QUESTIONS WELCOME

TELEKOM AUSTRIA GROUP

ANNUAL REPORT 2015

Each day we challenge ourselves again.

Whether this involves strategic issues or business processes. We question all this with the aim of growing and becoming more efficient. In this way, we can reach our customers more quickly, bring more innovative products onto the market and generally save costs.

KEY FIGURES OF THE TELEKOM AUSTRIA GROUP

	2015	Change in %	2014	2013
Fixed Access Lines (in '000)				
in Austria	2,290.6	0.2	2,287.1	2,283.9
in Bulgaria	583.6	279.9	153.6	159.9
in Croatia	283.4	28.9	219.9	193.1
in Slovenia	65.7	–	–	–
in the Republic of Macedonia	144.5	130.8	62.6	–
Total	**3,368.3**	**23.7**	**2,723.3**	**2,636.9**
of which broadband lines in Austria	1,533.2	4.4	1,469.1	1,390.2
of which broadband lines in Bulgaria	413.8	185.1	145.1	155.0
of which broadband lines in Croatia	200.2	47.2	136.0	109.2
of which broadband lines in Slovenia	65.3	–	–	–
of which broadband lines in the Republic of Macedonia	99.9	99.0	50.2	–
TV Customers	1,085.3	93.6	560.5	528.1
Mobile Communication Customers (in '000)				
in Austria	5,454.7	0.6	5,424.1	5,714.5
in Bulgaria	4,235.7	0.3	4,221.0	4,181.5
in Croatia	1,733.6	–0.4	1,741.0	1,843.8
in Belarus	4,956.8	0.1	4,949.9	4,947.4
in Slovenia	708.5	4.0	681.5	679.2
in the Republic of Serbia	2,109.3	–2.3	2,159.5	2,017.7
in the Republic of Macedonia	1,163.5	87.1	622.0	629.7
Total[1]	**20,710.8**	**3.5**	**20,008.4**	**20,117.4**[2]
Employees (full-time equivalent, as of 31 Dec)	17,673	8.8	16,240	16,045
Key Financial Data (in EUR million)[3, 4]				
Revenues	4,026.6	0.2	4,018.0	4,183.9
of which generated abroad (in %)	37.9	–	39.0	37.2
EBITDA comparable[5]	1,372.6	6.7	1,286.1	1,287.4
of which generated abroad (in %)	37.0	–	41.7	43.5
EBITDA comparable margin (in %)	34.1	–	32.0	30.8
EBITDA incl. effects from restructuring and impairment tests	1,372.2	61.3	850.8	1,182.8
Operating income	574.0	n. m.	–3.0	318.2
Net result	392.8	n. m.	–185.4	52.1
Free cash flow[6]	354.9	127.4	156.1	–716.7
Cash flow from operations	1,072.4	19.0	901.4	1,051.6
Capital expenditures[7]	780.0	3.0	757.4	1,779.1
Net debt[8]	2,676.4	–0.6	2,693.3	3,758.7
Equity	2,426.0	9.4	2,218.0	1,459.1
Equity ratio (in %)	29.2	–	26.7	18.7
Net debt to EBITDA comparable[8]	1.9×	–	2.1×	2.9×
Return on Invested Capital — ROIC[9] (in %)	9.3	–	–0.1	2.4
Return on Equity — ROE[9] (in %)	16.9	–	–10.1	4.9
Key Share Figures				
Earnings per share (in EUR)	0.55	n. m.	–0.46	0.07
Free cash flow per share (in EUR)	0.53	57.9	0.34	–1.62
Market capitalisation as of 31 Dec (in EUR billion)	3.4	–8.6	3.7	2.4
Share price as of 31 Dec (in EUR)[10]	5.04	–8.6	5.51	5.06
Share price high (in EUR)[10]	6.86	–1.8	6.99	6.22
Share price low (in EUR)[10]	4.80	–3.2	4.93	4.35
Dividend per dividend-bearing share (in EUR)	0.05[11]	–	0.05	0.05

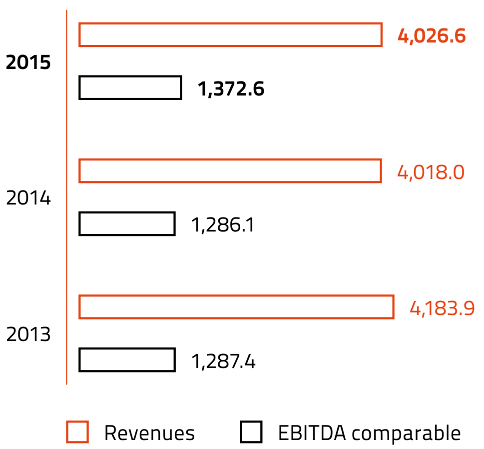
1) The difference between the individual segments and the total is due to the business segment M2M. 2) Including subscribers in Liechtenstein (6,400 in 2013). 3) Comparative period 2013 was adjusted in accordance with IAS 8. 4) The consolidated financial figures in 2013 and 2014 include effects from the application of hyperinflation accounting pursuant to IAS 29. 5) Defined as EBITDA, excluding effects from restructuring and impairment tests. 6) Defined as cash flow generated from operations minus capital expenditures in existing business areas. 7) Excluding additions to asset retirement obligations. 8) As of 31 December 2014 long-term financial investments, instalment sales receivables and financial leasing are no longer included in the calculation of net debt; comparative figures were restated accordingly. 9) For definitions see glossary. 10) Due to the capital increase, share prices were adjusted retrospectively. 11) Proposal to the Annual General Meeting, which will take place on 25 May 2016.

TELEKOM AUSTRIA GROUP

As a leading telecommunications provider, Telekom Austria Group serves almost 24 million customers in seven countries across Central and Eastern Europe.

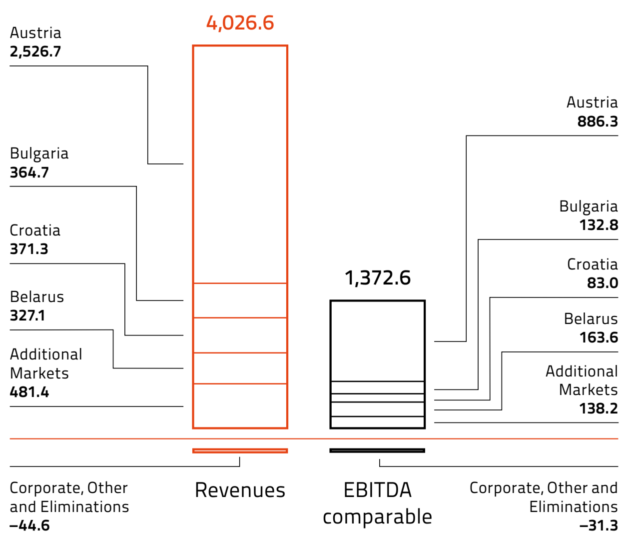
REVENUES AND EBITDA COMPARABLE

in EUR million



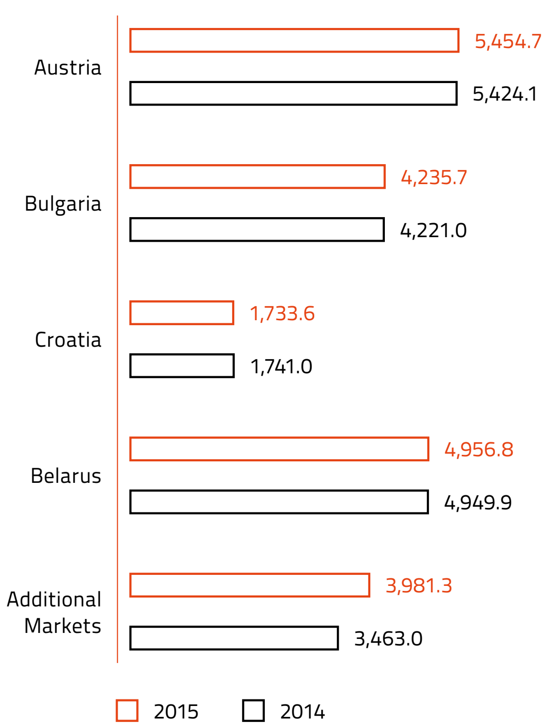
REVENUES AND EBITDA COMPARABLE BY SEGMENT

in EUR million / in 2015



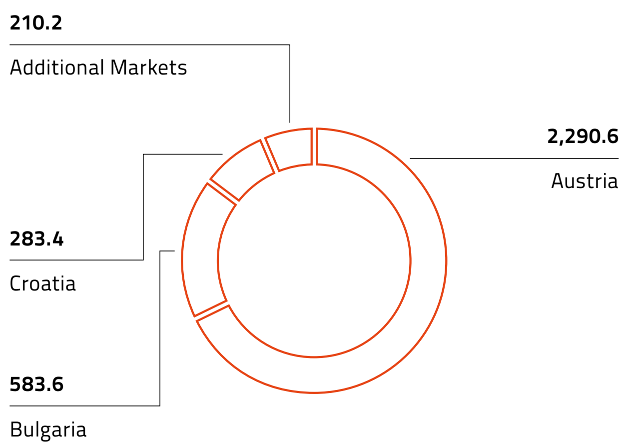
MOBILE COMMUNICATION CUSTOMERS BY SEGMENT

in '000 / as of 31 Dec

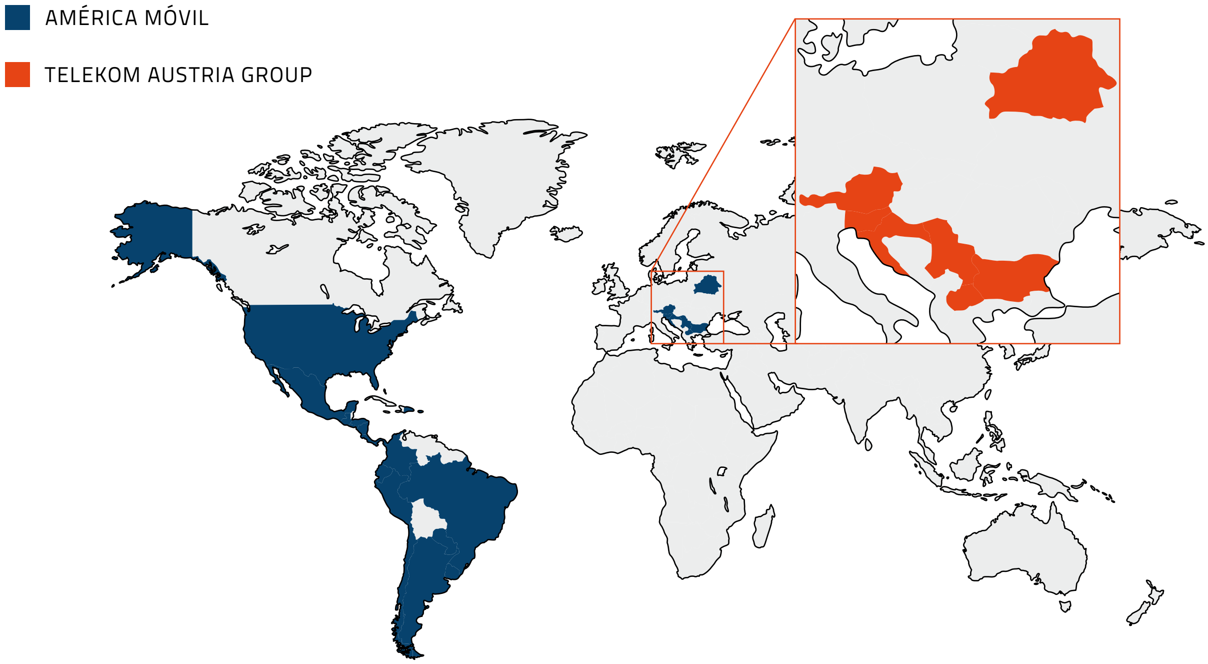


FIXED ACCESS LINES BY SEGMENT

in '000 / as of 31 Dec 2015



PLEASE FIND THE 2015 KEY FIGURES HERE



WHICH STRUCTURE ALLOWS US TO LEVERAGE THE FULL POTENTIAL OF OUR MARKETS? OR PUT SIMPLY:

ARE WE WELL-POSITIONED?

