

Group Management Report

General economic environment

Economic momentum in the euro zone weakened in 2019, while the CEE region as a whole continued to enjoy solid growth. In a forecast published in November of the year under review, the European Commission estimated that economic growth in the European Union would amount to 1.4% in both 2019 and 2020. Austria saw a tangible year-on-year slowdown in economic growth in the 2019 year under review. In the CEE countries that are relevant for the A1 Telekom Group, Bulgaria, Croatia, Serbia, and North Macedonia continued to report solid growth rates, while momentum in Belarus and Slovenia slowed significantly.

At its interest rate meeting in early September 2019, the ECB adopted a package of measures aimed at loosening monetary policy. This included cutting the deposit rate from -0.4% to -0.5% and resuming its bond purchase program. While the ECB kept its key interest rate unchanged at 0.00% during the year under review, the US Federal Reserve lowered its key interest rate from 2.25-2.50% to 1.50-1.75% in three stages in June, September, and October 2019.

Development of real GDP in the markets of A1 Telekom Austria Group (in %) ¹⁾

	2018	2019e	2020e
Austria	2.4	1.5	1.4
Bulgaria	3.1	3.6	3.0
Croatia	2.6	2.9	2.6
Belarus	3.0	1.5	0.3
Slovenia	4.1	2.6	2.7
Serbia	4.4	3.2	3.8
North Macedonia	2.7	3.2	3.2

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

Industry trends and competition

In the year under review, the relevant markets for A1 Telekom Austria Group were again characterized by a competitive environment in both the fixed-line and mobile communications markets. One example of this can be seen in the no-frills segment in Austria, where there was sustained pressure on prices due to the aggressive pricing policy of mobile virtual network operators (MVNOs). Furthermore, regulatory provisions continued to have an adverse effect on revenues and earnings. In particular, earnings for the year under review were impacted by the EU regulation on international calls, which came into force on May 15, 2019 and requires a reduction in surcharges for international calls.

A1 Telekom Austria Group is countering this challenging environment by systematically implementing its convergence strategy and adopting a clear focus on high-value customers, innovative products and services, as well as through strict cost management. The harmonization of the brands within A1 Telekom Austria Group that was resolved in 2017 continued in 2019 with the successful brand launch in Belarus and North Macedonia, and will be completed in 2020 with the rebranding in Serbia.

In Austria, 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 2019, describes the following average trends across all operators: ²⁾

- ▶ The number of SIM cards (incl. M2M) increased by 11.0% year-on-year, from 15.7 million in the second quarter of 2018 to 17.4 million in the second quarter of 2019. As previously, this trend was driven in particular by smartphone users, which saw growth of 6.6% to more than 5.8 million, while the number of mobile broadband connections also rose by 1.9%. Total mobile retail revenues increased by 1.9% in the same period.
- ▶ The chart below shows the 2018 price basket for 5 GB of data, 100 minutes of free calls and 140 SMS messages in mobile broadband for selected industrialized nations in euro, adjusted for purchasing power. These data show that mobile broadband prices in Austria, adjusted for purchasing power, are among the lowest in Europe and significantly below the EU average. ³⁾

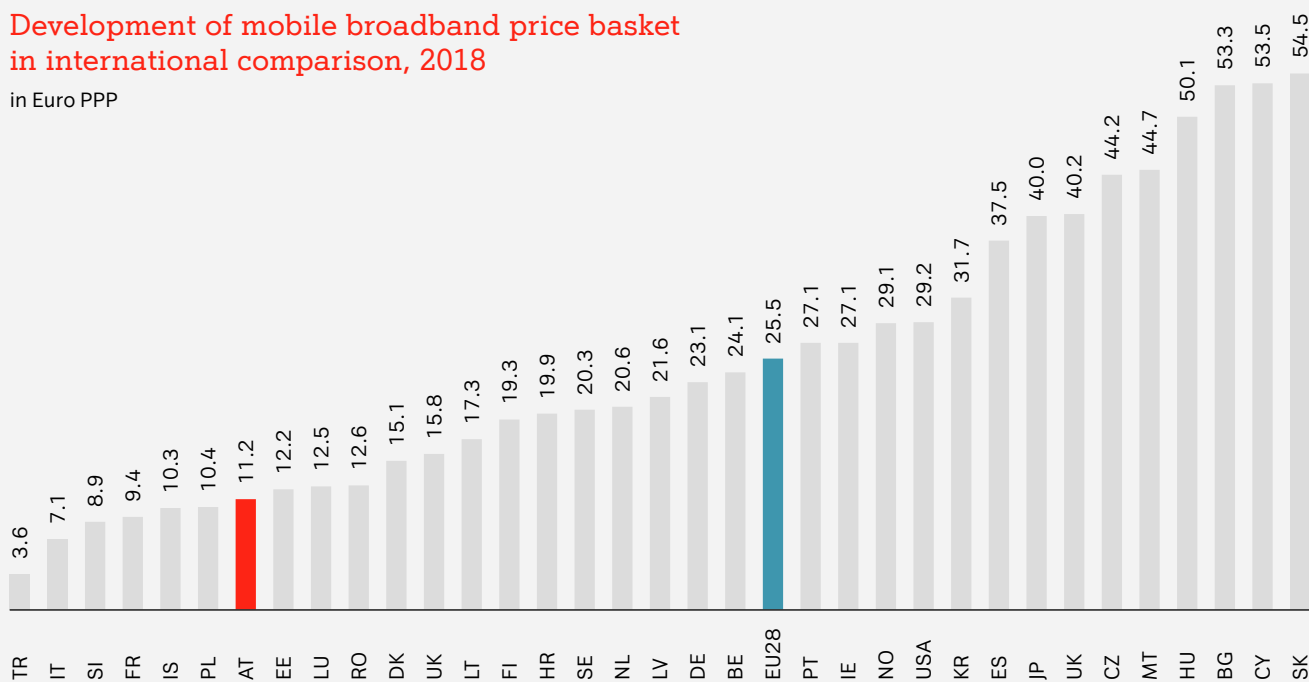
1) Sources: European Union, Austria, Bulgaria, Croatia, Slovenia, Serbia, and North Macedonia: European Commission https://ec.europa.eu/info/sites/info/files/economy-finance/ip115_en_0.pdf, page 197; Belarus: IMF <https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>, page 151

2) <https://www.rtr.at/de/inf/internet-monitor-q22019-daten>

3) https://www.rtr.at/de/inf/StudieTKWirtschaft2019/20190628_Die_ökonomische_Bedeutung_der_Telekommunikationswirtschaft_in_Österreich_Studie_Endbericht.pdf

Development of mobile broadband price basket in international comparison, 2018

in Euro PPP



Note: Price basket for 5 GB data volume, 100 free minutes and 140 SMS; PPP (purchasing power parity)
Source: RTR

- ▶ In the second quarter of 2019, the broadband market had 10.5 million mobile and fixed-line broadband connections. This represented an increase of 3.9% on the previous year and was driven by smartphone tariffs and mobile broadband, whereas the fixed-line market remained stable.
- ▶ Rapid growth in the data volume in mobile telecommunications as a whole, 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 2019 with a year-on-year increase of 33.5%. The data volume transferred via fixed-line broadband also rose by 22.6%, with a ratio of mobile to fixed-line data of around 1:2. The average monthly data volume per user saw a clear growth trend in the same period, amounting to 122.9 GB for fixed-line broadband (Q2 2018: 99.9 GB) and 67.9 GB for mobile data tariffs (Q2 2018: 51.0 GB).
- ▶ While NGA (next generation access) coverage in Austria has increased steadily over recent years and is now in excess of 80%, only around 40% of customers were using products with a speed of more than 30 Mbit/s at the end of 2018, although there was a clear trend towards higher bandwidths (2017: 30%).⁴⁾

According to Statistics Austria, the proportion of Austrian households with broadband connections was 89% in 2019 (2018: 88%), while the figure for companies was 98% (2018: 99%).⁵⁾

In Bulgaria, the trend seen in recent years continued, with the Internet penetration rate across all households increasing to 75.1% in 2019 compared to 72.1% in the previous year. While fixed-line penetration remained stable at 57.8% (2018: 57.9%), mobile penetration continued to rise significantly to 64.0% (2018: 58.8%).⁶⁾

4) Broadband strategy 2030, <https://www.bmvit.gv.at/themen/telekommunikation/breitband/strategie.html>; pages 9 and 12

5) https://www.statistik.at/web_de/statistiken/energie_umwelt_innovation_mobilitaet/informationsgesellschaft/index.html

6) https://www.nsi.bg/sites/default/files/files/pressreleases/ICT_hh2019_en_LDOBNRL.pdf

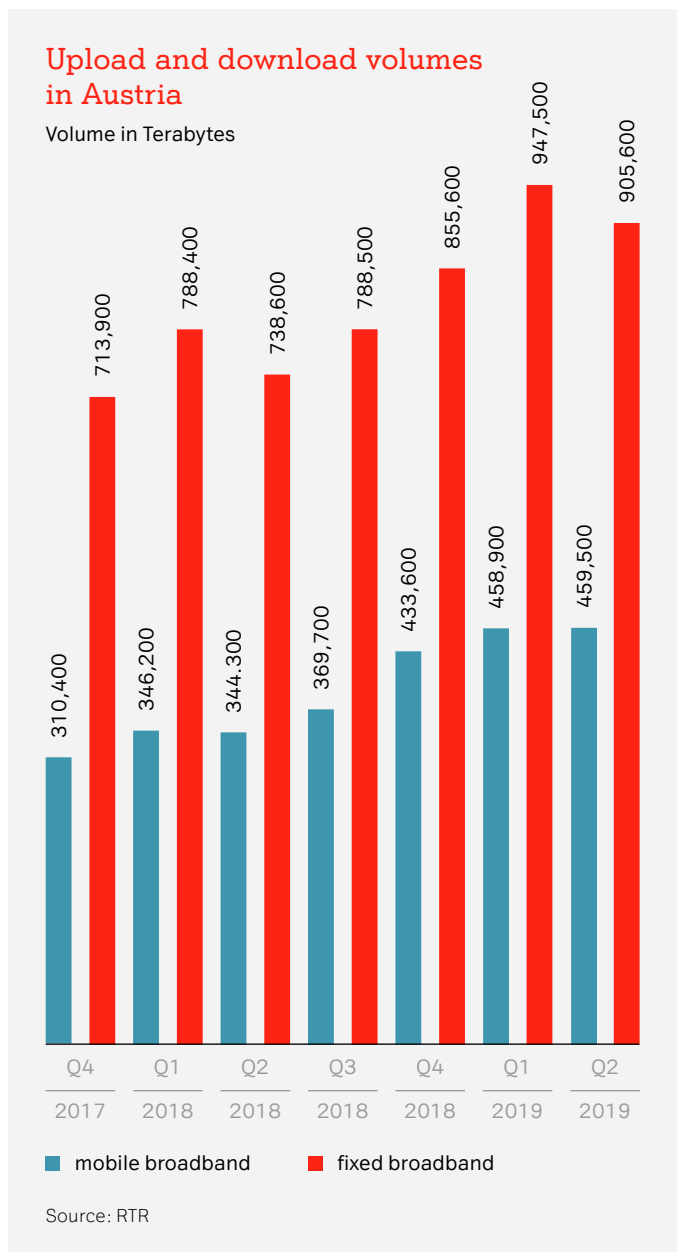
The number of broadband connections in Croatia increased by 3.1 % year-on-year to 4.8 million in the third quarter of 2019 on the back of both mobile and fixed-line broadband. There was particularly strong growth in fiber connections (+30.8%) and mobile Wi-Fi routers (+29.6%).⁷⁾

