Statements for the financial year 2018 on May 30, 2018.

Report by Group Internal Audit and Risk Management

Group Internal Audit is established as a staff unit of the CFO of Telekom Austria AG with a duty to report to the entire Management Board. There are also local Internal Audit units at all material operating subsidiaries of Telekom Austria AG, which report to Group Internal Audit. All companies, divisions and processes fall within the audit purview of Group Internal Audit without restriction. The associated rights and duties, in addition to the regulations for audit activities, are set out in the Group Internal Audit Charter.

Group Internal Audit performs independent and objective audits throughout the entire Group and reports to the entire Management Board of Telekom Austria AG. Audit subjects are specified as part of an annual audit plan, which is prepared according to risk criteria and supplemented by ad hoc audit orders as required. After an initial joint evaluation by Compliance, reports received via the "tell.me" whistleblowing system are examined by Group Internal Audit.

In accordance with C Rule 18 of the Austrian Corporate Governance Code, the head of Group Internal Audit reports to the Audit Committee of the Supervisory Board on the annual audit plan in addition to preparing an annual report on the audits performed and its material findings. Furthermore, significant issues as well as whistleblowing information from the "tell.me" system are reported to the Audit Committee of the Supervisory Board by Group Internal Audit on an intra-year basis where necessary.

The A1 Telekom Austria Group's risk management system, which the auditor has reported on to the Audit Committee, enables the group-wide, structured identification, assessment and processing of risks on the basis of a defined risk policy in addition to strategic and operational objectives. The Audit Committee monitors the functionality and suitability of risk management and the effectiveness of the internal control system.

The internal control system of the A1 Telekom Austria Group serves to ensure the effectiveness and profitability of business activities, the integrity and reliability of financial reporting and compliance with all relevant laws and regulations. In addition, Telekom Austria AG implemented an internal control system in accordance with US Sarbanes-Oxley Act (SOX) in the financial year 2015. A group-wide capital market compliance guideline has been implemented to prevent the disclosure or misuse of inside information.

The A1 Telekom Austria Group has also implemented a group-wide information security policy that governs the use of confidential information such as customer data, traffic data, content data and business and trade secrets. This policy is supplemented by country-specific guidelines at a local level. Information security and data protection managers have been appointed at all Group subsidiaries. Regular internal and external audits, in addition to staff training, ensure the effective implementation of this corporate policy. In 2005, A1 Telekom Austria AG became the first network operator in Austria to be certified according to the ISO 27001 standard. It was followed by A1 Hrvatska in 2007, A1 Bulgaria in 2012, and one.Vip in 2013. The processes demanded and stipulated by this standard ensure the highest possible level of data security within the company. Since 2014, A1 Telekom Austria AG has also been able to offer its information technology outsourcing (ITO) customers ISAE 3402 Type II standard certification via its internal control system, which is especially relevant for performing IT services. The ICT Services division at A1 Telekom Austria AG has also been ISO 20000 certified since 2017. The effective implementation of IT service management quality standards prescribed by this standard is ensured on an ongoing basis by means of internal and external audits. A1 Marketplace has also been certified in accordance with the special security measures of ISO 27018 since 2016.

Certified compliance management system of the A1 Telekom Austria Group

In recent years, the Management Board of Telekom Austria AG has taken numerous measures to comprehensively develop the group-wide compliance management system. The compliance management system of the A1 Telekom Austria Group was audited according to the German audit standard IDW PS 980 in 2013. In 2016, essential elements of the group-wide compliance management system were reviewed for effectiveness by Group Internal Audit with a successful outcome. In 2018, the Management Board of Telekom Austria AG again engaged a renowned international audit and consulting company to audit the compliance management system of the A1 Telekom Austria Group in terms of its design and effectiveness. The results of this comprehensive audit will be ready in 2019.

The Management Board is regularly informed about activities in the area of compliance management and, in particular, the compliance risk assessment and measures taken to prevent corruption and the management of other compliance risks; the Supervisory Board is informed annually. Moreover, the Supervisory Board is informed annually about the company's capital market compliance activities and other relevant statutory changes.

The Group Compliance Director reports directly to the Management Board and is independent in his work. He is supported by experts in the Group Compliance division and the local compliance managers at the subsidiaries of the A1 Telekom Austria Group. The A1 Telekom Austria Group has a compliance management system in line with international standards (IDW PS 980, ISO 19600, ISO 37001, FCPA). The compliance measures necessary for this are firmly established in all divisions of the company.

In 2018, employees and managers completed around 7,600 classroom training sessions and around 24,000 online training sessions on corruption prevention and integrity, antitrust law, data protection and capital market compliance. The compliance helpdesk "ask.me" is available to employees to answer any questions. The "ask.me" helpdesk handled around 460 questions in 2018.

The A1 Telekom Austria Group operates a whistleblowing platform ("tell.me") to enable employees and third parties to inform the company about cases of potential misconduct – anonymously if preferred. Around 50% of the approximately 20 tips received in 2018 were substantiated. In instances where misconduct was found to have occurred, consequences extended from individual training to the termination of employment, depending on the extent of the transgression.

Changes after the reporting date

On January 15, 2019, A1 Telekom Austria Group entered into a committed credit line with a total volume of EUR 150 mn and a term until January 15, 2020. A further committed credit line with a total volume of EUR 50 mn and a term until year-end 2019 was entered into on January 28, 2019.

Vienna, January 30, 2019
The Management Board

Thomas Arnoldner, CEO
Telekom Austria Aktiengesellschaft

Alejandro Plater, COO
Telekom Austria Aktiengesellschaft

Siegfried Mayrhofer, CFO
Telekom Austria Aktiengesellschaft

Forward-looking Statements

Disclaimer for forward-looking statements: This document contains forward-looking statements. These forward-looking statements are usually accompanied by words such as “believe”, “intend”, “anticipate”, “plan”, “expect” and similar expressions. Actual events may differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. Neither A1 Telekom Austria Group nor any other person accepts any liability for any such forward-looking statements. A1 Telekom Austria Group will not update these forward-looking statements, whether due to changed factual circumstances, changes in assumptions or expectations. This report does not constitute a recommendation or invitation to purchase or sell securities of A1 Telekom Austria Group.

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