The Telekom Austria Group has around 24 million mobile and fixed-line customers in seven countries in Central and Eastern Europe and is a converged operator in already five of these markets. With América Móvil as our majority shareholder, we form part of a world-leading multinational telecommunications group. América Móvil has 285 million mobile customers, 35 million fixed-lines, 24 million fixed broadband accesses and 22 million pay TV units, as well as subsidiaries in 25 countries in North, Central and South America and Europe. As part of América Móvil, we also benefit from economies of scale and the strength of a global corporation, giving us advantages and synergies in areas including product development, technology and procurement.

DOES OUR VISION SERVE TO ACHIEVE A SUSTAINABLE AND POSITIVE COMPANY DEVELOPMENT? IN SHORT:

ARE WE ON THE RIGHT TRACK?

We want to use our strong position to generate revenue and earnings growth. And to become one of the leading European telecommunications operators. We are leveraging synergies throughout the Group in a targeted manner and investing in innovative technologies and expertise in order to sustainably reinforce our position as the infrastructure leader — always while upholding the high level of responsibility that our services entail for the economy and society.

WHAT DO WE NEED TO ADDRESS TO GENERATE VALUE-ACCRETIVE GROWTH? ASKED DIFFERENTLY:

HOW DO WE GO ABOUT THIS?

3 STRATEGIC PILLARS

Excel in the core business

Improved sales execution with increased cross- and upselling / Expansion of convergence / Continuous optimisation of customer service / Safeguarding of infrastructure leadership

Expansion of products and services

Enlargement of IT solutions for corporate customers / Wholesale solutions and international sales / Product solutions for the entire household

Growth via M&A

Consolidation of existing markets / Continuation of convergence strategy / Expansion into new markets

BASIS

Increase cost and investment efficiency

Simplified processes / Streamlined structures / Efficient use of funds when making investments / Leveraging of synergies

WHICH SPECIFIC STEPS HAVE BROUGHT US CLOSER TO OUR GOALS IN 2015? IN OTHER WORDS:

WHAT WERE OUR MILESTONES?

Efficiency improvements lead to 6.7% EBITDA comparable growth

Premium customer segment in Austria stable despite new MVNOs

Largest infrastructure programme in the company's history: Fibre rollout in Austria even faster than planned in line with growing demand

LTE already available in five countries: LTE rollout in the Republic of Serbia: 800 MHz spectrum acquired at minimum price

Outstanding network quality confirmed multiple times: Awards in Austria, Bulgaria, Croatia and the Republic of Serbia

Expansion of convergence: Acquisition of cable provider Blizoo strengthens fixed-line base in Bulgaria; convergence in Slovenia following acquisition of Amis

Consolidation in the Republic of Macedonia: Merger of Vip operator and ONE establishes one.Vip as the number one player in the mobile market

Simplification of structures and improvement of efficiency: Management clusters Croatia / Republic of Macedonia and Republic of Serbia / Slovenia established

Republic of Serbia, Vip mobile: World's first use of a fully virtualised stack of mobile network functions in a commercial network

WHICH NUMBERS SHOW OUR OPERATIONAL SUCCESS? OR BRIEFLY:

WHAT IS THE BOTTOM LINE?

4,026.6 EUR MN Revenues (+0.2%)	**1,372.6** EUR MN EBITDA comparable (+6.7%)	**780.0** EUR MN CAPEX (+3.0%)
20.7 MILLION Mobile customers (+3.5%)	**3.4** MILLION Fixed access lines (+23.7%)	**0.05** EUR Dividend stable for 2015 and 2016
2,676.4 EUR MN Net debt (–0.6%)	**2,426.0** EUR MN Equity (+9.4%)	**354.9** EUR MN Free cash flow (+127.4%)

WHAT ARE THE KEY ELEMENTS TO EFFECTIVELY PRESENT OUR INVESTMENT STORY? PUT DIFFERENTLY:

WHAT MAKES US AN ATTRACTIVE INVESTMENT?

SOLID POSITION IN AUSTRIA

- Focus on premium customers and convergence
- Growth potential through increased cross- and upselling
- Continuous efficiency improvement in terms of costs and investments
- LTE rollout reinforces infrastructure leadership
- Accelerated fibre rollout due to strong demand for bandwidth
- Growth in data and ICT solutions for enterprises

GROWTH POTENTIAL IN CEE

- Anticipated growth on the back of medium-term economic recovery
- Consistent implementation of convergence strategy
- Improved efficiency e. g. through introduction of the clusters Croatia/Republic of Macedonia and Republic of Serbia/Slovenia
- M&A strengthening existing markets: convergence in Slovenia; growth of fixed-line business in Bulgaria and Croatia; Republic of Macedonia: number one mobile player through market consolidation

STRONG BALANCE SHEET STRUCTURE

- Leverage ratio corresponds to rating targets and is confirmed by Moody's (Baa2) and Standard & Poor's (BBB)
- Extensive financial scope for investments and M&A

↓

GROWTH / IMPROVED EFFICIENCY

↓

APPROPRIATE LEVEL OF DIVIDEND AND TOTAL SHAREHOLDER RETURN

WHAT'S YOUR VIEW, MR. PLATER?

1 Mr. Plater, you are known for your obsession with efficiency — is this the main ingredient in your recipe for growth?

I would prefer to call it one of the foundations. Being efficient means being competitive and profitable and having capital available for growth. This is why I am indeed obsessed with making our company more efficient every single day. However, that is more than just cost cutting. It is also about continuous optimisation and a broad improvement of processes across markets. Needless to say, being part of the América Móvil Group gives us a considerable advantage in this respect. What applies to each and every activity: It has to either reduce costs or generate additional revenue.

2 Cost optimisation aside, where do you see potential to grow?

We have to grow revenues: We can only offer the best services to our customers, provide our employees with attractive jobs and appeal to investors if we succeed in growing profitably. We are building on three strategic pillars: First and foremost, we intend to excel at our core business. Secondly, we are aiming to expand our product portfolio. And thirdly, targeted M&A activities will serve convergence and market consolidation, as well as help to expand into new markets.

3 What will be the role of your employees in this vision?

The telecommunications industry is characterised by rapid change. Today, we find ourselves in competition with over-the-top providers as well as new, innovative competitors with highly streamlined and efficient structures. Alongside investment in infrastructure, this means one of the most important factors for success is to ensure that our employees possess the required state-of-the-art expertise. In other words, this change also opens up new roles and career opportunities.

4 Moving from employees as an asset to infrastructure as an asset: Why is Telekom Austria Group's investment volume that substantial?

Infrastructure leadership is a core element of the strategy of the Telekom Austria Group and América Móvil. We aim to offer first-class quality to our customers at all times and at all locations. This extends from the expansion of LTE networks through to the fibre rollout in Austria, where we invest around EUR 0.5 bn annually. In 2015, we also strengthened our positioning with M&A activities in Bulgaria, Slovenia and the Republic of Macedonia as well as with new frequencies.

5 Finally, how does the future look like for Telekom Austria Group?

The goal is clear: We want to grow. Our vision is to become one of the leading telecommunications providers in Europe. The systematic execution of our strategy is absolutely essential if we are to achieve this. And this is required every single day. As there are significant economies of scale in many of our business areas, being part of the América Móvil Group puts us in an excellent position to leverage this growth potential.

Alejandro Plater, CEO and COO

On 6 March 2015, Alejandro Plater was appointed Chief Operating Officer (COO) of the Telekom Austria Group. In addition to his role as COO, he assumed the responsibilities of the Chairman of the Management Board (CEO) as of 1 August 2015. He can look back on a long international career in the telecommunications industry including management positions in South and Latin America as well as in Europe.

WHAT DOES THIS CONTAIN IN DETAIL?

A QUICK READ

IN THE SPOTLIGHT

Dynamic data growth, rapid technological developments, new competition and business models as well as intense regulation. About the strategic orientation of Telekom Austria Group in this tension field.

MARKETS & INFRASTRUCTURE

STAKEHOLDERS & GOVERNANCE

PERFORMANCE 2015

IMPRINT
Ownership and Publisher: Telekom Austria AG **Project Team:** Matthias Stieber, Susanne Reindl (Investor Relations), Maximilian Rabl (Corporate Communications & Sustainability) **Consolidated Financial Statements:** Anita Gari (Group Accounting and Taxes) with the technical support of FIRE.sys GmbH **Concept, Text and Project Management:** be.public Corporate & Financial Communications, Telekom Austria Group **Creative Concept and Design:** Rosebud **Print:** This product is from sustainably managed forests and controlled sources. See page 145 for further information. **Editorial deadline:** 12 April 2016

How can data growth, competition and regulatory obligations be successfully managed?

The telecommunications market remains exciting. Various opportunities, but also challenges shape this sector. The dynamically growing demand for bandwidth, rapid technological developments, fierce competition and the abolition of roaming charges in the EU are just a few examples. With the support of its strong majority shareholder, América Móvil, the Telekom Austria Group is focusing on growth and improved efficiency in this environment. The Group is also consistently scrutinising its business processes and measures.

Phrases such as 'data highway' or 'broadband initiative' are on everyone's lips at the moment. Both private and business customers are demanding high quality and efficient communication solutions wherever they are and regardless of the type of device they are using. The times are gone when telecommunications was about telephone and the simple use of the internet for information purposes only, but is now in ever increasing aspects about the way we live and the organisation of daily routines. This includes apps about any topic imaginable, the linkage of various private and business applications and day-to-day online media consumption at the same time.

All of this illustrates the fundamental changes in the telecommunications industry. For years now there has been a rapid development towards data communication. As a result, companies and services are becoming increasingly global while at the same time a local presence and customer relationships are in demand.

DATA TRAFFIC GROWTH PER DEVICE[1)]

	Multiplier 2015–2021	CAGR 2015–2021
Smartphones	11×	50%
Mobile PC	3×	20%
Tablets	7×	35%
All mobile data	**10×**	**45%**

MOBILE AND FIXED DATA TRAFFIC[1)]

Total monthly data traffic in Exabytes[2)]/month

	2014	2015	2021 forecast	CAGR 2015–2021
Mobile	3.2	5.3	51	45%
Fixed	50	60	150	20%

Benefiting from the rise in data volumes

The huge increase in data volume traffic and the requirements associated with the network infrastructure play *the* crucial role at telecommunications companies worldwide. The increase in online video consumption, for instance on YouTube, the growing use of streaming services, such as Spotify or Netflix, and the rising transfer of storage capacity into the cloud are the largest drivers of this substantially increasing data flows. For instance, data usage of 100 GB or more per month is no longer the exception in Austrian households. At the moment, mobile data traffic is increasing worldwide by around 45% each year. While mobile data traffic currently amounts to approximately 5.3 Exabytes[2)] per month, experts anticipate a tenfold increase within the next six years.[1)]

1) Ericsson Mobility Report, November 2015, page 2

2) Exabyte = 10^{18} byte

Convergent infrastructure

To cope with these enormous data volumes efficiently and meet the user behaviour and customer expectations, convergence plays an increasingly significant role in the product portfolio as well as in areas relating to networks. This is because capacity limits of the mobile network are quickly reached. 'Therefore, the Telekom Austria Group is extensively investing in its infrastructure and accelerating the expansion of its fibre network in addition to the LTE rollout,' as Alejandro Plater, CEO and COO, commented on the Group's accelerated broadband rollout. 'This allows remote areas to have access to higher bandwidth, to make use of the capacity and stability advantages of the fixed-line network, thereby providing a future-proof infrastructure.' In the fixed-line network, innovative copper-based broadband technologies are being used in addition to fibre.