The ICT market in Belarus has developed strongly in recent years, leading to a steady rise in the number of Internet customers, while the number of mobile network users also returned to growth of 1.8% in 2018 after having stagnated in the previous years. At the end of 2018, the proportion of households with Internet access was 79.1% (2017: 74.4%).⁸⁾

In Slovenia, the Internet penetration rate increased from 86.7% in the previous year to 89.0% in the year under review. While the number of mobile broadband connections (including smartphone tariffs) rose by a further 2.0% year-on-year, the number of fixed-line broadband connections declined by 1.8%.⁹⁾

In Serbia, the increase in the number of Internet connections continued, with 80.1% of households having Internet access in 2019 (2018: 72.9%). 93.7% of all Serbian households now also own mobile telephones (2018: 93.0%) and 73.1% have a computer (2018: 72.1%).¹⁰⁾

According to the Statistical Office of North Macedonia, 81.8% of all households in the country had Internet access in the first quarter of 2019 (Q1 2018: 79.3%). 85.7% of them (2018: 88.8%) had a fixed-line Internet connection, while 70.5% (2018: 70.9%) used a mobile broadband connection.¹¹⁾



7) https://www.hakom.hr/UserDocImages/2019/e_trziste/Croatian%20Quarterly%20electronic%20communications%20data,Q32019.eng.pdf
 8) <https://www.belstat.gov.by/upload/iblock/253/253015f399a1a53b42fa0807acdf158.pdf>, pages 63 and 81; Note: Figures for Belarus are available for 2018 only.
 9) https://pxweb.stat.si/SiStatDb/pxweb/en/20_Ekonomsko/20_Ekonomsko__23_29_informacijska_druzba__10_IKT_gospodinjstva__04_29740_dostop_internet/2974001S.px/; A1 Telekom Austria Group calculations
 10) <https://data.stat.gov.rs/Home/Result/270105?languageCode=en-US>; <https://data.stat.gov.rs/Home/Result/270101?languageCode=en-US>
 11) <http://www.stat.gov.mk/pdf/2019/8.1.19.32.pdf>

Regulation

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 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 a national level, but increasingly also at a European level in order to create harmonized conditions within the EU. For example, this applies in the case of the roaming and net neutrality regulations of the European Commission¹²⁾ or the harmonization of mobile and fixed-line termination rates as a result of the EEC (European Electronic Communications Code), which apply equally to all EU member states.

Fixed-line

The Austrian regulatory authority completed the fifth and most recent round of the statutory market review process in mid-2018¹³⁾. Following this, A1 Telekom Austria AG continues to be regulated on the key wholesale markets for central and local access in particular.

However, these regulatory decisions fundamentally allowed A1 Telekom Austria AG to also roll out vectoring technology in unbundled connection areas in order to offer broadband connections with higher bandwidths. Virtual unbundling (vULL, VULA) has now also been confirmed as a complete replacement for the physical unbundling of customer lines by the regulatory authority and through its practical adoption on the market. This has quickly established itself as the new, central form of access for alternative operators and will largely replace physical unbundling over the next two to three years. The

relevant regulation in the fixed-line network now has only an extremely limited impact at retail level.

The process regarding fixed-line termination rates has been suspended to date, as the regulations set out in the new European legal framework (EECC) involve the definition of a low fixed-line termination rate to apply uniformly throughout Europe from the start of 2021. An absolute cap for this new termination rate will be defined by the European Commission in mid-2020 in a dedicated legal act. This will lead to a further reduction in fixed-line termination rates.

Mobile communications markets

The mobile communications markets of A1 Telekom Austria Group are subject to various regulatory systems. As EU member states, Austria, Bulgaria, Croatia, and Slovenia are subject to the regulations of the EU and the European Economic Area (EEA). These primarily relate to roaming charges and termination rates between individual market players. The regulatory environment in Belarus, Serbia, and North Macedonia are at different stages of development. There are general signs of gradual harmonization with EU statutory provisions in these countries as well. For example, roaming charges were reduced effective July 1, 2019 following the introduction of a regional retail roaming agreement for the Western Balkans and are expected to be eliminated altogether by July 1, 2021. In terms of A1 Telekom Austria Group, this affects Serbia and North Macedonia.

The European Union regulation on net neutrality and roaming has been in force since 2016. This requires Internet access service providers to treat all data traffic equally regardless of transmitter, receiver, application, or device. In addition to Internet access services, specialized services can also be offered subject to certain limitations. However, the regulation

Glide paths for mobile termination rates

	Jan. 16	Jul.16	Jan. 17	Jul.17	Jan. 18
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 ³⁾
Serbia (RSD)	3.43	2.75	2.07	2.07	1.43
North Macedonia (MKD)	0.90	0.90	0.63	0.63	0.63

1) National MTRs stated. International MTRs differ

2) Figures for Belarus: prime time/downtime. MTS: Mobile TeleSystems; BeST: Belarus Telecommunications Network

3) In Slovenia, a reduction of the MTR to EUR 0.00882 is expected from March 2020

12) Regulation (EU) 2015/2120 of the European Parliament and of the Council of 25 November 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

13) With the exception of termination markets

on net neutrality contains few details regarding implementation, which has resulted in different interpretations in practice. A1 Telekom Austria AG has currently lodged objections with the Austrian Federal Administrative Court concerning two decisions on net neutrality reached by the Austrian regulatory authority. The proceedings are not yet complete.

The contents of the roaming regulation have already been fully implemented at all A1 Telekom Austria Group companies that operate in EU member states and have had a sustained negative impact on roaming revenues.

The process regarding the market review of mobile termination rates has been suspended to date, as the regulations set out in the new European legal framework (EECC) involve the definition of a low mobile termination rate to apply uniformly throughout Europe from the start of 2021. An absolute cap for this new termination rate will be defined by the European Commission in mid-2020 in a dedicated legal act. This will lead to a further significant reduction in mobile termination rates, which will have a long-term negative impact on mobile termination revenues.

The EECC (European Electronic Communications Code), the new European legal framework for electronic communication, was issued in its final form in December 2018 and must be transposed into national law by the individual member states by the end of 2020. This will involve legal and regulatory risks as well as financial risks in the future. In particular, the reduction in surcharges for international calls to a maximum of EUR 0.19 per minute and for SMS to a maximum of EUR 0.06 per text message since May 15, 2019 has had a negative effect on revenues throughout the entire telecommunications industry.

In addition, a frequency allocation for the 700-MHz, 1500-MHz and 2100-MHz frequency bands in Austria is scheduled for 2020 in the form of a multi-band auction. The public consultation on the bidding documents was completed by the regulatory authority in the fourth quarter of 2019 and the tender documents were published in December 2019. The auction itself will probably start in April 2020.

Information on financial reporting

A1 Telekom Austria Group reports on seven business segments: Austria, Bulgaria, Croatia, Belarus, Slovenia, Serbia, and North Macedonia. "Corporate & other, eliminations" comprises mainly holding companies, the Group financing company as well as A1 Digital, whose business activities are focused on the core markets of A1 Telekom Austria Group as well as Germany and Switzerland.

A1 Telekom Austria Group applied IFRS 16 for the first time at January 1, 2019, using the modified retrospective approach in accordance with the transition guidance. Accordingly, the comparative figures for 2018 in the consolidated financial statements have not been restated, i. e. they are published in accordance with IAS 17 (and the applicable interpretations). The effects of the first-time application of IFRS 16 are presented in the notes to the consolidated financial statements in Note (3) "Basis of Presentation".

In the following presentation, IFRS 16 is applied to the comparative figures for 2018 with reasonable accuracy ("IFRS 16 based"). Note (1) "Business Segments" of the notes to the consolidated financial statements also contains comparative figures "like reported 2018" and a reconciliation to "IFRS 16 based".

EU roaming glide path

Retail (in EUR)	July 2014	April 30, 2016	June 15, 2017
Data (per MB)	0.20	domestic tariff + 0.05 ¹⁾	domestic tariff
Voice calls made (per minute)	0.19	domestic tariff + 0.05 ¹⁾	domestic tariff
Voice calls received (per 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	January 1, 2020
Data (per MB)	0.05	0.05	0.0077	0.006	0.0045	0.0035
Voice (per minute)	0.05	0.05	0.032	0.032	0.032	0.032
SMS (per SMS)	0.02	0.02	0.01	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. The performance indicator EBITDA is reported in order to present the 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 and reversals thereof.

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

Revenue and earnings development

Key financials in EUR million	2019	2018	Change in %
Total revenues	4,565.2	4,435.4	2.9
Service revenues	3,805.5	3,680.8	3.4
Equipment revenues	663.9	662.6	0.2
Other operating income	95.8	91.9	4.2
EBITDA	1,560.6	1,548.9	0.8
% of total revenues	34.2%	34.9%	-
EBITDA excl. restructuring¹⁾	1,644.7	1,571.0	4.7
% of total revenues	36.0%	35.4%	-
EBIT	614.8	446.0	37.9
% of total revenues	13.5%	10.1%	-
Net result	327.4	243.7	34.4
% of total revenues	7.2%	5.5%	-

Wireless indicators	2019	2018	Change in %
Wireless subscribers (thousands)	21,296.4	21,028.6	1.3
thereof postpaid	16,962.8	16,244.8	4.4
thereof prepaid	4,333.6	4,783.8	-9.4
MoU (per Ø subscriber)	361.9	347.9	4.0
ARPU (in EUR)	8.2	8.0	1.9
Mobile churn (%)	1.7%	1.7%	-

Wireline indicators	2019	2018	Change in %
RGUs (thousands)	6,143.4	6,202.8	-1.0

1) Please find further details on restructuring in the Note (23) of the consolidated financial statements.

Revenue and earnings development

In the financial year 2019, A1 Telekom Austria Group witnessed service revenue growth across all markets. High demand for mobile Wi-Fi routers was a driving force amongst retail customers in the mobile segment, while the strong solutions and connectivity business and attractive TV content offerings contributed largely to the positive development in the fixed-line segment.

In mobile communications, the number of subscribers of A1 Telekom Austria Group increased by 1.3% to 21.3 million in the year under review. The number of contract customers rose in almost all markets following a strong demand for mobile Wi-Fi routers. Contract subscriber numbers in Bulgaria were impacted by the removal of inactive SIM cards in 2019. Without this effect, the contract base remained stable in Bulgaria. Prepaid customer numbers continued to decline as most markets see an ongoing shift from prepaid to contract offers. In the Austrian market, the regulation for registering SIM cards has been in effect since January 1, 2019. Existing customers could register until September 1, 2019. This led to lower gross additions and subscriber numbers in the prepaid segment as well as a partial shift to contract offers. The number of A1 Digital M2M customers continued to rise in the year under review.

The number of revenue-generating units (RGUs) in the Group's fixed-line business declined by 1.0% year-on-year. The decline in RGUs in Austria, which was driven primarily by voice and to some extent also by low bandwidth broadband RGUs, was partly offset by increases in CEE markets due to TV and broadband RGUs. In North Macedonia, Wi-Fi routers that were previously reported as fixed-line RGUs, were reported in the mobile contract segment as of Q2 2019 due to a new product logic.

Back in financial year 2017, A1 Telekom Austria Group decided to harmonize its brands within the Group and roll out the "A1" brand gradually in all markets. The rebranding triggered an amortization of local brand names, amounting to approximately EUR 350 mn at the end of the year 2016. The respective companies have amortized their brand names until the phase-out of the old brands. In 2019, the rebranding was effectively carried out in two additional markets, bringing Belarus's and North Macedonia's businesses under the common "A1" umbrella and completing the amortization of all brand names. The brand amortization in 2019 amounted to EUR 23.7 mn. In 2020, the remaining market in Serbia, which has not capitalized any brand name, will be rebranded from Vip mobile to the common "A1" brand.

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

- ▶ Total one-off effects of positive EUR 8.2 mn in revenues and positive EUR 13.3 mn in EBITDA in 2019 after positive EUR 5.0 mn in revenues and positive EUR 9.4 mn in EBITDA in 2018, with the following main effects:
 - ▶ In Croatia, there was a positive one-off effect of EUR 6.5 mn in Q3 2019 after a positive one-off effect of EUR 3.9 mn in Q3 2018, both in cost of services. These one-off effects stemmed from reimbursements of frequency fee overpayments in connection with frequency fee cuts.
 - ▶ In Austria, a positive one-off effect of EUR 8.2 mn in revenues and EBITDA in 2019, stemming from a real estate sale in other operating income.
- ▶ Total positive FX effects amounted to EUR 12.8 mn in total revenues and EUR 5.6 mn in EBITDA in 2019, stemming mostly from Belarus.
- ▶ The EU regulation on international calls, which came into force on May 15, 2019, had a negative impact on results of roughly EUR 11 mn.
- ▶ Restructuring charges in Austria amounted to EUR 84.1 mn in 2019 compared to EUR 22.1 mn in 2018.

Key Figures of A1 Telekom Austria Group

In the financial year 2019, A1 Telekom Austria Group recorded an increase in total revenues of 2.9%. Adjusted for the one-off and FX effects described above, total revenues rose by 2.6% year-on-year. The total revenue growth in 2019 was driven primarily by CEE markets, especially Bulgaria, Belarus, and Serbia, with Austria being flat. Service revenues increased by 3.4% with growth in all markets. At the Group level, both fixed-line and mobile service revenues increased.

The Group's total costs and expenses increased by 4.1% compared to the previous year, driven by higher restructuring costs of EUR 84.1 mn in Austria in 2019 (2018: EUR 22.1 mn). Excluding restructuring charges, total costs and expenses increased by 2.0%. Cost of services increased following higher content costs related to the growth of ICT business in Austria, and increased content costs for TV rights in Croatia and Bulgaria. Interconnection and network maintenance costs also rose. These increases were partly offset by lower frequency fees in Croatia. An increase in cost of equipment came mainly as a consequence of reduced marketing support from handset suppliers in the Austrian segment and a more expensive handset portfolio in Bulgaria. Sales area costs were higher while lower advertising costs were driven by fewer rebranding activities in the Group compared to the previous year.

Key Figures of A1 Telekom Austria Group

(in EUR million)

	2019	2018	Change in %
Revenues			
Austria	2,648.1	2,637.5	0.4
Bulgaria	486.2	445.1	9.2
Croatia	432.8	429.9	0.7
Belarus	426.1	390.9	9.0
Slovenia	209.4	208.2	0.6
Serbia	283.8	258.7	9.7
North Macedonia	122.8	119.0	3.2
Corporate & other, eliminations	-44.1	-53.9	n. a.
Total revenues	4,565.2	4,435.4	2.9

	2019	2018	Change in %
EBITDA			
Austria	921.3	975.3	-5.5
excl. restructuring	1,005.4	997.4	0.8
Bulgaria	179.4	159.5	12.5
Croatia	145.1	132.8	9.3
Belarus	190.9	177.7	7.4
Slovenia	59.0	54.1	9.2
Serbia	83.4	70.2	18.8
North Macedonia	43.2	40.6	6.3
Corporate & other, eliminations	-61.8	-61.3	-0.8
Total EBITDA	1,560.6	1,548.9	0.8
excl. restructuring	1,644.7	1,571.0	4.7

	2019	2018	Change in %
EBIT			
Austria	415.8	474.5	-12.4
Bulgaria	66.9	-106.8	n. a.
Croatia	41.1	12.9	218.2
Belarus	100.7	90.3	11.4
Slovenia	14.7	12.2	20.2
Serbia	27.7	14.9	86.0
North Macedonia	12.2	10.2	19.7
Corporate & other, eliminations	-64.2	-62.3	-3.0
Total EBIT	614.8	446.0	37.9

	2019	2018	Change in %
Costs and expenses			
Cost of service	-1,302.5	-1,279.9	-1.8
Cost of equipment	-653.8	-627.9	-4.1
Selling, general & administrative expenses	-1,029.7	-964.7	-6.7
Other expenses	-18.5	-13.9	-33.1
Total costs and expenses	-3,004.5	-2,886.5	-4.1
thereof employee costs	-913.4	-850.6	-7.4
thereof restructuring charges	-84.1	-22.1	-280.5
Impairment charges	0.0	0.0	n. a.
Depreciation and amortization	-785.4	-956.5	17.9

	2019	2018	Change in %
Other key figures			
Net result	327.4	243.7	34.4
Net cash flow from operating activities	1,458.0	1,390.6	4.8
Capital expenditures ¹⁾	879.8	771.0	14.1
Net debt (incl. leases)	3,463.1	3,720.8	-6.9

1) Additions to property, plant and equipment and intangibles, excluding asset retirement obligations and additions to rights-of-use assets according to IFRS 16.

EBITDA excl. restructuring rose by 4.7% in the year under review (reported: 0.8%). Adjusted for one-offs and FX effects, it rose by 4.1%, experiencing growth in all segments. In total, the EBITDA margin excl. restructuring increased from 35.4% in the previous year to 36.0% in the year under review.

Depreciation and amortization (incl. rights of use) amounted to EUR 945.8 mn, which is a 14.2% decline in comparison to the previous year. This was due to the brand amortization, which corresponded to a significantly lower amount of EUR 23.7 mn in 2019 (2018: EUR 197.9 mn). As a result, operating income rose by 37.9% to EUR 614.8 mn compared to the previous year.

A1 Telekom Austria Group recorded a financial result of EUR -133.2 mn, a decrease of 28.7% compared to the previous year. This is largely due to the result of a tax audit in Bulgaria,

which had a negative impact of EUR 22.0 mn in interest expenses (for details, see Note (7) and (29)).

Tax expenses amounted to EUR 154.2 mn in the year under review, compared to EUR 98.8 mn recorded in the previous year. The increase in income taxes resulted from an appreciation of investments, and from the abovementioned tax case in Bulgaria. Overall, A1 Telekom Austria Group reported a net result of EUR 327.4 mn in 2019, an increase of 34.4% compared to the previous year.

Net assets and financial position

As of December 31, 2019, the balance sheet total increased by 0.9% compared to January 1, 2019, mainly owing to the increase in current assets as well as in property, plant and equipment. Current assets rose driven by higher cash and cash equivalents as well as higher receivables, partly offset by lower inventories and contract assets. Non-current assets declined slightly since the increase in the property, plant and equipment attributable to the fiber rollout and higher LTE investments in Austria were outweighed by the lower right-of-use assets and reduced deferred tax assets.

While current liabilities declined due to bank loan repayments, non-current liabilities remained stable. Lower lease liabilities were offset by the new obligation from an agreement with the local monopoly provider for LTE services in Belarus, beCloud, on the usage of exclusive network capacity. The equity ratio as of December 31, 2019 amounted to 31.2% compared to 29.1% as of January 1, 2019. The increase in shareholders' equity was driven by the net income of the financial year 2019.