ADDED-VALUE OF INFRASTRUCTURE OWNERSHIP?

Bridging the gap between global services and local presence is how an operator like the Telekom Austria Group is also capable of generating additional growth in saturated markets.

Siegfried Mayrhofer, CFO of the Telekom Austria Group, pointed out that it is extremely important to think ahead in infrastructure expansions: 'The actual usage of bandwith is to a very high extent driven by its availability. Providing higher bandwidth usually also results in higher usage.'

In the context of these enormous investments in telecommunications infrastructure, network neutrality is a hot topic in international discussions. On the one hand, users demand free and equal access to the internet and information, which is also extremely relevant for a country's social and economic development. On the other hand, network operators and their stakeholders are naturally interested in over-the-top service providers (OTT) also having to cover the costs of the infrastructure they use.

Increasing dynamics in the over-the-top field

The industry is undergoing a number of structural changes. Until recently, communications services and infrastructure were closely interrelated. With the emergence of over-the-top (OTT) players, the situation is moving in a completely different direction. Internet-based services, such as Skype, offer traditional telephony and video calls. Television is no longer only provided by a local broadband supplier but is more and more consumed on global platforms on the internet. The provision of telecommunications services is now being separated from infrastructure at local level and is developing towards a more global service model. Alejandro Plater: 'The dogma that only an infrastructure provider is capable of providing communication services is no longer valid. We have to draw the right conclusions from these market developments.'

Global business and local roots

The opportunity for operators lies in the combination of their local infrastructure with global services. Since various services are developing extremely dynamically, operators need to continuously bring them closer to the customer and explain them. Once again, this highlights the importance of customer service and support. With the growing complexity of various services, providers like the Telekom Austria Group are capable of providing qualified advice on the type and the combination of offers that are useful for the customer.

For example, the Telekom Austria Group has established its own consulting areas in selected shops in Austria under the name 'A1 Guru' for this purpose. Here, all services are explained in a simple way in order to enable non-digital natives to benefit from these as well. A1 Gurus also offer consulting services at home — although this comes at a cost.

CEO Plater is convinced that 'bridging the gap between global services and local infrastructure and services is precisely how an operator like the Telekom Austria Group is also capable of generating additional growth in saturated markets — mobile penetration amounts to around 120 to 160% and in the fixed broadband business, this figure is between 55 and 80%.'

The 'Internet of Things'

The so-called 'Internet of Things' is a promising business area in this context: The connection of computers, tablets, or smartphones with other devices such as alarm systems, sensors, or controlling equipment — from heating equipment to refrigerators that autonomously re-order food. Even self-driving cars no longer seem impossible. Providers like the Telekom Austria Group are highlighting the potential that lies in the expansion of their service range, which would also be attractive to customers.

Remaining successful despite fierce competition

Many telecommunications markets in Central and Eastern Europe have reached a high level of saturation — at least,

'The dogma that only an infrastructure provider is capable of providing communication services is no longer valid. We have to draw the right conclusions from these market developments.'

in terms of market penetration. In addition, the European market is densely occupied — compared with the USA or Asia — due to a high number of operators. This alone has led to a lot of competitive pressure. The separation of infrastructure and services mentioned above has resulted in new competitors. These competitors are innovative and streamlined over-the-top-players, offering their services without having their own data network.

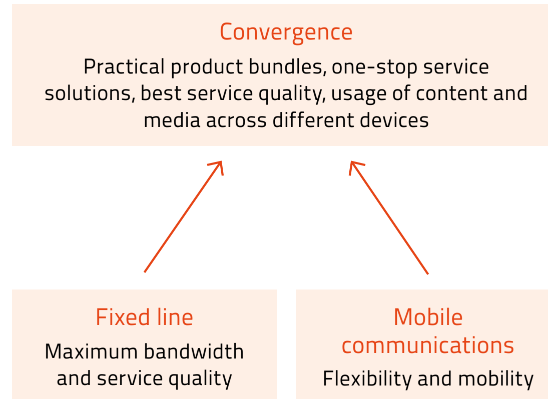
Furthermore, an increasing number of mobile virtual network operators (MVNOs) are pushing onto the market. These operators are trying to find a niche — without having their own network infrastructure. In the year under review, this development continued on the Austrian mobile market: For instance, a discount food retailer and an insurance company jumped on this bandwagon. However, these MVNOs serve primarily the discount segment commonly referred to as the 'no-frills' segment in the industry, offering products at a lower cost without any additional services. Although this initially seems advantageous for a customer's personal budget, this increases the amount of effort required to obtain additional necessary services. In addition, this restricts access to certain services that may also be subject to a charge.

Convergence is making the running

In contrast, the Telekom Austria Group deliberately differentiates itself among the intense competition by means of the interplay between fixed-line and mobile services. This results in a variety of attractive offers, giving customers the level of flexibility, simplicity and comfort they expect today. 'Convergence' is the magic word here. For years now, the Group has been consistently adopting this strategy and has made its fixed-line and mobile services available to its customers on five of its seven markets. Based on its convergence infrastructure the Group no longer offers only individual products, but has expanded towards demand-oriented, tailored product bundles. In addition to combined mobile and fixed-line services, these can also be security systems or home automation solutions. All this would be impossible on a purely mobile basis. Of course, such advantages come at a cost, but give rise to considerable benefits and comfort.

Mature markets have to be segmented according to customer requirements in order to develop them efficiently. Therefore, the Telekom Austria Group is also active in the no-frills business, for instance with the bob and YESSS! brands in Austria. 'Thanks to our differentiated brand strategy, we are capable of providing convincing offers to all customer segments,' explained CFO Mayrhofer. 'However, we are clearly focusing on the premium customer segment because they make a much greater contribution to value added.'

CONVERGENCE OFFERS FIRST-RATE CUSTOMER EXPERIENCE



Does regulation impede investments?

The European Union's harmonisation efforts are resulting in active regulatory interventions in the economy — the ICT market is no exception here. The regulation of termination rates and roaming tariffs has been the main focus for several years. Following a resolution adopted by the European Parliament in October 2015, end-consumer roaming fees will be significantly reduced in the EU from April 2016. About a year later, these fees will no longer exist. Only wholesale fees will remain, which operators will be able to bilaterally establish for the mutual use of their networks within a framework defined by the EU.

'In the past, roaming revenues provided a substantial basis for investments in local infrastructure. Thanks to that, also remote as well as less or only seasonally frequented areas have been provided with modern broadband technologies, which was for example the case for the Croatian coast. Society has ultimately benefited from this overall,' as Siegfried Mayrhofer commented on regulatory developments. 'We now have to compensate for their abolition. This is because the rapidly growing demand for data communication and the accelerated fibre rollout have led to a substantial need for investments. Thus, in order to offset the loss of roaming revenues we need to further increase cost efficiency and capitalise on the revenue potential of new growth areas.'

'The Telekom Austria Group deliberately differentiates itself among the intense competition by means of the interplay between fixed-line and mobile services.'

'In the past, roaming revenues provided a substantial basis for investments in local infrastructure. Thanks to that, also remote as well as less or only seasonally frequented areas have been provided with modern broadband technologies. Society has ultimately benefited from this overall.'

Consolidating and expanding the business model

This trend and these developments give rise to the question of how various operators will concretely position themselves on the market. Different business models have developed around the world: Companies like Verizon or Comcast have considerably expanded their value chain — even into media. AT&T has taken over the satellite TV provider DirecTV. Others, such as Vodafone, are aiming for a convergent footprint. The Telekom Austria Group is also focusing on convergence of its infrastructure and the expansion of its service portfolio.

In order to tell where the situation in Europe is heading in the mid- and long term, it is always worth looking at the status quo in the USA. In this country, there are only four large network providers in the mobile business. In Europe, there are still at least three to four companies that operate in this sector in every country, with nearly the same economic output and even a larger population. A growing consolidation trend in Europe is therefore to be expected.

International embedding opens up new vistas

Being part of América Móvil and thus of a global group proves to be advantageous for achieving the Telekom Austria Group's growth and efficiency targets. Bundled expertise, innovative drive and experience are key strengths on a highly competitive and ever changing market. Adopting new approaches, for instance in TV and other media products, is easier — and more budget-friendly — if it is possible to have access to existing content and established business relationships. As a result, customers can obtain new attractive services more quickly. The same applies to the recently launched product A1 NOW, giving customers the possibility to watch movies and series on various terminals 24/7. Moreover, there is already a close cooperation regarding cloud solutions.

The intensive exchange under the motto 'One to Many' — i. e. rolling out tried-and-tested products on a market also in other countries instead of reinventing the wheel over and over again — has huge potential. In addition, the Group's broader positioning has resulted in purchasing advantages and new possibilities in M&A. These offer the best conditions to allow América Móvil to achieve its ambitious growth targets in the future. 'And the Telekom Austria Group is part of this exciting growth project,' said Alejandro Plater.

FINANCE STRATEGY

The Telekom Austria Group follows a conservative finance strategy, in which a solid investment grade rating of Baa2 by Moody's and BBB by Standard & Poor's is at its core.

This orientation ensures a solid balance sheet structure with moderate leverage and financial flexibility for investments and permanent access to debt capital markets.

DIVIDEND POLICY

The Telekom Austria Group's dividend policy is based on a minimum dividend of EUR 0.05 per share and is aimed at achieving a sustainable pay-out level with the potential to grow. The planned dividend is announced at the start of each financial year. After the end of the financial year, the additional sums of money to be paid out to shareholders can be established based on the actual results. This takes into account free cash flow, the Group's planned capital structure and investment requirements in particular. The Management Board plans to propose the minimum dividend of EUR 0.05 per share to the Annual General Meeting for both the 2015 and 2016 financial years.

Siegfried Mayrhofer, CFO

On 1 June 2014, Siegfried Mayrhofer was appointed Chief Financial Officer (CFO) of Telekom Austria Group. He joined Telekom Austria AG in 2000 and became Chief Financial Officer of A1 Telekom Austria AG after holding various management positions in the company.

STRATEGY

Growing as part of a global group

CORE ELEMENTS OF THE GROUP'S STRATEGY

- Excel in the core business
- Expansion of products and services
- Growth via M&A
- Improved cost and investment efficiency

What is the right strategy for a company like the Telekom Austria Group in this environment when it is rather one of the medium-sized or even smaller players — even with its seven markets — on the international stage? 'Taken alone, we may be relatively small from a global perspective,' said CEO Alejandro Plater. 'However, we are playing in a different league now with América Móvil as majority shareholder.'

Indeed, the Telekom Austria Group's position has changed significantly. As a part of América Móvil, it is no longer only a regional provider in Central and Eastern Europe, but a member of the third largest telecommunications provider in the world with 285 million customers in the mobile sector alone. This offers a wide range of new opportunities.