Company key figures

	2019	2018	Change in %
Earnings per share (in EUR)	0.49	0.36	35.6
Dividend per share (in EUR)	0.23 ¹⁾	0.21	9.5
Free cash flow per share (in EUR)	0.51	0.58	-11.3
ROE ²⁾	12.9%	9.2%	-
ROIC ³⁾	9.9%	6.9%	-

- 1) Intended proposal to the 2020 Annual General Meeting
- 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 income tax current period (NOPAT) divided by the average capital invested

Net assets and financial position

Balance sheet structure (in EUR million)	As % of the		As % of the	
	Dec 31, 2019	balance sheet total	Jan 1, 2019	balance sheet total
Current assets	1,430.3	16.9	1,316.0	15.6
Property, plant and equipment	2,840.3	33.5	2,716.1	32.3
Goodwill	1,278.8	15.1	1,277.9	15.2
Intangible assets	1,784.2	21.0	1,782.7	21.2
Other assets	1,152.4	13.6	1,317.8	15.7
Total assets	8,486.0	100.0	8,410.5	100.0
Current liabilities	1,637.8	19.3	1,747.8	20.8
Long-term debt	2,539.6	29.9	2,536.4	30.2
Lease liabilities long-term	788.2	9.3	859.4	10.2
Employee benefit obligation	220.1	2.6	203.7	2.4
Non-current provisions	582.0	6.9	576.0	6.8
Other long-term liabilities	72.4	0.9	37.7	0.4
Stockholders' equity	2,645.9	31.2	2,449.6	29.1
Liabilities and stockholders' equity	8,486.0	100.0	8,410.5	100.0

Net debt

in EUR million	Dec 31, 2019	Jan 1, 2019	Change in %
Long-term debt	2,539.6	2,536.4	0.1
Lease liability long-term	788.2	859.4	-8.3
Short-term debt	123.0	245.0	-49.8
Lease liability short-term	152.6	143.6	6.3
Cash and cash equivalents	-140.3	-63.6	-120.5
Net Debt (incl. leases)	3,463.1	3,720.8	-6.9
Net debt (incl. leases) / EBITDA	2.2 ×	2.4 ×	-

in EUR million	Dec 31, 2019	Dec 31, 2018	Change in %
Net debt (excl. leases)	2,522.3	2,718.4	-7.2
Net debt (excl. leases) / EBITDA after leases	1.8 ×	2.0 ×	-

Net debt

Net debt (incl. leases) decreased by 6.9%, mostly due to lower short-term debt following the repayment of a bank loan and an increase in cash and cash equivalents in the reporting period. The net debt (incl. leases) to EBITDA ratio decreased for this reason and due to improved operating result from 2.4 × as of January 1, 2019 to 2.2 × as of December 31, 2019.

EUR -176.0 mn (2018: EUR -190.8 mn) were mainly driven by payments for restructuring, a decreases in accounts payable, as well as income tax payments resulting from the abovementioned tax audit in Bulgaria.

Free cash flow declined from EUR 384.2 mn as of December 31, 2018 to EUR 340.6 mn as of December 31, 2019 due to higher capital expenditures paid in the year under review, which were mainly driven by acquired frequencies in Austria and Belarus.

Cash flow

Cash flow from operating activities increased in the financial year 2019 due to improved operating performance as well as lower working capital needs. In the year under review, "working capital and other financial positions" in the amount of

The net cash flow from financing activities rose from EUR -763.3 mn in 2018 to EUR -520.3 mn in the reporting period. The prior year was above all characterized by the redemption of the EUR 600 mn hybrid bond on February 1, 2018. In 2019, in addition to the leasing, dividend and interest payments, the repayment of a bank loan led to a cash outflow.

Cash flow

in EUR million	2019	2018	Change in %
Cash flow from operating activities	1,458.0	1,390.6	4.8
Capital expenditures paid	-873.9	-771.5	-13.3
Proceeds from sale of plant, property and equipment	14.3	7.5	89.8
Interest paid	-108.3	-98.4	-10.1
Lease principal paid	-149.5	-144.1	-3.7
Free cash flow	340.6	384.2	-11.3

Capital expenditures

In the year 2019, capital expenditures increased by 14.1% year-on-year to EUR 879.8 mn. Excluding the frequency spectrum, capital expenditures increased from EUR 770.0 mn to EUR 797.7 mn, above all driven by an agreement with the local monopoly provider for LTE services in Belarus, beCloud,

on the usage of exclusive network capacity. This led to capital expenditures of EUR 51.9 mn in Q4 2019.

Tangible capital expenditures decreased slightly by 0.7% to EUR 605.9 mn, mainly due to the Austria segment. While fibre rollout in Austria led to higher investments in the reporting year, 2018 was impacted by investments in a data center.

Lower investments in Austria were offset by higher mobile network investments in Bulgaria. Intangible capital expenditures increased by 70.4 % to EUR 273.9 mn, which is attributable to acquired frequencies in Austria (3.5 GHz; EUR 64.4 mn), Belarus (2.1 GHz; EUR 9.7 mn) and Croatia (2.1 GHz; EUR 7.2 mn) as well as the abovementioned agreement with beCloud in Belarus.

Segment analysis

Segment Austria

In Austria, all mobile network operators are now able to offer convergent products. Following their rebranding in May 2019, Magenta is marketing new mobile tariffs, including 5G-ready unlimited data propositions in the premium voice segment, as well as convergent offers and fixed-line promotions. At the end of September 2019, Drei launched technology-agnostic internet tariffs for mobile Wi-Fi routers, hybrid modems as well as fixed-line accesses, with a shift to higher speeds. In the premium segment, unlimited data volumes and higher speeds dominated propositions as part of newly launched 5G-ready tariffs and as the Christmas promotion for smartphones and mobile Wi-Fi routers. A1 continued to follow its multi-brand strategy and aimed for high granularity in market segmentation. A1 offered its first premium 5G-ready tariff with increased speed for mobile Wi-Fi routers and held promotions during the summer and the Christmas holiday with unlimited mobile tariffs. In the low value and youth segments, competition remained intense in the year under review, also fostered by the entrance of a new MVNO player and promotional activities, which A1 countered by means of targeted offers. Following regulation requirements for SIM card registration imposed by authorities in 2019, A1 Austria managed to register a vast majority of its active prepaid SIM cards.

In the retail fixed-line business, all operators focused on retaining and upselling customers as acquiring new customers had become increasingly challenging. In October 2019, A1 started with a new fixed-line broadband promotion in order to attract new customers and to reduce churn. The promotion offered various benefits to new customers, as well as to existing customers who extend their contracts and upgrade to higher bandwidth products. The promotion campaign was successful and resulted in significantly better net-adds.

The Internet@home market, representing fixed-line broadband, hybrid modems, and mobile Wi-Fi routers, continued to grow steadily in 2019 as well, showing particularly strong

demand for mobile WiFi routers. The rising demand for higher bandwidth products and TV options contributed to upselling of these services within the existing customer base.

The total number of mobile contract subscribers saw an increase in 2019, driven by strong demand for mobile Wi-Fi routers and, to a lesser extent, an increase in the high value customer base. The decline in the prepaid segment was caused by the abovementioned SIM card registration regulation. The total number of fixed-lined revenue generating units (RGUs) declined in the year under review as losses in voice and low bandwidth broadband subscribers could not be outweighed by the rising demand for higher bandwidth products and TV options.

Results were also supported by price adjustments. In February 2019, prices for new customers in the high-value mobile and the youth segment were increased by 2 Euro and 1 Euro, respectively. The activation fee and the annual service fee were also raised. As of April 1, 2019, an indexation of 2.0 % has been effective for existing customers in both the mobile high-value (including mobile Wi-Fi routers) and parts of the fixed-line business. In November 2019, prices for existing fixed-line voice customers were increased.

Total revenues increased slightly by 0.4 % year-on-year including a positive one-off effect of EUR 8.2 mn in other operating income resulting from a real estate sale. Excluding the positive one-off effect, total revenues remained flat, as higher service revenues outweighed the decline in equipment revenues. The latter declined due to lower quantities and slightly higher subsidies per handset. Fixed-line service revenues grew at 1.5 % on the back of higher solutions and connectivity revenues due to strong demand for ICT solutions as well as complementary connectivity, which outweighed lower retail fixed-line service revenues. The latter decreased by 1.9 % as losses in voice and a decline in the number of low bandwidth broadband subscribers could not be offset by the rising demand for higher bandwidth products and TV options as well as the abovementioned indexation measure. ARPL increased further by 2.4 % due to successful up-selling activities and price indexation.

Mobile business saw a slight service revenue increase of 0.3 % year-on-year, driven by strong demand for mobile Wi-Fi routers and increased revenues from the high-value segment, which also benefitted from the price increase and indexation measures mentioned above. The EU international call regulation, which has been in place since May 15, 2019, negatively impacted the mobile segment. Visitor and national roaming revenues were higher due to higher data volumes, while interconnection revenues experienced a decline due to lower volume and

pricing for SMS. ARPU rose since increases due to mobile Wi-Fi routers and high-value customers more than outweighed revenue losses due to the abovementioned EU regulation.

Costs and expenses in the Austria segment increased by 3.9% year-on-year, driven by higher restructuring costs of EUR 84.1 mn in 2019 compared to EUR 22.1 mn in 2018. Excluding restructuring costs, total costs and expenses remained flat since higher cost of equipment due to less marketing support and more ICT customer projects, as well as higher cost of services, were offset by lower workforce costs. Cost of services came in higher due to increased costs for ICT

projects, while higher structural costs for IT process automation allowed an FTE reduction and led to lower workforce costs.

EBITDA excluding restructuring charges and one-off effects remained flat (reported: -5.5%) as higher service revenues and cost savings were able to offset the lower equipment margin. The latter decreased due to higher subsidies and lower ICT equipment margins as well as less marketing support from handset sellers in the year under review. Depreciation and amortization expenses increased by 1.0% in the period under review compared to the same period last year. As a result, total operating income decreased by 12.4% year-on-year.

Key performance indicators Austria

Key financials in EUR million	2019	2018	Change in %
Total revenues	2,648.1	2,637.5	0.4
Service revenues	2,320.3	2,297.6	1.0
thereof mobile service revenues	926.1	923.6	0.3
thereof fixed-line service revenues	1,394.2	1,373.9	1.5
Equipment revenues	268.6	286.1	-6.1
Other operating income	59.2	53.8	10.1
EBITDA	921.3	975.3	-5.5
% of total revenues	34.8%	37.0%	-
EBITDA excl. restructuring	1,005.4	997.4	0.8
% of total revenues	38.0%	37.8%	-
EBIT	415.8	474.5	-12.4
% of total revenues	15.7%	18.0%	-
Wireless indicators	2019	2018	Change in %
Wireless subscribers (thousands)	5,114.9	5,363.7	-4.6
thereof postpaid	3,895.5	3,825.1	1.8
thereof prepaid	1,219.3	1,538.6	-20.7
MoU (per Ø subscriber)	281.6	269.9	4.3
ARPU (in EUR)	14.7	14.5	1.4
Mobile churn (%)	1.6%	1.6%	-
Wireline indicators	2019	2018	Change in %
RGUs (thousands)	3,247.0	3,327.7	-2.4

Key performance indicators International operations

Key financials in EUR million	2019	2018	Change in %
Total revenues	1,957.5	1,846.6	6.0
Service revenues	1,525.4	1,430.4	6.6
thereof mobile service revenues	1,161.8	1,095.7	6.0
thereof fixed-line service revenues	363.7	334.7	8.7
Equipment revenues	395.2	376.7	4.9
Other operating income	36.9	39.5	-6.6
EBITDA	701.1	632.8	10.8
% of total revenues	35.8%	34.3%	-
EBIT	264.0	31.9	n. m.
% of total revenues	13.5%	1.7%	-

Wireless indicators	2019	2018	Change in %
Wireless subscribers (thousands)	14,669.4	14,618.5	0.3
thereof postpaid	11,555.1	11,373.3	1.6
thereof prepaid	3,114.3	3,245.2	-4.0

Wireline indicators	2019	2018	Change in %
RGUs (thousands)	2,896.4	2,875.1	0.7

International operations

International operations contributed strongly to Group revenue and Group EBITDA growth. Total revenues increased by 6.0% in 2019, driven by service revenue growth in all markets, with Belarus, Bulgaria, and Serbia being the main contributors. EBITDA increased by 10.8%, driven particularly by Bulgaria, Belarus, and Serbia.

Segment Bulgaria

In 2019, the Bulgarian market showed positive trends, both in the fixed-line and in the mobile segment. Strong growth in the fixed-line business segment was attributable to the increased sale of customized corporate solutions, while successful up and cross selling to residential customers also contributed to the growth. Exclusive TV content featuring sport channels made a significant contribution to ARPL trends and the positive revenue generating unit (RGU) development. Total fixed-line RGUs increased as the strong trends in TV and broadband were able to offset the decline in fixed-line voice services. The mobile segment was characterized by market stabilization and improved trends among both business and residential customers. The total number of mobile contract subscribers however declined, mainly as a result of cleaning up inactive SIM cards in the year under review. Successful upselling in post-paid and pre-paid segments contributed to the positive ARPU development.

Total revenues increased by 9.2% year-on-year with growing fixed-line and mobile trends as well as equipment revenues. While mobile service revenues increased on the back of up-selling activities and market stabilization, fixed-line service

revenues rose due to strong demand for TV content and customized corporate solutions. Equipment revenues grew owing to higher quantities sold.

Costs and expenses increased, driven primarily by higher cost of equipment as a result of upselling activities and increased smart handset sales in the mobile segment as well as, although to a lesser extent, due to higher sales in the fixed-line segment. Increased content costs, in line with the higher number of TV RGUs, together with higher workforce and IT maintenance costs, were additional key factors for increases in costs.

Strong growth in service revenues more than outweighed higher costs and expenses, resulting in 12.5% EBITDA growth year-on-year. Depreciation and amortization declined by 57.8% as the rebranding in 2018 led to brand amortization costs of EUR 144.0 mn. As a result, operating income increased in the year under review and amounted to EUR 66.9 mn (2018: EUR -106.8 mn).

Segment Croatia

In 2019, the market in Croatia was shaped by highly discounted offers for convergence solutions, as well as intense competition in the mobile segment. In April 2019, A1 Croatia launched an unlimited data offer on the market to attract new customers and increase satisfaction within the existing customer base. In May 2019, Hrvatski Telekom introduced an unlimited mobile proposition in the premium segment. Fixed-line business was driven by strong demand for exclusive TV options featuring content such as UEFA Champions League, the most important factor in the proposition. In May 2019, Tele2 announced the sale of its Croatian business to United

Group, a SEE-based telecom services provider. The regulatory approval for the acquisition is still pending and is expected in February 2020.

On the regulatory side, in 2019 the Croatia segment benefited from reduced frequency usage fees and the reimbursement of the excess frequency usage fees of EUR 6.5 mn (2018: EUR 3.9 mn) in connection with previously announced frequency fee cuts by the government.

The number of mobile subscribers increased in the year under review, owing to an increased contract customer base and solid growth of mobile Wi-Fi routers. The total number of fixed-line revenue generating units (RGUs) increased, driven by strong demand for TV solutions.

Total revenues increased by 0.7% year-on-year. Solid service revenue growth of 2.3%, driven by the increase in both the mobile and the fixed-line segments, was partially offset by lower equipment revenues. Mobile service revenues grew despite the EU international call regulation. The increase was due to continued strong demand for mobile Wi-Fi routers, up-selling activities and higher visitor roaming revenues triggered by higher data traffic during the peak tourist season. Fixed-line service revenues rose due to TV RGU growth as well as a price increase in September 2019. In addition, solutions and connectivity revenues also increased. Equipment revenues declined, as a result of lower quantities sold and a shift towards a cheaper handset mix.

On the cost side, Croatia saw a decrease, mainly due the aforementioned one-off effect of EUR 6.5 mn (2018: EUR 3.9 mn) related to the frequency fee reimbursement and frequency fee cuts. Advertising and equipment costs also declined after being impacted by rebranding activities in 2018. Content costs increased as a result of investment in UEFA Champions League rights and the increase in the TV subscriber base.

Increased revenues coupled with the reduction in total costs led to EBITDA growth of 9.3% year-on-year, while EBITDA excluding one-off effects increased by 7.5% compared to the previous year. Depreciation and amortization expenses declined from EUR 119.9 mn in 2018 to EUR 104.0 mn in 2019, primarily as a result of brand amortization expenses of EUR 19.7 mn in the comparison period. Operating income therefore increased from EUR 12.9 mn to EUR 41.1 mn.

Segment Belarus

Economic activity in Belarus slowed down in 2019, with GDP expected to have grown by 1.5% (IMF estimate; 2018: 3.0%). The Belarusian ruble appreciated against the euro by 2.8% in the year under review (period average). The government continued to pursue policies to stabilize inflation that came in at 4.7% in December 2019.

In April 2019, the launch of the "A1" brand started with the temporary incorporation into the "A1 Velcom" brand. The transition to the single brand "A1" was subsequently completed successfully in August 2019.

In March 2019, A1 entered into an agreement with beCloud regarding LTE capacity and officially launched its LTE services in Minsk and other relevant cities, allowing the company to remain competitive despite lacking its own LTE license. The agreement was further amended in December 2019 and now allows A1 Belarus the exclusive use of network capacity enabling nationwide LTE coverage.

The mobile market remained highly competitive in 2019, with telecom operators focusing more on retaining and upselling existing customers. A1 Belarus concluded its redesign of service plans in the second quarter of 2019, especially with the improvement of youth and business propositions. The redesigned mobile portfolio includes more data-centric propositions and optional data add-ons for voice-only prepaid propositions. It aims to attract prepaid customers to contract offers. Additionally, A1 started with a voluntary migration of some grandfathered service plans to current tariffs plans with higher monthly fees.

The subscriber base increased slightly year-on-year following the redesign of the service plan portfolio and Christmas promotion campaign. The number of fixed-line RGUs declined in 2019, due mainly to line losses in low-value cable TV and low-bandwidth broadband.

As of July 2019, an inflation-linked price increase for mobile customers of 4.3% was implemented while fixed-line tariffs for existing customers were increased by 6.0% in June 2019.

Total revenues increased by 9.0%, driven by strong growth in service revenues. Excluding FX effects and minor positive one-off effects in the reporting and in the comparison period, total revenues rose by 6.9%. Mobile service revenues increased, following charging of unlimited data options since February 2019, structural portfolio improvement as well as the abovementioned price increase, which also led to a higher ARPU. Fixed-line service revenues grew on the back of retail fixed-line price increases as well as higher solutions and connectivity revenues.

Total costs and expenses rose primarily as a result of the higher cost of services which was driven mainly by higher interconnection and network engineering costs. The former increased due to more traffic to competitors' networks after the launch of unlimited voice tariffs. Administrative expenses rose due to selected wage increases and higher bad debt expenses, whereas the increase in roaming expenses came as a result of higher traffic on the beCloud's network.

Increased service revenues more than offset higher costs and expenses, which led to EBITDA growth of 7.4%. Excluding FX effects and minor one-offs, EBITDA grew by 6.4%. Lower brand amortization expenses of EUR 23.0 mn in the year under review (2018: 31.3 mn) were outweighed by higher amortization for technical equipment and licenses, which led overall to higher depreciation and amortization expenses. Nevertheless, operating income increased by 11.4%.

Other segments

In Slovenia, competition in the mobile market remained intense with attractive offers including high data allowances. In order to prevent churn, A1 Slovenia launched the "Member get Member" campaign in September 2019, offering discounts to customers who bring friends or family members as new customers. In the fixed-line business, TV content remained an important driver. In April 2019, A1 introduced attractive combine-and-save offers for convergent customers, which contributed to a higher number of revenue generating units (RGUs). Total revenues increased by 0.6% compared to the previous year. Service revenues grew by 1.0%, as the increase in fixed-line service revenues more than outweighed the decline in mobile service revenues. Costs and expenses declined, due to lower workforce costs and a wholesale agreement entered into in Q4 2018. This led to a shift in bitstream costs, included in cost of services in the comparison period, to D&A for rights of use in the reporting period, in accordance with the IFRS 16 accounting standard. Also supported by a higher equipment margin, this enabled EBITDA growth of 9.2%. Despite the increase of depreciation and amortization, operating profit grew by 20.2% year-on-year.

The mobile market in Serbia was shaped by the strong demand for unlimited voice and SMS tariffs with flat data allowances, while the popularity of mobile Wi-Fi routers remained strong throughout the year. Total revenues increased by 9.7%, attributable to higher mobile service revenues as a result of the growing contract subscriber base, which led to increased monthly fees, as well as to higher equipment revenues due to higher quantities sold. Interconnection revenues increased as a result of unlimited voice tariffs introduced by competitors and consequently higher traffic. Workforce costs grew due to the higher number of FTEs and higher bonuses. Altogether, EBITDA grew by 18.8% while almost unchanged depreciation and amortization expenses compared to the previous year led to 86.0% higher operating income.

With the introduction of a regional retail roaming agreement for the Western Balkan countries, roaming rates have been cut as of July 1, 2019, which negatively impacted revenues in Serbia and North Macedonia to a limited extent. Roaming rates are expected to be abolished entirely by July 1, 2021.

In North Macedonia, all market participants focused on customer retention and up-selling activities throughout the year. The fixed-line provider Telekabel launched a mobile SIM-only proposition in Q1 2019. Wi-Fi routers, which were previously reported under fixed-line RGUs, have been reported in mobile postpaid starting with Q2 2019 due to a new product logic. In September 2019, the "A1" brand was also introduced in North Macedonia. Total revenue growth of 3.2% was driven by higher mobile services revenues resulting from the positive development of mobile Wi-Fi routers. Lower administrative expenses were offset by higher cost of services as well as higher selling and marketing expenses, which were impacted by the rebranding. As higher service revenues outweighed higher total costs and expenses, EBITDA grew by 6.3%. Together with stable depreciation and amortization, this led to operating profit growth of 19.7%.