Focus on growth and efficiency

In this position, the Telekom Austria Group is focusing on two main goals, as Alejandro Plater states here: 'We are particularly focusing on growth and improved efficiency. We strive for growth in various ways: The Group is, first of all, seeking organic growth by excelling in its existing core business and developing new business areas, but also by enlarging its footprint thanks to M&A activities.'

Excel in the core business

Within its core business, the Telekom Austria Group is focusing in particular on improving its sales execution and targeted cross-selling and upselling activities in its existing customer base. This involves the key objective to optimise the ratio of households that are covered and those already connected. In other words, the Group is seeking to gain more households as customers, which are already covered with its infrastructure. As previously mentioned, convergence is a key element here: In addition to Austria, the Group already has the possibility to offer fixed-line and mobile services to its customers in Bulgaria, Croatia, the Republic of Macedonia and recently in Slovenia. The Group particularly focuses on the premium customer segment with convergent product bundles that also contain TV and music streaming services or cloud solutions. As a result, the Telekom Austria Group is capable of meeting the generally increasing customer demand for seamless access to a wide range of services at home or on the go using various devices. In this context, the Telekom Austria Group particularly focuses on safeguarding its infrastructure leadership as well as the optimisation of customer service, as both are key differentiation factors against competition.

> 'There is indeed a lot of talk about market saturation but this relates only to network access per se. However, this can be used on a significantly wider basis.'

Expansion of products and services

The fact that customers want to use ICT services at all times and in all places is *one* trend. A second trend lies in the fact that telecommunications solutions encompass an increasing number of areas of life. The Telekom Austria Group is also making use of this trend in a targeted manner to expand its business and thus its value chain. To do this, the Group is addressing existing as well as new customers or customer segments.

'There is indeed a lot of talk about market saturation but this relates only to network access per se,' said Alejandro Plater. 'However, this can be used on a significantly wider basis. New ideas and applications are being developed practically on a daily basis.' In the private customer segment, the focus increasingly turns addressing the entire household, where all needs are covered by package solutions. New content solutions, additional OTT services or internet TV are only a few examples in this context.

> 'Efficiency is not an end in itself but rather the basis for our growth. Funds available through improved efficiency can be used for investments and the desired expansion of our business.'

Furthermore, there is also a trend towards an expansion of products and services for business customers. Inspired by América Móvil, the Telekom Austria Group is already operating a cloud brokerage platform with which it can offer backup services, virtual server capacity or Microsoft Office 365. Customers have the following advantage: They no longer need to maintain and have access to costly hardware and software locally since these are always available and up-to-date in the cloud. 'Various business fields are opening up in Austria, an economy dominated by SMEs, for which having its own IT can be very expensive.' CFO Siegfried Mayrhofer seems positive about this new service. 'The focus here is not on providing numerous individual applications but rather standard modules that can be designed and combined in line with demand. That leads to an attractive offer for our customers, also in terms of costs.'

Value accretive M&A

The Telekom Austria Group also aims to generate growth by means of mergers & acquisitions. 'The objective here is to play an active role in the consolidation of the fragmented European markets in order to grow,' said Alejandro Plater. 'We are thinking of continuing our convergence strategy and expanding into new markets where opportunities can be found.' For example, we succeeded in acquiring the Slovenian unbundler Amis last year, which means that the Group is now convergent on this market as well. In Bulgaria, the takeover of the cable operator Blizoo led to a threefold increase in the number of Telekom Austria Group's fixed-line customers on this market. When tapping into new markets, emphasis is placed more on a pan-European perspective than synergies. This is because telecommunications providers can tackle cross-border challenges, such as roaming, more efficiently if their activity radius covers more countries.

Improved efficiency forms the basis

However, such investments require adequate financial flexibility. The Telekom Austria Group has achieved this by improving its efficiency and its cost structure in a targeted and consequent way. Alejandro Plater: 'Efficiency is not an end in itself but rather the basis for our growth. Funds available through improved efficiency can be used for investments and the desired expansion of our business.'

There are no restrictions on free thought. Quite the contrary — everything is possible. 'To remain competitive, you cannot put blinkers on. Everything has to be called into question again and again,' said Plater. 'That applies to structures, processes as well as individual investment decisions. We are continuously sounding out everything to see if it will really pay off for us.' This can be in the form of numerous small improvements or even a complete redesign. Extensive optimisations in purchasing, in sale and service processes as well as the complete restructuring in the technology department also serve this purpose. Thanks to the latter, households can be connected considerably quicker at a lower cost in the course of the broadband expansion. 'Simplification, harmonisation and acceleration are the benchmarks for all of these measures,' summarised Alejandro Plater.

This also affects customer interfaces. Streamlined processes are key in an industry that depends on quality and speed. This is because even if the service has been provided efficiently from the viewpoint of the company, it must by no means be efficient in the eyes of the customers. It is only when customers believe that they have received quick and high quality service that they are satisfied and loyal — and eventually feel ready to upgrade to other or higher-quality products. A regional presence and call centre may be important, but digital business processes and customer service using online platforms are becoming the preferred method of choice. In that case, products and services need to be designed in a user-friendly way. In this context, rational functionality is becoming increasingly important for the Group: 'It has to work properly and be efficient but it does not have to be super pretty or super perfect,' as Alejandro Plater put it plainly.

In order to increase cost efficiency, the Telekom Austria Group literally thinks twice about every cent, also in terms of investments. 'Money is spent only if new revenues can be generated in the mid-term or costs can be reduced,' explained Siegfried Mayrhofer. Therefore — whenever possible — the Group deliberately invests into technologies, which, in turn, improve efficiency. Network function virtualisation (NFV) serves as a good example. This new concept combines network functionalities and services in a virtualised cloud-based infrastructure. This will allow for significantly more efficient operating processes at lower costs as well as a quicker market launch of new services. For that reason, the Telekom Austria Group is also playing a leading role in testing this innovative technology in live applications.

This concept of efficiency also applies to the network expansion. The combination of fibre and innovative copper-based transmission technologies in the fixed-line business serves as a particularly good example (see page 21). For instance, the accelerated fibre rollout in Austria can be achieved faster at a significantly lower cost in this way.

Market development and operating milestones

In 2015, the Telekom Austria Group again faced intense competition as well as macroeconomic headwinds in parts of the CEE region. However, even in this challenging market environment the Group held up well due to its focus on growth and efficiency, the systematic implementation of its convergence strategy, and the focus on premium customer segments.

The Group enjoyed growth in the number of mobile as well as fixed-line customers in 2015. This was mostly driven by the successful merger with ONE in the Republic of Macedonia as well as the fixed-line acquisitions of Blizoo in Bulgaria and Amis in Slovenia and Croatia. Moreover, the mobile customer base increased due to gains in Austria and Slovenia. In the fixed-line business, access lines saw also growth in Austria following the strong demand for broadband services.

On a Group level, revenues registered slight growth in the year under review. The Group's clear focus on efficiency also led to a 2.5% reduction in operating expenses. As a result, EBITDA comparable saw a solid growth of 6.7%. Adjusted for extraordinary and FX translation effects, EBITDA comparable increased by 4.0%, a development that was driven by Austria and Belarus in particular.

Austria

Leading mobile market position successfully defended despite market entry of MVNOs

The development of the Austrian telecommunications market in 2015 was primarily characterised by the entry of a number of new competitors in the form of mobile virtual network operators (MVNOs) who do not have their own network. These activities led to a significant increase in providers, especially in the no-frills and SIM-only segments.

With its focus on the premium customer segment, which accounts for 52% of the customer base and around 80% of the value contribution in Austria, the Telekom Austria Group took steps to actively secure its core customer base while limiting the risk of customer and tariff migration. These objectives have been achieved: Existing customers were retained and new customers acquired. With the strong positioning via convergent products and the expansion of the service range, the Group also managed to maintain the existing tariff landscape in the premium segment. This service expansion means that customers enjoy higher data volumes and bandwidths, among others — meaning that they benefit from the Group's outstanding network quality in Austria.

In the price-sensitive segment, the Telekom Austria Group reinforced its position thanks to its successful differentiated brand strategy with the no-frills brands bob and YESSS!. Tariff adjustments and an expanded service range served to secure the Group's competitiveness in this segment and successively slow the declining trend in customer numbers.

Despite these operating successes, the aforementioned entry of new market players and the resulting competitive effects significantly reduced the Group's upselling potential and its flexibility in terms of tariff setting.

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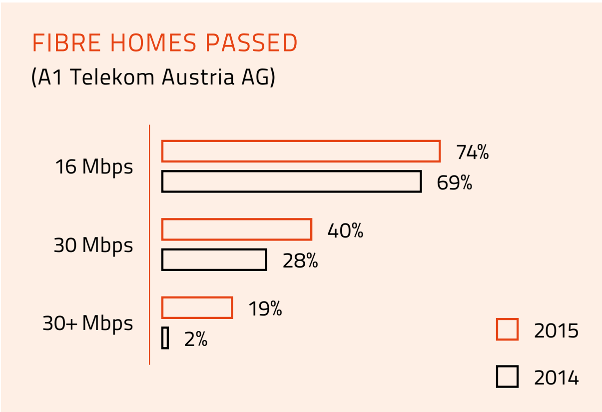
WHICH OPERATIONAL ISSUES DID WE FOCUS ON IN 2015?

- Protecting the premium customer segment in the mobile business as competition is growing — particularly on the Austrian no-frills market
- Accelerating the fibre roll-out while increasing efficiency at the same time — approximately 40% of all Austrian addresses covered with the 30 Mbps product
- Addressing price erosion, expansion of convergence and sales optimisation in Bulgaria
- Increasing efficiency by forming management clusters Croatia / Republic of Macedonia and Republic of Serbia / Slovenia
- Protecting growth in Belarus to mitigate the devaluation of the Belarusian Rouble of 29.2% year-on-year
- Strengthening existing business areas with targeted investments in convergence and market consolidation
- EUR 150 mn gross cost savings as a result of intensified focus on efficiency



Improved efficiency in broadband expansion

The Austrian fixed-line market is characterised by a highly advanced migration from fixed-line to mobile solutions which is continuing in the telephony segment in particular. At the same time, however, the rapid rise in data usage means the fixed-broadband business is currently enjoying a renaissance thanks to its capacity advantages. It also forms an ideal basis for bandwidth-intensive internet TV services. However, as the majority of the population still uses the extensive range of free TV channels via satellite, demand for high bandwidth solutions remains low compared to other countries. However, there is a discernible trend towards non-linear TV solutions and cloud services as offered by various over-the-top (OTT) providers, for example.

The Telekom Austria Group is taking advantage of this development to successfully offer its customers upgrades to 16 Mbps and, increasingly, 30 Mbps products. The technological groundwork for this is being provided by the massive expansion of its fibre network. The Group's ambitious aim is to roll out the 30 Mbps network to more than 70% of Austrian households by the end of 2018. It is investing an additional EUR 400 mn in achieving this. With this investment in the country's 'digital backbone' — the largest expansion programme in the company's history — it is laying the foundations for the next generation's telecommunications infrastructure.