Detailed figures

Information on alternative performance measures

The Consolidated Financial Statements are prepared in accordance with applicable accounting standards. Additionally, alternative performance measures are used to describe operational performance. Therefore, please also refer to the financial information presented in the Consolidated Financial Statements as well as the following tables.

Revenues

in EUR million	2019	2018	Change in %
Austria	2,648.1	2,637.5	0.4
Bulgaria	486.2	445.1	9.2
Croatia	432.8	429.9	0.7
Belarus	426.1	390.9	9.0
Slovenia	209.4	208.2	0.6
Serbia	283.8	258.7	9.7
North Macedonia	122.8	119.0	3.2
Corporate & other, eliminations	-44.1	-53.9	18.2
Total revenues	4,565.2	4,435.4	2.9

Service revenues

in EUR million	2019	2018	Change in %
Austria	2,320.3	2,297.6	1.0
Bulgaria	378.5	348.1	8.7
Croatia	368.4	360.0	2.3
Belarus	320.3	286.9	11.6
Slovenia	157.8	156.3	1.0
Serbia	204.4	184.8	10.6
North Macedonia	98.9	97.0	2.0
Corporate & other, eliminations	-43.1	-49.8	13.3
Total service revenues	3,805.5	3,680.8	3.4

Mobile service revenues

in EUR million	2019	2018	Change in %
Austria	926.1	923.6	0.3
Bulgaria	260.6	245.8	6.0
Croatia	240.2	235.0	2.2
Belarus	272.5	247.0	10.3
Slovenia	120.0	121.0	-0.8
Serbia	196.2	178.1	10.2
North Macedonia ¹⁾	74.9	71.3	5.1
Corporate & other, eliminations	-15.2	-18.2	16.4
Total mobile service revenues	2,075.3	2,003.6	3.6

1) In North Macedonia, service revenues from WiFi routers, which were formerly reported in fixed-line service revenues, are reported in mobile service revenues since Q2 2019.

Fixed-line service revenues

in EUR million	2019	2018	Change in %
Austria	1,394.2	1,373.9	1.5
Bulgaria	117.9	102.3	15.2
Croatia	128.2	125.0	2.5
Belarus	47.8	39.9	19.9
Slovenia	37.8	35.3	7.2
Serbia	8.2	6.7	23.3
North Macedonia ¹⁾	24.0	25.8	-6.7
Corporate & other, eliminations	-27.9	-31.6	11.6
Total fixed line service revenues	1,730.2	1,677.2	3.2

1) In North Macedonia, service revenues from WiFi routers, which were formerly reported in fixed-line service revenues, are reported in mobile service revenues since Q2 2019.

Other operating income

in EUR million	2019	2018	Change in %
Austria	59.2	53.8	10.1
Bulgaria	8.3	7.6	9.2
Croatia	6.1	6.0	1.6
Belarus	14.8	18.1	-18.1
Slovenia	3.4	5.7	-40.6
Serbia	3.3	3.0	12.0
North Macedonia	1.5	1.4	7.4
Corporate & other, eliminations	-0.8	-3.7	77.3
Total other operating income	95.8	91.9	4.2

EBITDA

in EUR million	2019	2018	Change in %
Austria	921.3	975.3	-5.5
excl. restructuring	1,005.4	997.4	0.8
Bulgaria	179.4	159.5	12.5
Croatia	145.1	132.8	9.3
Belarus	190.9	177.7	7.4
Slovenia	59.0	54.1	9.2
Serbia	83.4	70.2	18.8
North Macedonia	43.2	40.6	6.3
Corporate & other, eliminations	-61.8	-61.3	-0.8
Total EBITDA	1,560.6	1,548.9	0.8
excl. restructuring	1,644.7	1,571.0	4.7

EBITDA after leases

in EUR million	2019	2018	Change in %
Austria	841.1	903.5	-6.9
Bulgaria	152.8	135.5	12.7
Croatia	129.6	117.1	10.7
Belarus	175.7	165.6	6.1
Slovenia	41.6	40.1	3.7
Serbia	67.3	55.3	21.7
North Macedonia	36.7	35.3	4.0
Corporate & other, eliminations	-62.1	-61.5	-0.9
Total EBITDA after leases	1,382.8	1,390.9	-0.6

Depreciation and amortization

in EUR million	2019	2018	Change in %
Austria	505.5	500.7	1.0
Bulgaria	112.5	266.3	-57.8
Croatia	104.0	119.9	-13.2
Belarus	90.3	87.4	3.3
Slovenia	44.4	41.9	6.0
Serbia	55.7	55.3	0.7
North Macedonia	31.0	30.5	1.9
Corporate & other, eliminations	2.3	0.9	149.4
Total D&A	945.8	1,102.9	-14.2

EBIT

in EUR million	2019	2018	Change in %
Austria	415.8	474.5	-12.4
Bulgaria	66.9	-106.8	n.a.
Croatia	41.1	12.9	218.2
Belarus	100.7	90.3	11.4
Slovenia	14.7	12.2	20.2
Serbia	27.7	14.9	86.0
North Macedonia	12.2	10.2	19.7
Corporate & other, eliminations	-64.2	-62.3	-3.0
Total EBIT	614.8	446.0	37.9

Capital expenditures

in EUR million	2019	2018	Change in %
Austria	526.9	469.3	12.3
Bulgaria	78.5	86.5	-9.2
Croatia	86.6	87.8	-1.3
Belarus	105.1	49.7	111.5
Slovenia	24.5	27.5	-10.7
Serbia	35.8	34.1	4.9
North Macedonia	19.1	19.2	-0.5
Corporate & other, eliminations	3.3	-3.1	n. m.
Total capital expenditures	879.8	771.0	14.1

Capital expenditures: tangible

in EUR million	2019	2018	Change in %
Austria	380.3	389.5	-2.4
Bulgaria	63.2	52.4	20.6
Croatia	64.2	70.7	-9.2
Belarus	32.3	36.7	-12.0
Slovenia	19.3	17.9	7.8
Serbia	28.3	25.3	11.8
North Macedonia	16.7	17.0	-1.8
Corporate & other, eliminations	1.7	0.8	113.4
Total capital expenditures, tangible	605.9	610.2	-0.7

Capital expenditures: intangible

in EUR million	2019	2018	Change in %
Austria	146.6	79.9	83.5
Bulgaria	15.4	34.1	-55.0
Croatia	22.5	17.1	31.5
Belarus	72.8	13.0	n. m.
Slovenia	5.2	9.5	-45.4
Serbia	7.5	8.8	-15.2
North Macedonia	2.4	2.2	9.8
Corporate & other, eliminations	1.5	-3.9	n. m.
Total capital expenditures, intangible	273.9	160.7	70.4

Mobile subscribers

in thousands	2019	2018	Change in %
Austria	5,114.9	5,363.7	-4.6
thereof postpaid	3,895.5	3,825.1	1.8
Bulgaria	3,824.1	3,934.3	-2.8
thereof postpaid	3,406.4	3,505.2	-2.8
Croatia	1,847.8	1,833.3	0.8
thereof postpaid	1,111.4	1,043.9	6.5
Belarus	4,890.1	4,873.0	0.3
thereof postpaid	4,117.4	4,041.1	1.9
Slovenia	705.3	697.1	1.2
thereof postpaid	626.3	611.7	2.4
Serbia	2,311.0	2,195.2	5.3
thereof postpaid	1,574.3	1,481.8	6.2
North Macedonia ¹⁾	1,091.1	1,085.6	0.5
thereof postpaid	719.3	689.6	4.3
Total wireless subscribers	21,296.4	21,028.6	1.3
 thereof postpaid	16,962.8	16,244.8	4.4

1) In North Macedonia, WiFi routers, which were formerly reported in fixed-line RGUs, are reported in mobile postpaid since Q2 2019. The subscriber numbers of the comparison period have been adapted.

RGUs

in thousands	2019	2018	Change in %
Austria	3,247.0	3,327.7	-2.4
thereof broadband	1,411.3	1,434.8	-1.6
thereof TV	323.9	313.0	3.5
Bulgaria	1,060.0	1,029.0	3.0
thereof broadband	464.3	448.3	3.6
thereof TV	530.5	507.5	4.5
Croatia	685.8	681.8	0.6
thereof broadband	252.2	254.0	-0.7
thereof TV	235.1	229.3	2.5
Belarus	616.9	657.3	-6.1
thereof broadband	228.0	246.7	-7.6
thereof TV	386.3	408.1	-5.3
Slovenia	200.1	182.1	9.9
thereof broadband	82.2	73.7	11.5
thereof TV	69.0	60.2	14.6
North Macedonia ¹⁾	333.6	324.9	2.7
thereof broadband	104.2	102.5	1.6
thereof TV	132.2	128.8	2.6
Total RGUs	6,143.4	6,202.8	-1.0
 thereof broadband	2,542.2	2,560.1	-0.7
 thereof TV	1,676.9	1,646.9	1.8

1) In North Macedonia, WiFi routers, which were formerly reported in fixed-line RGUs, are reported in mobile postpaid since Q2 2019. The subscriber numbers of the comparison period have been adapted.