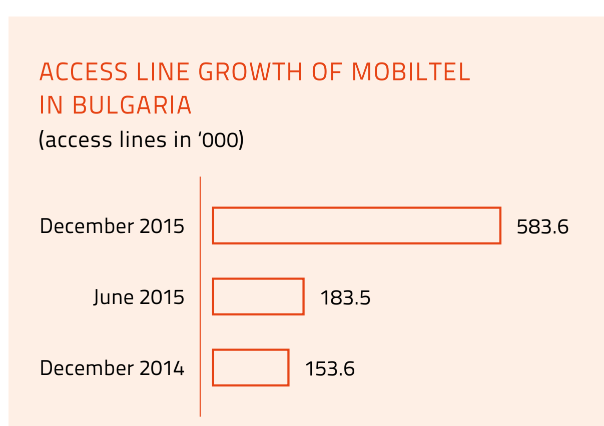
To ensure the financing and resources for such future-oriented investments, the Telekom Austria Group pursues a process of continuous optimisation and is working constantly on reducing its costs and improving the efficiency in its network expansion. With considerable success: By the end of December 2015 even 40% of all addresses in Austria were reached with the 30 Mbps product. This equals a considerable increase of twelve percentage points in comparison to 2014.

Clustering improves efficiency and competitiveness in CEE

As one of several measures designed to push the optimisation of its cost base and efficiency improvements, the Telekom Austria Group bundled its subsidiaries in Southeastern Europe into management clusters in April 2015. Since this date, the now-convergent Si.mobil in Slovenia and the mobile operator Vip mobile in the Republic of Serbia have formed one cluster, while another cluster comprises the convergent operators Vipnet in Croatia and one.Vip in the Republic of Macedonia. The clustering involved the combination of the respective management teams and the streamlining of the technical and financial divisions, thereby contributing to the efficiency improvements as well as the accompanying harmonisation of financial reporting. As a result, the Group will achieve in some cases substantial cost savings in the areas of technology, market management, finance and human resources.

Bulgaria: Fixed-line business strengthened, operating weaknesses mitigated

The Bulgarian subsidiary Mobiltel has been faced with a sustained weak macroeconomic environment and intense competition in the mobile communications market for a number of years. Mobiltel has launched targeted initiatives both in the mobile and the fixed-line business in order to improve its operating performance in the reporting year. With a new management team, the company increased its focus on sales and intensified its cross-selling and upselling activities. The Telekom Austria Group also achieved an important step in terms of growth in the fixed-line business: In July 2015, the Bulgarian subsidiary acquired the cable operator Blizoo in order to leverage the potential for economies of scale and additional revenues. With a combined market share of around 17%, Mobiltel is now the second-largest fixed-line operator in Bulgaria. Blizoo reported revenues of around EUR 47 mn and EBITDA of around EUR 19 mn in 2014. With the transaction, Mobiltel gained around 378,000 customers, meaning that its



CONVERGENT MARKETS

Austria	since 2007
Bulgaria	since 2011
Croatia	since 2011
Republic of Macedonia	since 2014
Slovenia	since 2015

network coverage now extends to a total of 1.5 million households. The acquisition meant that the Telekom Austria Group tripled its number of fixed-line customers in Bulgaria at a single stroke. As a result, it now enjoys a stronger position in this highly competitive market.

New tariff portfolio in Croatia with increased focus on LTE

The Croatian market is characterised by macroeconomic challenges and strong competition that tailed off slightly towards the end of the reporting year. Regulatory measures such as the reduction in roaming charges and, in particular, the threefold increase in frequency usage fees in 2014 also had a significant adverse effect on margins. Vipnet countered these challenges by introducing a new tariff portfolio geared towards LTE and data monetisation and adopting a pronounced focus on convergence, resulting in a substantial improvement in its earnings, especially in the second half of the year under review.

Strong operating performance in Belarus impaired by currency weakness

In Belarus, velcom again showed a strong operating performance on the back of sustained solid demand for data services and the company's successful positioning as a premium provider. However, this positive operating development in 2015 was more than offset by the significant devaluation of the Belarusian Rouble, which was largely driven by the fall of the Russian Rouble. This massive devaluation also slashed the purchasing power of the population by 10–15%. Despite this, the Telekom Austria Group's Belarusian subsidiary succeeded in recording strong operating results thanks to its focus on data monetisation, i. e. the conversion of the rising data consumption into revenues, as well as its profitable smartphone business. Like-for-like, EBITDA comparable in local currency increased by an impressive 21.4% year-on-year.

Slovenia becomes the Group's fifth convergent market

With four operators and numerous MVNOs, the Slovenian mobile market is highly competitive. Until recently, the Telekom Austria Group's activities in this market were restricted to the mobile segment. This meant it was the only operator without a fixed-line infrastructure, putting it at a disadvantage compared with its already convergent competitors, both strategically and in terms of products. This situation was rectified in September 2015 with the acquisition of the fixed-line operator Amis, which generated revenues of around EUR 41 mn in 2014 with approximately 66,000 customers in Slovenia and 24,000 customers in Croatia. As a fixed-line unbundler in Slovenia — where it generates around 80% of its revenues — and the owner of a fibre network in Croatia, Amis offers TV and fixed-line telephony in addition to broadband services. This means the Telekom Austria Group's product range in Slovenia now also includes convergent services such as broadband internet and pay TV. In Croatia, where the Group has been convergent since 2011, the acquisition will further strengthen its business operations.

LTE rollout in the Republic of Serbia

The Telekom Austria Group began offering LTE in the Republic of Serbia in April 2015, making it the fifth market with LTE after Austria, Croatia, Slovenia and the Republic of Macedonia. Vip mobile achieved another important milestone with the acquisition of 800 MHz spectrum at the starting price in November 2015. This will allow the Group to continue to press ahead with the LTE rollout in the Republic of Serbia efficiently and cost-effectively.

Consolidation of the Macedonian market

In the Republic of Macedonia, the merger of the Macedonian subsidiary Vip operator with ONE, a subsidiary of the Telekom Slovenije Group, was completed in October 2015. In 2014, ONE has generated revenues of EUR 75.7 mn and EBITDA of EUR 10.6 mn with a customer base of 715,000 in the mobile and fixed-line business. As the third-largest mobile provider in the Republic of Macedonia with a mobile market share of 25.4%, ONE has contributed around 590,000 mobile customers, as well as 125,000 fixed-line customers to the newly formed company one.Vip. The Telekom Austria Group has a 55% stake in, and hence sole control over, the new joint venture. The remaining 45% are held by the Telekom Slovenije Group, which has a three-year exit option in the form of contractually agreed call and put options. With this transaction, the number of players on the Macedonian telecommunications market was consolidated from three to two, and the Telekom Austria Group now is the market leader. This makes the Republic of Macedonia the first market in which the Group only has one remaining competitor.

Telekom Austria Group overview

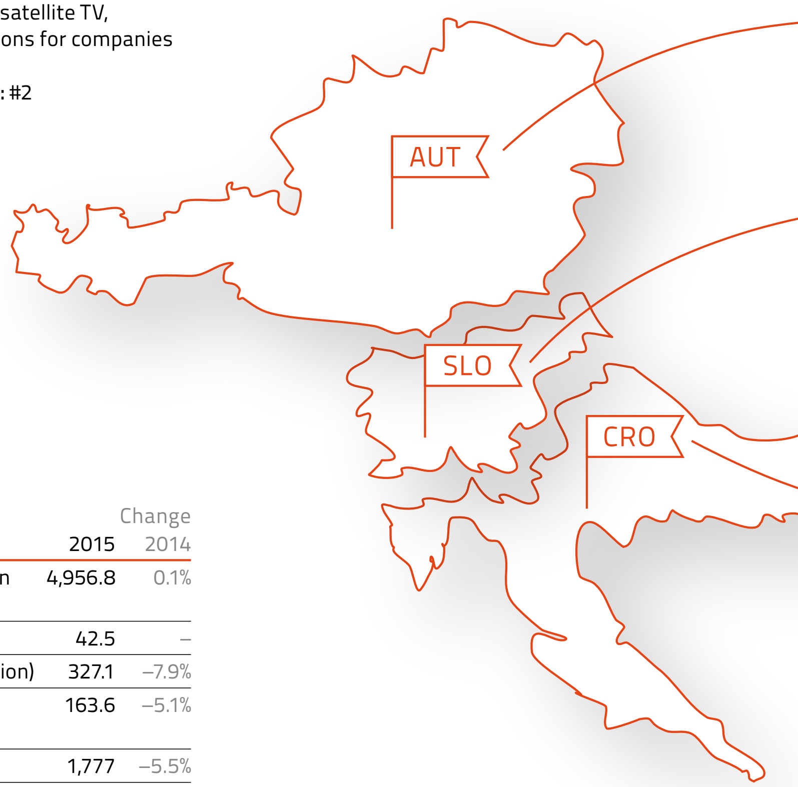
As a leading communications provider in the CEE region, the Telekom Austria Group is providing its 24 million customers in seven markets with products and services in the areas of voice telephony, broadband internet, multimedia services, data and IT solutions, wholesale and payment solutions. In five of these markets, customers can benefit from product combinations including fixed and mobile services.

SEGMENT AUSTRIA	2015	Change 2014
Mobile communication subscribers (in '000)	5,454.7	0.6%
Market share (in %)	39.5	–
Fixed access lines (in '000)	2,290.6	0.2%
Revenues (in EUR million)	2,526.7	2.2%
EBITDA comparable (in EUR million)	886.3	17.3%
Employees	8,512	–1.4%

Products: Mobile, fixed-line, convergent products, internet, data and IT solutions, value-added services, wholesale offers, IPTV, handsets, mobile solutions for companies, mobile payment services
Convergent since 2007
Mobile market position: #1

SEGMENT CROATIA	2015	Change 2014
Mobile communication subscribers (in '000)	1,733.6	–0.4%
Market share (in %)	36.0	–
Fixed access lines (in '000)	283.4	28.9%
Revenues (in EUR million)	371.3	–1.8%
EBITDA comparable (in EUR million)	83.0	–1.5%
Employees	1,239	7.6%

Products: Mobile, fixed-line, convergent products, internet, value-added services, wholesale offers, IPTV, satellite TV, handsets, mobile solutions for companies
Convergent since 2011
Mobile market position: #2

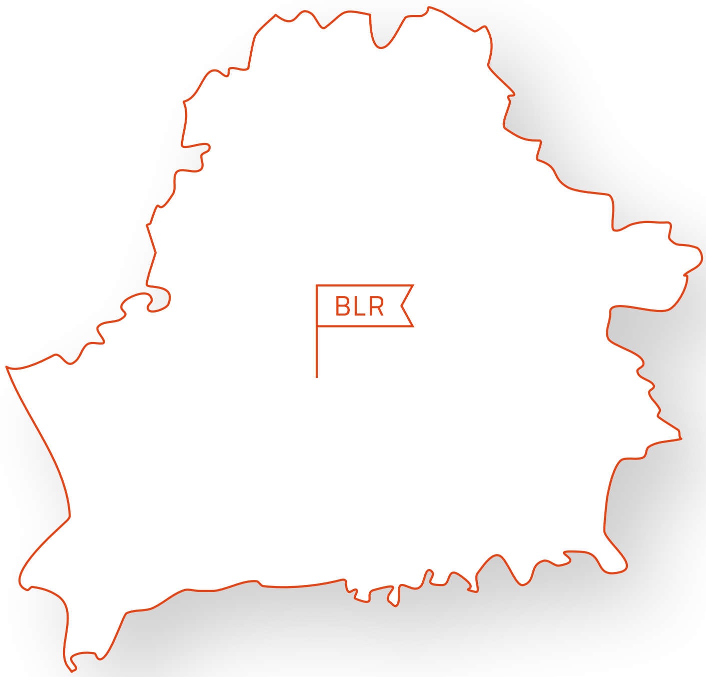


SEGMENT BULGARIA	2015	Change 2014
Mobile communication subscribers (in '000)	4,235.7	0.3%
Market share (in %)	38.8	–
Fixed access lines (in '000)	583.6	279.9%
Revenues (in EUR million)	364.7	–1.8%
EBITDA comparable (in EUR million)	132.8	–7.2%
Employees	3,607	42.8%

Products: Mobile, fixed-line, convergent products, internet, data and IT solutions, value-added services, wholesale offers, IPTV, satellite TV, handsets, mobile solutions for companies
Convergent since 2011
Mobile market position: #1

SEGMENT BELARUS	2015	Change 2014
Mobile communication subscribers (in '000)	4,956.8	0.1%
Market share (in %)	42.5	–
Revenues (in EUR million)	327.1	–7.9%
EBITDA comparable (in EUR million)	163.6	–5.1%
Employees	1,777	–5.5%

Products: Mobile, internet, value-added services, wholesale offers, handsets, fixed-line services for selected business customers
Mobile market position: #2



ADDITIONAL MARKETS SEGMENT

SLOVENIA	2015	Change 2014
Mobile communication subscribers (in '000)	708.5	4.0%
Market share (in %)	29.9	–
Fixed access lines (in '000)	65.7	–
Revenues (in EUR million)	190.8	–4.4%
EBITDA comparable (in EUR million)	80.9	27.3%
Employees	508	27.4%

Products: Mobile, fixed-line, convergent products, internet, value-added services, wholesale offers, IPTV
Convergent since 2015
Mobile market position: #2

5 OF 7 MARKETS CONVERGENT

REPUBLIC OF SERBIA	2015	Change 2014
Mobile communication subscribers (in '000)	2,109.3	–2.3%
Market share (in %)	22.5	–
Revenues (in EUR million)	206.8	–3.0%
EBITDA comparable (in EUR million)	43.5	–32.0%
Employees	879	–5.8%

Products: Mobile, internet, value-added services, wholesale offers
Mobile market position: #3

REPUBLIC OF MACEDONIA	2015	Change 2014
Mobile communication subscribers (in '000)	1,163.5	87.1%
Market share (in %)	53.7	–
Fixed access lines (in '000)	144.5	130.8%
Revenues (in EUR million)	80.0	28.9%
EBITDA comparable (in EUR million)	16.8	33.6%
Employees	942	76.2%

Products: Mobile, fixed-line, convergent products, TV, internet, value-added services, wholesale offers
Convergent since 2014
Mobile market position: #1

Innovation and Technology

An efficient and secure network is the basis for all products and services the Telekom Austria Group offers to its customers. Therefore, it is continuously investing in the expansion and development of its network infrastructure.

The continuous network expansion allows the Telekom Austria Group to meet the growing demand for bandwidth and the customer need for innovative services and high quality products. In addition to infrastructure leadership, convergence and operational excellence as well as quality and innovation are other key pillars of the Telekom Austria Group's technology strategy.

Safeguarding infrastructure leadership

Customers want to be able to easily and quickly transfer increasingly higher data volumes. Data-intensive multimedia and streaming services must be made available in such a way that they can be used at any time or place and on any device. The Telekom Austria Group meets these needs by offering innovative and attractive products and continuously expanding its infrastructure. It focuses on expanding the LTE (long term evolution) standard on mobile networks and boosting the rollout of its fibre network in the fixed-line business. In 2015, the Group acquired new frequencies in Croatia, Belarus and the Republic of Serbia for EUR 18.5 mn, EUR 4.5 mn and EUR 42.4 mn respectively to further expand its network capacity. In the reporting year, the Telekom Austria Group invested EUR 780.0 mn in total to ensure its infrastructure leadership and thus its quality leadership.

Accelerating data traffic

The LTE technology (4G) accelerates mobile data traffic to speeds that are up to ten times faster than on the conventional UMTS network. This is why the Telekom Austria Group has been significantly expanding its LTE coverage. In Austria, the Group is also increasingly tapping into rural areas in addition to urban areas, therefore helping to fill the so-called 'digital gap'. Thus, the Telekom Austria Group is approaching full LTE coverage in Austria. In Croatia, Slovenia, the Republic of Macedonia and — since 2015 — the Republic of Serbia, the accelerated LTE rollout is at full speed. As a result, the Group provides the fourth generation of mobile telecommunications technology already on five of its seven markets.

The development of the broadband network is also making rapid progress in the fixed-line business. In its fibre rollout in Austria, the Group has been making huge progress, offering an increasingly higher number of fibre products in all provinces. By the end of 2018, the Telekom Austria Group plans to cover more than 70% of all households in Austria with services of at least 30 Mbps. The Group aims to predominantly upgrade existing customers from the current standard 8 Mbps product and thereby generate additional revenues. For the period mentioned above, the Telekom Austria Group is investing around EUR 400 mn — in addition to its regular investment volume. This plan is subject to the announced government broadband subsidy programme as well as annual budget approvals by the Supervisory Board.

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HOW ARE WE SAFEGUARDING OUR INFRASTRUCTURE LEADERSHIP?

- Intensified LTE rollout promoted on five markets — launch in the Republic of Serbia in 2015
- VoLTE operational: For the first time also voice transmission via 4G possible in Austria
- Efficient and innovative use of technologies in the accelerated fibre rollout: Up to 200 Mbps on existing copper lines thanks to Vplus
- More efficient processes at lower costs thanks to the virtualisation of network functions (NFV)
- Network quality once again confirmed in several independent tests

FIXED-LINE COMMUNICATION TECHNOLOGIES

Configurations	Description	Bandwidth[1]
FTTEx	Fibre to the Exchange	30 Mbps
FTTC	Fibre to the Curb	50 Mbps
FTTC + Vectoring	Fibre to the Curb followed by Vectoring to improve performance	100 Mbps
FTTC + Vplus	Fibre to the Curb followed by Vplus to improve performance	200 Mbps
FTTB + G.fast	Fibre to the Building followed by G.fast to improve performance	500 Mbps
FTTH	Fibre to the Home	1,000 Mbps

1) Typically achievable bandwidths

Developing networks

At the same time, the Telekom Austria Group is working on innovative network technologies to continuously increase added value for customers. While the current LTE technology transfers data at a speed of up to 150 Mbps, the Group succeeded in increasing data transfer rates to up to 300 Mbps in a trial already at the end of 2014 by bundling various frequency bands. Following extensive tests of this next generation of LTE — LTE carrier aggregation — the Telekom Austria Group has already implemented a corresponding product in live operation in Austria. In addition, the Group confirmed its innovation leadership in the field of Voice over LTE (VoLTE): While data was exclusively transferred via the LTE network until recently and voice traffic was automatically conducted via the 2G or 3G network, VoLTE has allowed the Group to transmit voice on the 4G network infrastructure as well. Customer advantages include crystal-clear voice quality and significantly shorter call setup times. The Group is already providing VoLTE services in Austria. In Croatia, Slovenia and the Republic of Serbia, this new technology has also already been successfully tested.

In addition to developments in the mobile business, the Group has been consistently working on bringing its fibre cables closer to customers in several expansion steps. Moreover, the Telekom Austria Group is developing technologies to increase the performance of its existing copper network. With G.fast, it already generated data transfer speeds of more than 500 Mbps in several trials on conventional copper lines in 2014. In 2015, it demonstrated the new broadband technology Vplus. While G.fast is ideally used on line lengths of around 200 metres, Vplus achieves a significantly enhanced performance compared to conventional DSL technologies, especially on line lengths of up to 500 metres. Therefore, this technology is also suitable for less densely populated areas. When combined with vectoring — a technology that the Group has already been using since 2012 to filter interferences on copper lines — Vplus uses higher frequencies, thus allowing for data speeds of more than 100 Mbps. On shorter distances, even data speeds of around 200 Mbps can be achieved.

MOBILE COMMUNICATION TECHNOLOGIES AT A GLANCE

1G	2G	3G	4G	5G
No data transmission	9.6–236 Kbps	0.3–42 Mbps	Up to 150 Mbps[1]	Several 100 Mbps
Voice telephony	Voice and first data services	Voice and broadband data services	Voice and high-speed data services	High bandwidth and minimal latency
1974–2001	since 1994	since 2003	since 2010	>2020

1) Up to 300 Mbps with LTE carrier aggregation

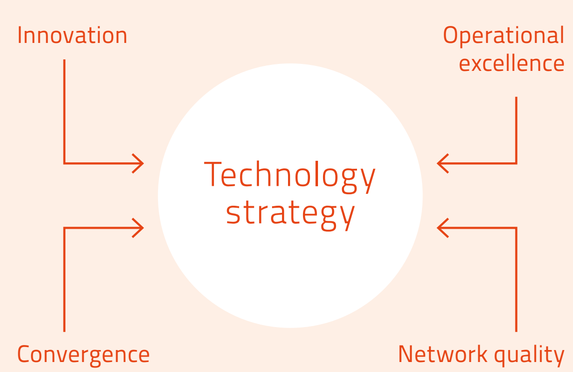
Rethinking network infrastructure

Since different approaches in the mobile and fixed-line network are becoming increasingly intertwined, the Telekom Austria Group is also increasingly focusing on convergence with regard to its infrastructure. The targeted use of the flexibility of mobile technologies together with the stability of fixed-line technologies has enabled the Group to make information and communication applications seamlessly available with innovative approaches. On this basis, customers should be provided with the best services through the combination of technologies.

In the course of unlocking this potential, the Telekom Austria Group also plays a leading role in network function virtualisation (NFV). NFV represents a paradigm shift for the entire telecommunications sector as it is revolutionising the traditional IT landscape. This is because the entire network infrastructure is being rethought in the virtualisation and automation of network functions and can be decisively optimised in this way. As one of the first operators in Europe, the Telekom Austria Group already successfully tested the NFV technology in a series of field trials in several countries in the year 2014. In February 2015, a virtual modem solution was successfully performed as part of an extensive strategy to virtualise key components in the Group's communications network. In this concept, the functionalities of all modems are centrally controlled in the Group's own IT data centre. As a result, customers have a more flexible, secure and efficient internet connection. Necessary changes are controlled centrally, updates are performed automatically and modem vulnerability is reduced.

Recently, the Telekom Austria Group already achieved to build a complete architecture of mobile network functions in the live network using NFV. In May 2015, the Serbian subsidiary Vip mobile received the renowned 'GTB Innovation Award' for this demonstration. With NFV, network functionalities and services are embedded in a virtualised and cloud-based infrastructure (multi-tier architecture). This will allow for significantly more efficient operating processes at lower costs and a quicker market launch of new services. As a result, this technology will give the Telekom Austria Group an ideal platform for competitive innovations.

TECHNOLOGY STRATEGY OF THE TELEKOM AUSTRIA GROUP



Driving innovation

The Telekom Austria Group is collaborating with a number of research partners to further strengthen its innovation leadership. The Telekom Austria Group currently has research partnerships with the Vienna University of Technology, the Christian Doppler Laboratory for Wireless Technologies for Sustainable Mobility and the Josef Ressel Centre for User-friendly Secure Mobile Environments.

In addition, the Group has given proof of the future-oriented usability of its expertise in practical projects with industrial partners. In the 'Loadshift Oberwart' project the Group is working together with a range of partners on the development of an intelligent energy management system that can be used across different buildings based on biomass and solar energy. With its Machine to Machine (M2M) business area, the Telekom Austria Group ensures automated data transfer between sensors, devices and control centres. In addition to industrial automation, such tailored connectivity solutions are otherwise used in areas such as asset tracking, fleet management and smart metering as well. Since August 2015, the Austrian federal province of Burgenland has been gradually shifting the entire measurement process of electricity consumption towards the Telekom Austria Group's smart metering product. This is known as the 'Österreichzähler', which is the first European smart meter with a 4G/LTE connection.