Mobile churn

in %	2019	2018
Austria	1.6%	1.6%
Bulgaria	1.8%	1.6%
Croatia	2.5%	2.3%
Belarus	1.4%	1.5%
Slovenia	1.2%	1.4%
Serbia	3.0%	3.2%
North Macedonia	1.7%	1.8%

Mobile market share

in %	2019	2018
Austria	37.0%	37.8%
Bulgaria	39.3%	39.4%
Croatia	36.4%	36.5%
Belarus	41.8%	42.0%
Slovenia	28.2%	28.1%
Serbia	25.2%	23.8%
North Macedonia	49.7%	49.6%

EBITDA per segment

adjusted for FX, one-off effects and restructuring charges

in EUR million	2019	2018	Change in %
Austria	997.2	997.4	0.0
Bulgaria	179.4	157.8	13.7
Croatia	138.6	128.9	7.5
Belarus	185.7	174.5	6.4
Slovenia	60.0	54.1	11.0
Serbia	83.6	70.2	19.0
North Macedonia	43.2	40.1	7.6
Corporate & other, eliminations	-61.8	-61.5	-0.5
Total adjusted EBITDA	1,625.8	1,561.6	4.1

Group EBITDA

adjusted for FX, one-off effects and restructuring charges

in EUR million	2019	2018	Change in %
EBITDA	1,560.6	1,548.9	0.8
FX translation effect	-5.6	-	-
One-off effects	-13.3	-9.4	-
Restructuring charges	84.1	22.1	-
EBITDA – excl. FX, one off effects and restructuring charges	1,625.8	1,561.6	4.1

Austria EBITDA

adjusted for one-off effects and restructuring charges

in EUR million	2019	2018	Change in %
EBITDA	921.3	975.3	-5.5
One-off effects	-8.2	0.0	-
Restructuring charges	84.1	22.1	-
EBITDA excl. one-off effects and restructuring charges	997.2	997.4	0.0

Group EBITDA

after leases - adjusted for FX, one-off effects and restructuring charges

in EUR million	2019	2018	Change in %
EBITDA after leases	1,382.8	1,390.9	-0.6
FX translation effect	-5.1	-	-
One-off effects	-13.3	-9.4	-
Restructuring charges	84.1	22.1	-
EBITDA after leases - excl. FX, one-off effects and restructuring charges	1,448.4	1,403.6	3.2

ARPU

in EUR	2019	2018	Change in %
Austria	14.7	14.5	1.4
Bulgaria	5.6	5.2	9.3
Croatia	10.8	10.8	0.2
Belarus	4.7	4.2	10.3
Slovenia	14.3	14.5	-1.3
Serbia	7.2	6.8	6.2
North Macedonia	5.7	5.4	4.6
Group ARPU	8.2	8.0	1.9

ARPL

in EUR	2019	2018	Change in %
Austria	31.3	30.7	1.9
Bulgaria	13.3	12.5	6.1
Croatia	30.8	30.3	1.8
Belarus	6.1	5.6	7.8
Slovenia	35.2	35.7	-1.6
Serbia	n. a.	n. a.	n. a.
North Macedonia	10.8	11.0	-1.9

ARPL-relevant revenues (in EUR million)	2019	2018	Change in %
Austria	753.2	767.8	-1.9
Bulgaria	85.5	79.8	7.1
Croatia	109.3	107.1	2.0
Belarus	30.1	25.8	16.8
Slovenia	32.9	30.7	7.2
Serbia	n. a.	n. a.	n. a.
North Macedonia	19.7	19.3	2.5

Access lines (in thousands)	2019	2018	Change in %
Austria	1,967.0	2,048.3	-4.0
Bulgaria	543.4	536.0	1.4
Croatia	288.8	296.9	-2.7
Belarus	389.0	451.8	-13.9
Slovenia	82.3	73.8	11.5
Serbia	n. a.	n. a.	n. a.
North Macedonia	153.9	149.5	2.9

Belarus: Key Financials in EUR and BYN

in EUR million	2019	2018	Change in %
Total revenues	426.1	390.9	9.0
Total costs and expenses	-235.2	-213.2	-10.3
EBITDA	190.9	177.7	7.4

in BYN million	2019	2018	Change in %
Total revenues	997.0	940.3	6.0
Total costs and expenses	-550.2	-512.8	-7.3
EBITDA	446.8	427.5	4.5

Consolidated non-financial statement

Please 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 2019, 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 held 28.42% via Österreichische Beteiligungs AG ("ÖBAG"¹⁴), while the remaining 20.58% of the shares were in free float. 0.1% or 0.4 million shares of the latter were held by the company itself. Employee shares that are held in a collective custody account also form 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.

	2019	2018	Change in %
Treasury shares	415,159	415,159	0.0

Further details on treasury shares can be found in Note (28) of the consolidated financial statements.

The majority of financial agreements are subject to standard change-of-control clauses that could ultimately lead to the termination of contracts. None of these clauses came into effect in the 2019 financial year or up until the date at which this report was prepared.

The following information concerning the shareholders' agreement is based solely on publicly available information.¹⁵ The company does not have any additional information. The shareholders' agreement between ÖBAG, América Móvil, and América Móvil B.V., came into force on June 27, 2014. 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 ÖBAG. ÖBAG 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 ÖBAG. 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 respective resolution.

ÖBAG and América Móvil B.V. have agreed that at least 24% of the shares of the company should be held in free float while the shareholders' agreement is in place. This minimum free float requirement is based on ÖBAG's maximum equity interest of 25% plus one share. If ÖBAG holds an equity interest in the company of more than 25% plus one share, the minimum free float requirement is reduced 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 ÖBAG holds 25% plus one share or more of the share capital of Telekom Austria Aktiengesellschaft, ÖBAG 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, the conclusion of 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. ÖBAG shall also be granted the blocking minority rights accruing by law to a minority shareholder with an equity interest of 25% plus one share. ÖBAG'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 ÖBAG's equity interest falls below 20% but remains above 10%, ÖBAG 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%.

14) On February 20, 2019, ÖBIB (Österreichische Bundes- und Industriebeteiligungen GmbH) was converted to ÖBAG (Österreichische Beteiligungs AG)

15) Information on the takeover offer (May 9, 2014): <https://www.a1.group/de/ir/12474>
Information on the capital increase as at November 7, 2014: <https://www.a1.group/de/ir/14887>

Members of the Supervisory Board of Telekom Austria Aktiengesellschaft

Name (year of birth)	Date of first appointed	End of current term of office / leaving date
Alejandro Cantú Jiménez (1972)	14.08.2014	2020 ¹⁾
Karin Exner-Wöhrer (1971)	27.05.2015	2020 ¹⁾
Carlos García Moreno Elizondo, Deputy Chairperson (1957)	14.08.2014	2023 ⁴⁾
Bettina Glatz-Kremsner (1962)	30.05.2018	29.05.2019
Peter Hagen (1959)	25.05.2016	2021 ²⁾
Edith Hlawati (1957), Chairperson	28.06.2001 to 29.05.2013, re-delegated on 30.05.2018	2023 ⁴⁾
Carlos M. Jarque (1954)	14.08.2014	2022 ³⁾
Peter F. Kollmann (1962)	20.09.2017	2021 ²⁾
Daniela Lecuona Torras (1982)	30.05.2018	2022 ³⁾
Thomas Schmid (1975)	29.05.2019	2024 ⁵⁾
Oscar Von Hauske Solís (1957)	23.10.2012	2023 ⁴⁾

Members of the Supervisory Board delegated by the Staff Council

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 expires at the end of the Annual General Meeting for the 2019 financial year (provisionally May 2020)
- 2) The term of office expires at the end of the Annual General Meeting for the 2020 financial year (provisionally May 2021)
- 3) The term of office expires at the end of the Annual General Meeting for the 2021 financial year (provisionally May 2022)
- 4) The term of office expires at the end of the Annual General Meeting for the 2022 financial year (provisionally May 2023)
- 5) The term of office expires at the end of the Annual General Meeting for the 2023 financial year (provisionally May 2024)

Changes to the Management Board and the Supervisory Board

At the Annual General Meeting on May 29, 2019, Thomas Schmid was elected as a member of the Supervisory Board, and the Supervisory Board mandates of Peter Hagen and Alejandro Cantú Jiménez were extended. Bettina Glatz-Kremsner stepped down from the Supervisory Board with effect from the end of the Annual General Meeting on May 29, 2019.

The contracts of Thomas Arnoldner (CEO), Alejandro Plater (COO), and Siegfried Mayrhofer (CFO) of Telekom Austria Aktiengesellschaft run until August 31, 2021, with an extension option for an additional two years to August 31, 2023.

Cash use policy

A1 Telekom Austria Group pursues a conservative financial strategy centered on a solid investment grade rating of Baa2 from Moody's and BBB from Standard & Poor's. 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 2019 year under review, the rating of the A1 Telekom Austria Group was confirmed by Moody's (Baa1 ; outlook: "stable") and raised by Standard and Poor's from BBB to BBB+ with a "stable" outlook.

Based on improved operational and financial performance of the Group, a new expected dividend level was agreed by América Móvil and Österreichische Beteiligungs AG (ÖBAG) in 2016. Starting with the 2016 financial year, the new expected dividend entails the payment of EUR 0.20 per share, with this figure to be increased on a sustainable basis in line with the operational and financial development of the Group.

In this context, the Management Board plans to propose a dividend of EUR 0.23 per share to the Annual General Meeting 2020 for the financial year 2019.

Risk and opportunity management

Principles and methods

As one of the leading telecommunications companies in Austria as well as Central and Eastern Europe, A1 Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. 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 the process, A1 Telekom Austria Group relies on close cooperation between Group officers and the local risk officers. The risk management system is composed of five risk categories: (1) Risk at macro-economic, competitive and strategic level, (2) Non-financial

risks, (3) Financial risks, (4) Technical risks and (5) Operational risks.

Enterprise risk management at A1 Telekom Austria Group begins with the strategic discussions with the Supervisory Board of the A1 Telekom Austria Group. With regard to this, the risks of business activities and their relevance for the A1 Telekom Austria Group are presented by the Management Board and mitigating activities as well as planning assumptions are presented and discussed (strategic orientation for the coming business plan period, the setting of priorities, and action plan for the realization of opportunities).

The business plan then describes the expectations and business success (and the necessary costs and investments) and in the process the assumed risk regarding established top-down targets is evaluated.

One key element of risk management is development of effective measures for risk perception and reduction. These are continuously updated via monthly performance calls (MPC) and leadership team meetings (LTM) involving the extended Management Board and through the analysis of critical deviations and the initiation of measures by the responsible officers as well as in other ways. The overall risk situation for each risk category is derived from the sum of the individual risks. In addition to the fixed-line and mobile communications market in Austria, 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 risks in the respective markets vary, which is why risk management (and particularly counteracting risks) 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 prepared. 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 A1 Telekom Austria Group are discussed below.

Risks

1. Risks at macroeconomic, competitive, and strategic level

Macroeconomic risks arise as a result of development of the economic situation in the markets of A1 Telekom Austria Group and causal effects (e.g. rising inflation has an effect on exchange rates), while economic policy conflicts (e.g. punitive tariffs and suspension of deliveries) can have direct or indirect

consequences for the business model of A1 Telekom Austria Group. While macroeconomic developments can be forecast and evaluated, trade policy decisions are difficult to predict; however, they can be mitigated in the medium term by ensuring a diverse supplier landscape and adopting a multi-vendor strategy.

High **competitive intensity** in A1 Telekom Austria Group's markets is leading to price reductions in both mobile communications and data traffic. The growing consolidation in some of our markets has yet to lead to a relaxation in this situation. There is a risk that traffic volume growth will be insufficient to compensate for these price declines. This development is offset by the annual increase in demand for our services, which also constitutes a potential opportunity for growth. Changes in consumer behavior are also an important aspect of risk management as well as strategic pricing and product design.

Open Access Network (OAN) providers are leading to increased competition when it comes to the provision of infrastructure. Innovative over-the-top players (OTTs) are also offering comparable services without owning a network.

New growth areas

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 communication are just a few examples of new business areas the growth potential of which A1 Telekom Austria Group is seeking to leverage. 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, A1 Telekom Austria Group is involved in the discussion on innovations. The biggest challenges lie in scaling our services as well as differences in the levels of maturity and demand in our markets.

Regulatory risks

Telecommunications services offered by a provider with significant market power are subject to extensive network access and price regulations. In Austria, 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 new EU legal framework (European Electronic Communications Code) and the reduction in surcharges for international calls within the EU that came into force on May 15, 2019, will negatively affect A1 Telekom Austria Group's earnings development.

The planned definition of low fixed-line and mobile termination rates to apply uniformly throughout Europe from the start of 2021, as described in the “Regulation” section, will have a long-term negative impact on fixed-line and mobile termination revenues. This will involve legal and regulatory risks as well as financial risks in the future.

Net neutrality

Although the Body of European Regulators (BEREC) has issued guiding principles on net neutrality in order to specify how the net neutrality regulation should be applied in more detail, the topic of net neutrality is still open to interpretation and legal uncertainty, meaning that harmonized, uniform implementation within the EU is not guaranteed. As such, the extent of the regulation’s effects cannot be predicted in full and may vary between member states. In turn, this gives rise to legal and regulatory uncertainty as well as financial uncertainty.

Budget and business plan risks

The final business plan includes an evaluation of the planning assumptions (and the impact of the external environment).

2. Non-financial risks

In 2019, environmental, social, and governance-related (ESG) risks were included in the Enterprise Risk Management (ERM) as an additional category in order to meet the legal requirements of the Austrian Sustainability and Diversity Improvement Act (NaDiVeG). We are addressing relevant topics arising from the materiality analysis (environment, data security, and digitalization) as well as measures in connection with our corporate social responsibility in terms of risk potential and prevention.

Digitalization

While increasing digitalization generates a lot of convenience and efficiency in private life and business, the growing benefits from digital platforms, services, and the associated intensive use of handsets, tablets, and laptops also presents challenges. Along with increased usage, cybercrime (from cyberbullying to fraud) is also on the rise. Social impacts like isolation and health effects are areas in which A1 Telekom Austria Group, alongside other telecommunications companies, has an external effect due to the services it provides. While the A1 Telekom Austria Group addresses the public with regard to information and training on the correct handling of new media (physical training, online information, folders and flyers), the state and society are also called upon to ensure a consistently healthy approach to digitization.

Electromagnetic fields (EMF) and health risks

Electromagnetic fields are another risk related to the service provision. The A1 Group is fully compliant in its business activities with regard to compliance with standards on the terminal and transmitter side. Irrespective of this, informing

the public and ensuring a scientific discourse is one of the priorities of the teams in the countries of A1 Telekom Austria Group. Measurements from neutral institutions (e.g. universities) allow an objective view on the environment.

Environmental risks

Climate change can give rise to risks for A1 Telekom Austria Group’s network infrastructure (ranging from rising average temperatures and high rainfall levels through to flooding, mudslides, etc.). 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 the Group’s finances and the customer experience has been limited in recent years.

3. Financial risks

A1 Telekom Austria Group is exposed to liquidity, credit, foreign currency exchange rate, transfer, and interest rate risks (see Note (33)). Tax risks were also included in the risk assessment for the first time in 2019 and given a more pronounced focus with regard to the measures taken.

There were no significant *exchange rate, transfer, or interest rate risks* in 2019, as positive exchange rate development in riskier markets such as Belarus and the current interest rate level, and the conditions offered as a result, are beneficial in terms of the development of A1 Telekom Austria Group. On the *tax risk* side, additional steps are taken to avoid possible tax risks (inadequate interpretation due to unclear regulations, lack of tax payments, and excessive tax payments). Group Accounting and Taxes is also involved to a greater extent, and tax calculations and tax returns in all business areas are verified by external experts.

4. Technical risks

Technology resilience (network)

The infrastructural and system landscape that has grown and evolved over the years represents a permanent challenge for the technical departments. Networks have been and continue to be subject to a high degree of standardization and virtualization. Network functions are running less and less on proprietary infrastructure and are being performed by software instead. Disruptions and outages are prevented in particular through virtualization and the exchange of legacy infrastructure.

IT transformation

It is also difficult and expensive to modernize and reduce complexity in the area of BSS (business support systems) and OSS (operations support systems). This is mitigated by an overlaid integration of platforms that reduce the pressure to modernize somewhat, while still being open to new services and partners.

Operating risks

Maintaining availability and a high level of reliability of the services and products offered is a key element 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, while efficient organizational structures for operations and security serve to safeguard high quality standards. 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 as to whether measures are taken to minimize the risk or whether the potential risk is borne by A1 Telekom Austria Group. Whenever a major disruption occurs, causes are clarified and it is determined how a recurrence can be avoided. A central approach to insurance against physical damage also helps to minimize the financial effects.

Cyber risks and data security

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). A1 Telekom Austria Group applies 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 include 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 A1 Telekom Austria Group operates. It 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

Compliance risks

The annual compliance risk assessment process – which is an essential element of A1 Telekom Austria Group's compliance management system – identifies relevant compliance risks on the basis of structured management interviews and workshops and defines risk-minimizing measures. A1 Telekom Austria Group focuses on prevention by means of training and the uncompromising application of internal and external guide-

lines, 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 both internally and externally. The successfully completed extended audit of the CMS in 2019 also reduces the identified risk in the relevant areas of corruption, antitrust, data security, and capital market.

Data protection risks are a relevant subset of compliance risks. The products and services of 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 A1 Telekom Austria Group since early 2016. Technical and organizational measures have also been implemented on the basis of risk assessments. All A1 Telekom Austria Group companies undertake to comply with the most stringent data protection and data security standards. In 2019, there was a particular focus on data privacy during the compliance risk assessment in order to examine the implementation of the GDPR.

Legal risks

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. Dialog with the stakeholders involved and an ongoing 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 as necessary.

Monitoring of legal risks assesses potential cash outflows from legal proceedings; this position is updated quarterly and is based on the ongoing assessment of the success of the proceedings.

Risks of slow or no digital transformation

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 within 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 eCampus development platform supports employees in developing 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 any place throughout the Group. In addition to business plan-oriented cost planning, human resources planning includes measures aimed at encouraging employee mobility.

The management of personnel risks expanded its focus to include the challenge of developing digital competencies in all departments. These digital competencies are a key pillar of any future-oriented company and allow the optimization of human resources by means of a digital redesign of sales, service, and monitoring processes. These developments are also essential in order for a company to succeed in new markets and with digitalized business models. This process is being initiated via the integration of start-ups, broad-based development measures, and the digital development of key employees of A1 Telekom Austria Group and will be further expanded in the coming years.

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

Civil servants cannot be laid off, meaning that 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, formal and complex administrative procedures are necessary. Due to their salary structure, civil servants normally move to the next remuneration level every two years.

Around 42% of employees in the Austria segment have civil servant status. To address the structure of employee costs, the Austria segment has not only developed several social plans and models in cooperation with employee representatives, but has also established 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.

Public image

Public image risks arise in the normal course of business (along the customer lifecycle) and in connection with social discourse and thematization via opinion leaders. A standard procedure in this area is not enough. The absolute prerequisites for preventing negative effects are uncompromisingly professional communication and corresponding expertise, combined with uniform standards with regard to digital communication channels.

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 ICS by the Internal Audit department also ensure that weaknesses are identified promptly or at an early stage and communicated 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, Management has determined that the internal control system regarding financial reporting was effective as at December 31, 2019.

The U.S. Sarbanes-Oxley Act (SOX) was required to be implemented due to the listing of the ultimate parent, América Móvil, on the New York Stock Exchange (NYSE). The internal control system was adjusted and amended to reflect this standard in the 2015 financial year.

Outlook

A1 Telekom Austria Group outlook for 2020

In 2019, A1 Telekom Austria Group achieved substantial growth in its revenues and its EBITDA adjusted for one-off and FX effects as well as restructuring charges, with the CEE segments making a particularly strong contribution to this growth. In the mobile communications business, this was achieved by means of a clear focus on high-value customers and continuing growth in mobile broadband solutions. The fixed-line business profited from the increasing significance of TV content, demand for higher bandwidths, and fast-growing solutions and connectivity business.

For the full year 2020, most of the market dynamics described above are expected to continue. The development in Austria will still be dominated by convergent offers and intense competition in the mobile market. In the mobile markets in the CEE countries, the competitive environment is expected to remain largely similar to 2019 and demand for fixed-line services is also expected to remain a positive driver across all markets. As in the financial year 2019, TV content will be an important element here, as will solutions and connectivity.

In this business environment, the Management of A1 Telekom Austria Group remains committed to its growth strategy. The focus here is on growth in the core business, lifting earnings and efficiency potential from platform solutions, and selective non-organic growth by way of acquisitions. As in previous years, results are expected to receive support from ongoing measures to continuously increase operating efficiency.

For 2020, the Management of A1 Telekom Austria Group expects to achieve growth in total revenues of approximately 1-2% and another increase in the EBITDA margin.

The development in Belarus could be negatively affected by the devaluation of the Belarusian Ruble in 2020. The Management of A1 Telekom Austria Group expects the currency to depreciate by around 5% (period average) against the Euro in 2020, although it should be noted that the predictability of the Belarusian Ruble is generally limited.

The harmonization of the local brands under the "A1" brand will be completed in 2020 with the market launch in Serbia, thus allowing for a uniform market presence of A1 Telekom Austria Group in its footprint.

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 and rollout of 5G, in 2020. In January 2020, A1 Austria started operating its 5G network and it will keep pressing ahead with the rollout in 2020 and the following years. Capital expenditures before spectrum investments and acquisitions are expected to total approximately EUR 770 mn in 2020.

In Austria, a frequency allocation for the 700 MHz, 1500 MHz and 2100 MHz bands is coming up in the form of a multi-band auction. The bidding documents were published in December 2019, while the auction itself is expected to begin in April 2020.

Based on the improved operational and financial performance of the Group, a new expected dividend level was agreed upon by América Móvil and Österreichische Beteiligungs AG (ÖBAG) 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 0.23 per share to the Annual General Meeting 2020 for the financial year 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, January 30, 2020

The Management Board

Thomas Arnoldner, CEO
Telekom Austria Aktiengesellschaft

Alejandro Plater, COO
Telekom Austria Aktiengesellschaft

Siegfried Mayrhofer, CFO
Telekom Austria Aktiengesellschaft