While 4G is currently the measure of all things in the mobile business, the Group is already dealing with future development stages in the industry in view of the rapid technological progress. As a member of the Next Generation Mobile Networks Alliance (NGMN), it actively works on standards of the next generation of mobile telecommunications technology (5G) together with other international players and research institutes. As part of the European Commission's initiative known as the '5G Infrastructure Public Private Partnership' (5G-PPP), the Telekom Austria Group has also joined the dialogue to shape the framework conditions of the fifth generation of mobile telecommunications. The aim is to achieve data transfer rates of up to 1 Gbps with minimal latency and drastically reduced energy usage with 5G as of 2020.

Spectrum investments reinforce quality leadership

The spectrum acquired in 2015 will help Vipnet in Croatia and Vip mobile in the Republic of Serbia to press ahead with the LTE rollout. In Belarus, the spectrum acquisition serves the expansion of the existing network, thus further strengthening velcom's positioning.

CROATIA	BELARUS	REPUBLIC OF SERBIA	
1,800 MHz	900 MHz	1,800 MHz	800 MHz
2 × 3 MHz and 2 × 4.8 MHz	1 × 2.5 MHz	2 × 5 MHz (paired)	2 × 5 MHz (paired)
EUR 18.5 mn	EUR 4.5 mn	EUR 6.9 mn	EUR 35.5 mn

Network quality confirmed multiple times

The high quality of its networks is a key differentiation factor of the Telekom Austria Group. Prestigious awards confirmed this several times in 2015.

A1 SCORES TOP RATING ('VERY GOOD') IN CONNECT NETWORK TEST FOR THE SEVENTH TIME IN A ROW

In 2015, the connect network test certified that A1 gave yet another convincing performance: A1 increased network quality once again, offering customers the best mobile data network in the entire German-speaking region.

A1 WINS MOBILE NETWORK TEST BY SMARTPHONE MAGAZINE AGAIN

The Telekom Austria Group has the best network for smartphones in Austria. In 2015, the mobile network test conducted by Smartphone magazine confirmed this in the second year in a row. A1 turned out to be the overall winner in the 'Best network' category and the 'Best customer satisfaction' and 'Best service' categories across Austria.

A1 TOPS OVERALL RANKING OF FUTUREZONE NETWORK TEST

For the third time in a row, A1 came out as the winner in the overall ranking of the annual network test of the internet portal futurezone in 2015. Since customers are interested mainly in high up- and download speeds in the age of mobile internet, this year's network test solely focused on data services.

MOBILTEL AWARDED AS THE 'FASTEST 3G NETWORK IN BULGARIA' IN NETCHECK TEST

The Telekom Austria Group's Bulgarian subsidiary Mobiltel was awarded with the certificate of 'The fastest 3G network in Bulgaria'. In the test the capital Sofia stood out with its excellent network quality — both in the mobile and fixed-line business.

VIPNET: TOP RANKINGS IN P3 COMMUNICATIONS NETWORK TEST

In Croatia, p3 communications conducted an independent test in which Vipnet was at the top in several category rankings, e. g. in the area of data downloads and the 'Opening websites' and 'Opening YouTube videos' categories. Vipnet also came first in the areas of call setup speed and sound quality during calls.

VIP MOBILE RECEIVES GTB INNOVATION AWARD AND LEADING LIGHTS AWARD

In 2015, the Telekom Austria Group's Serbian subsidiary Vip mobile received one of the most renowned Global Telecoms Business (GTB) Innovation Awards: In the 'Wireless Network Infrastructure Innovation' category it was awarded for its successful demonstration of the first fully virtualised VoLTE stack in a commercial network. Vip mobile also received the renowned Leading Lights 2015 Award in this category for the development of the most innovative strategy in the virtualisation of network functions (NFV).

Investor Relations

IR activities in the 2015 financial year focused on transparent reporting and active communication with investors and analysts.

?

HOW DO WE PRESENT OURSELVES TO INVESTORS?

- Clear growth strategy
- Stable shareholder structure with América Móvil (59.7%), ÖBIB (28.4%) and 11.9% free float
- Solid capital structure thanks to Baa2/BBB ratings confirmed by Moody's / S&P
- Dividend floor of EUR 0.05/share[1] (2015 and 2016) with a capacity to grow

1) Management Board's suggestion to the Annual General Meeting on 25 May 2016

Share price performance and sector comparison

Driven by the positive results for 2014, Telekom Austria's share price rose by 22.8% in the first quarter of the year under review, reaching a high for the year of EUR 6.86 on 16 March 2015. In the following months, the shares largely moved sideways before losing ground in June as a result of more intense competition on the Austrian market as well as the sustained economic disruption resulting from the sovereign debt situation in Greece. Following a brief recovery in connection with the publication of the company's half-year results, the unexpected currency devaluation in China triggered considerable concerns about the macroeconomic situation in the emerging economies, sending the international stock exchanges into a slump. The publication of the results for the third quarter gave the share price some new impetus before it declined again in November and recorded its annual low of EUR 4.80 on 14 December. At EUR 5.04, Telekom Austria's shares closed 2015 down 8.6% on the start of the year.

SHAREHOLDER STRUCTURE

as of 31 Dec 2015

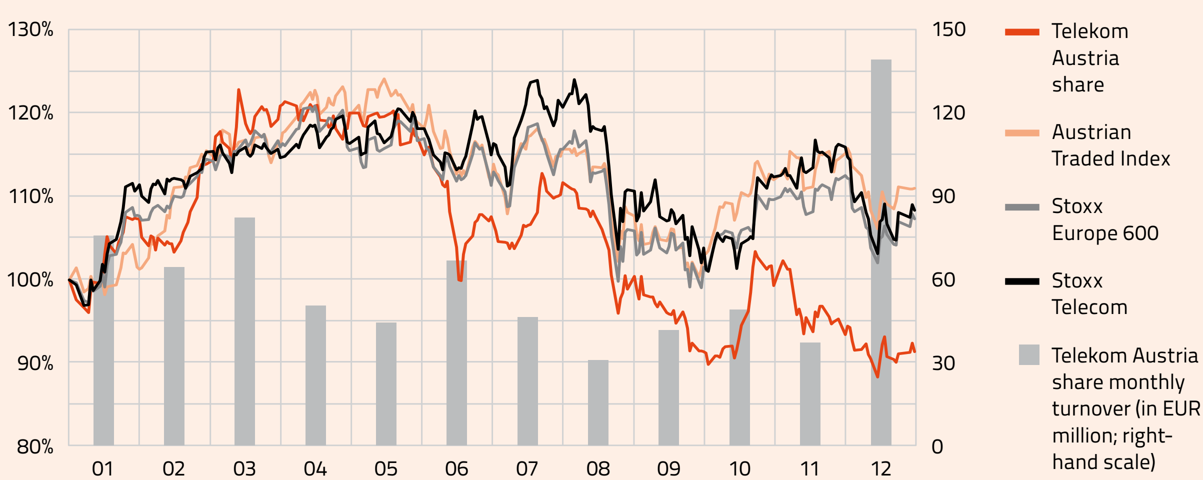
Shareholders	Ordinary shares	Holdings in %
América Móvil (direct and indirect)[1]	396,705,196	59.70
ÖBIB[2] (Republic of Austria)	188,876,602	28.42
Free float incl.employee stocks and treasury shares	78,918,202	11.88
Total number of shares	**664,500,000**	**100.00**

1) As per 27 May 2015 (Annual General Meeting)

2) Formerly ÖIAG

DEVELOPMENT OF TELEKOM AUSTRIA SHARE PRICE IN 2015

indexed as of 1 Jan



The Stoxx Telecom industry index and the ATX, the benchmark index of the Vienna Stock Exchange, both enjoyed considerable growth in the first half of 2015. This development was primarily driven by the comparatively favourable macroeconomic data for the eurozone as well as the monetary policy measures enacted by the ECB, which had a positive impact on the performance of the European stock markets. While the ATX suffered from the exacerbation of the Greece crisis from mid-June onwards, the telecommunications sector continued to record solid growth, albeit accompanied by increased volatility. Although August saw a slump in both the ATX and the Stoxx Telecom in the wake of the aforementioned currency devaluation in China, this was followed by a steady upturn from October onwards. At the end of the year, European stock markets showed some decline again. However, on a year-on-year basis, the ATX increased by 11.0% while the Stoxx Telecom rose by 8.4%.

BASIC INFORMATION ABOUT THE TELEKOM AUSTRIA SHARE

ISIN	AT0000720008
Symbol	TKA
Reuters	TELA.VI
Bloomberg	TKA AV
Listing	Vienna Stock Exchange ATX Prime Market
American Depositary Receipts (ADR)	1 ADR = 2 ordinary shares

Dividend

The Management Board of Telekom Austria AG plans to propose the payment of a dividend of EUR 0.05 per share for the 2015 financial year to the Annual General Meeting on 25 May 2016. For 2016 as well, a dividend of EUR 0.05 per share is envisaged by the management. (Further information on the dividend policy can be found on page 12.)

KEY FIGURES ABOUT THE TELEKOM AUSTRIA SHARE

	2015	2014
Share price low (in EUR)	4.80	4.93
Share price high (in EUR)	6.86	6.99
Share price as of 31 Dec (in EUR)	5.04	5.51
Market capitalisation as of 31 Dec (in EUR billion)	3.4	3.7
Average daily stock market turnover (in EUR million)	2.9	9.5
Number of shares of common stock as of 31 Dec	664,500,000	664,500,000
Number of shares outstanding as of 31 Dec	664,084,841	664,084,841
ATX weighting as of 31 Dec (in %)	2.0	2.2

TELEKOM AUSTRIA GROUP OUTSTANDING BONDS

as of 31 Dec 2015 (Issuer: Telekom Austria Finanzmanagement GmbH; hybrid bond issued by Telekom Austria AG)

ISIN	Issue Date	Maturity	Volume (in EUR million)	Coupon
XS0409318309	19.01.2009	29.01.2016[1]	750	6.375%
XS0210629522	13.01.2005	27.01.2017	500	4.250%
XS0999667263	26.11.2013	03.12.2021	750	3.125%
XS0767278301	26.03.2012	04.04.2022	750	4.000%
XS0950055359	27.06.2013	04.07.2023	300	3.500%
XS0877720986	25.01.2013	perpetual[2]	600	5.625%

1) Repaid from existing liquidity in due time

2) Subordinated hybrid bond with a non-call period until 1 February 2018

Financial debt and ratings

The Telekom Austria Group actively uses the local and international debt capital markets in order to ensure that its financing is broadly diversified both geographically and in terms of the investor base.

Since its first bond transaction in 2003 the Telekom Austria Group has issued a total of eight benchmark bonds. In 2013 it placed the first hybrid bond in the European telecommunications sector.

DEVELOPMENT OF THE TELEKOM AUSTRIA SPREAD IN 2015

The solid development of cash flow and the lack of significant maturities meant there were no notable issues in 2015. The bond that matured in January 2016 was repaid as scheduled from existing liquidity.

Credit ratings

Telekom Austria AG is regularly rated by Moody's Investors Service and Standard & Poor's Ratings Services. On 22 May 2015, Standard & Poor's confirmed its BBB rating (stable outlook) for Telekom Austria AG. Moody's also retained its Baa2 rating (stable outlook), which was most recently confirmed on 30 October 2015.

EXTERNAL RATINGS AND OUTLOOK

	Rating	Outlook
Moody's	Baa2	stable
S&P	BBB	stable

Spread development

The liquidity of corporate bonds generally declines significantly within a certain period following their issuance. As credit default swaps are not affected by this liquidity reduction, it is standard international practice to use five-year CDS when analysing spread development.

The Telekom Austria Group's five-year CDS spread saw largely sideways development in 2015. It fluctuated between around 52 bps (basis points) and around 73 bps, recording an average for the year as a whole of 63 bps. This reflects the company's stable operating performance. The Markit iTraxx Europe Index widened by 15 bps in 2015, with a range of 48 bps between its high and low values. Despite this slight widening, the spread level remained relatively low in 2015 as demand for fixed income products was generally high.

FINANCIAL CALENDAR

Week of 25 April 2016	Results for the First Quarter 2016
25 May 2016	Annual General Meeting
1 June 2016	Dividend Ex Date
2 June 2016	Dividend Record Day
3 June 2016	Dividend Payment Date
Week of 18 July 2016	Results for the First Half 2016
Week of 17 October 2016	Results for the First Nine Months 2016

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Employees

Telekom Austria Group intensified its work on HR initiatives in the areas of talent management, mobility, development, diversity and leadership in the year under review.

Growing together to grow together

Organisations acting fast, with simple processes will become global leaders. Human Resources at Telekom Austria Group supports the business strategy (see page 13 f.) and market demands focusing on creating the most productive and rewarding working environment possible. It aims at strengthening its value proposition as an attractive employer by focusing on simplicity and employee experience. The Group's capacity for the future is built by creating an open and transparent environment that lives what it sells and encourages diversity, drives motivation and fosters an intercultural and modern way of work.

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WHAT WAS OUR HUMAN RESOURCES STRATEGY IN 2015 TO SUCCESSFULLY MEET FUTURE CHALLENGES?

- Identifying and fostering top talents to prepare the business for an ever changing market environment in the years to follow
- Creating a skill academy in order to set up a knowledge pool and foster internal mobility to have the right people in the right positions
- Promoting a corporate culture in line with our brand and to drive employee engagement
- Increase in efficiency as well as restructuring in coordination with employee development to secure our competitiveness and earnings

Working at Telekom Austria Group should be perceived as simple, target-oriented and fast. This means to build common practices and implementing them throughout the Group and within new business areas. Human Resources is thus continuously working on developing targeted services, which employees can access at any time, in any location, on any device.

Talent development

At Telekom Austria Group development means having a clear purpose and acquiring the necessary skills accordingly. In order to meet customer and business needs, training at Telekom Austria Group is strongly pursued by learning and experiencing on the job in a broad combination with different learning tools. The Group-wide Business School offers i. e. face-to-face trainings in combination with e-learning, blended learning — which combines advantages of face-to-face trainings and e-learning — mentoring, coaching and gamification methods. The latter includes playful elements and is mostly applied together with e-learning.

Young talents and graduates are supported and challenged right from the start of their professional life. For example, a twelve-month Graduate programme is available to university graduates at A1. Learning takes place mainly on the job and within actual projects, but also with the help of peer exchange, where the graduates can learn from each other and mentoring by experienced colleagues and managers. Telekom Austria Group also supports young managers who have taken up a new management role with the eight-month New Manager programme, providing them with the skills they need to master their new positions.

Collaboration platforms and 'Communities of expertise' are securing know-how within the Group and encouraging a virtual way of working together. Employees are open to new ideas and thinking in new dimensions — including actively breaking from the old routine, showing entrepreneurship and taking personal responsibility for professional growth and career opportunities.

International exchange

Telekom Austria Group offers the opportunity to take new career paths to its employees and supports cross-divisional moves with dedicated internal mobility campaigns. This requires employees to have the courage to make a change and managers to be open for change and mobility of their employees. 'Top Talents' of Telekom Austria Group moreover are measured on the basis of their skills and experience in combination with their readiness for mobility within the Group. International exchange, e. g. in the form of project work, is thus a central element of knowledge sharing and career development and will be a focus even more in the years to come. The aim is to build a talent pipeline for

'As speed of change is constantly increasing, as is complexity, the era of individual heroes is gone. It is teams that make the difference. And in order for teams to be effective we as individuals need to share experiences, learnings, successes and mistakes in an open, trustful and transparent manner. I want to work in a culture where these aspects are felt and appreciated.'

Jesper Smith, Group Human Resources Director

management and key positions to be filled within a reasonable time. It is crucial for Telekom Austria's future business success to cooperate and learn from each other within the Group, to facilitate a Group-wide implementation of best practices as well as an open and diverse culture. The commitment to diversity of any kind is based on the conviction that diverse teams are more efficient and enhance new ways of thinking and acting.

Leadership and performance management

Leadership is a topic that will still be crucial in the years to come. Managers play a highly important role when it comes to the realisation of business targets based on a strong performance of their teams. In order to achieve this it is crucial to foster a culture based on trust, value added open feedback and result orientation. A Group-wide Performance Management Standard Model will add to the long track record of setting goals and performance dialogues — focusing not only on performance but also on individual strengths and learning possibilities of each employee.

Telekom Austria Group is committed to state-of-the art compensation and benefit programmes in order to provide differentiated and competitive rewards to employees and to drive high performance within the business with the help of result orientation and flexible working agreements.

Enabling employees to achieve a healthy work-life balance is extremely important to the Telekom Austria Group.

EMPLOYEE KEY FIGURES OF THE TELEKOM AUSTRIA GROUP

	2015	2014	Change in %
Full-time employees[1]	17,673	16,240	8.8
in Austria	8,512	8,635	–1.4
International	8,952	7,424	20.6
Trainings (Business School)	45	64	n. m.
Spending on further education per employee (in EUR)	294	480	–38.8
Personnel costs (in EUR million)	853	876	–2.6

1) Increase in number of full-time employees due to acquisition of Blizoo in Bulgaria, Amis in Slovenia, as well as due to the merger with ONE in the Republic of Macedonia.

Employees have the option of flexible working hours and can also work mobile in consultation with their managers. A family-friendly HR policy is a clear competitive advantage, as qualified employees are more likely to favour a company that seeks to meet their needs.

The culture of Telekom Austria Group is shaped by the commitment, enthusiasm and experiences of its employees. They are the best brand ambassadors for the company. Telekom Austria Group has a focus on optimising the experiences of its employees along the employee's journey in order to also serve customer's needs in the very best way.

Sustainability

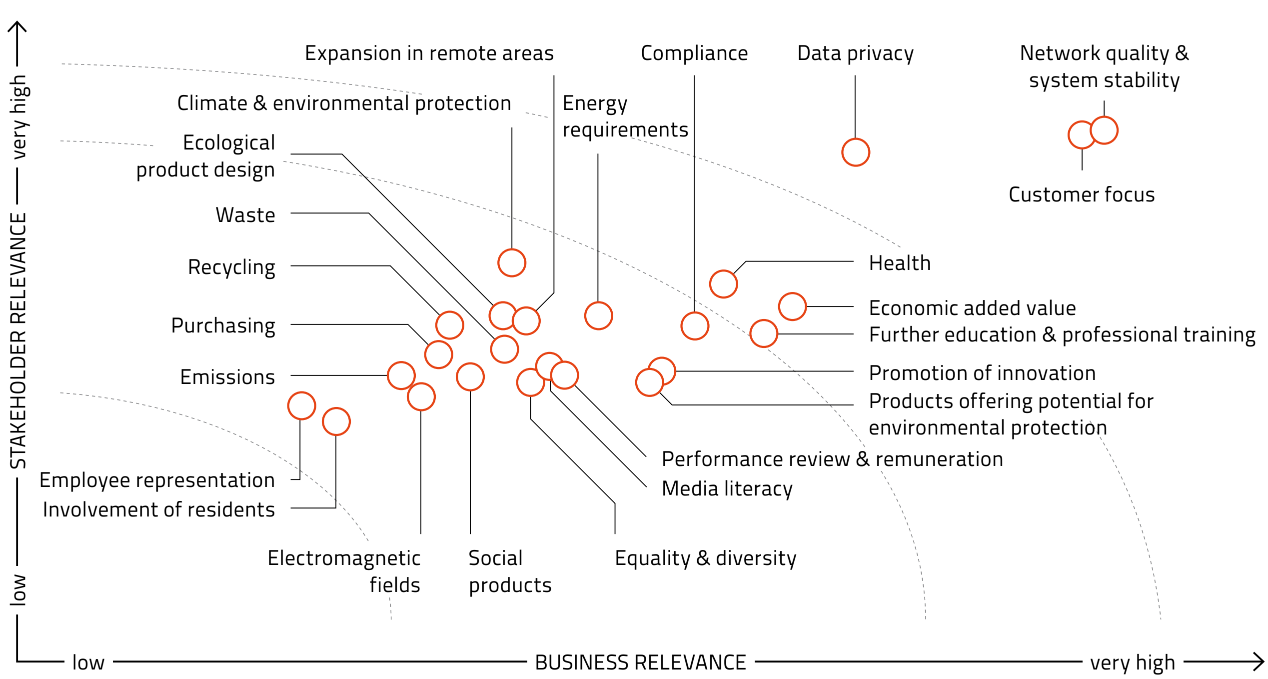
The Telekom Austria Group's sustainability strategy is based on an extensive analysis and evaluation of social and ecological aspects along the value chain of its core business. This focuses in particular on the issues of 'customer focus', 'data privacy' and 'network quality and system stability'.

? WHAT ARE THE OBJECTIVES OF THE AREAS OF SUSTAINABILITY ACTIVITIES?

- PROVIDING RESPONSIBLE PRODUCTS: Providing a highly efficient and fail-safe network infrastructure and innovative products
- LIVING GREEN: Increasing energy efficiency and continuously reducing our environmental impact
- EMPOWERING PEOPLE: Promoting employees by means of continuous further education and professional training and active diversity
- CREATING EQUAL OPPORTUNITIES: Equality of opportunity in the digital society using targeted media literacy initiatives

The Telekom Austria Group's understanding of its responsibility integrates social, ecological and economic aspects — based on the 'three-pillar model of sustainable development', the triple bottom line 'People, Planet, Profit'. The sustainability strategy of the Telekom Austria Group is now characterised by a focus on the material and greater orientation towards the core business. The Group carried out a materiality analysis for the first time in 2012 in order to define the CSR issues which are material from the stakeholders' point of view and how they relate to the core business: All social and ecological aspects were analysed and prioritised along the value chain of the Telekom Austria Group. According to a repeat of the survey in early 2015, the most significant issues for stakeholders in the materiality matrix, namely 'customer focus', 'data privacy', 'network quality and system stability', remain virtually unchanged. Derived from this materiality matrix, the sustainability strategy focuses on four strategic action areas. Each action area is associated with clear targets and specific performance indicators.

MATERIALITY MATRIX



The four action areas of the sustainability strategy

Products: Providing Responsible Products

The high-performance, secure network infrastructure of the Telekom Austria Group forms the backbone of the knowledge-based digital society of the 21st century in its seven markets. This action area centres on consistent investment in innovative and fail-safe transmission technologies, absolute customer commitment and safe, easy-to-use products and services.

Sample project: A successful 400 Gbps field trial between Zagreb and Ljubljana again demonstrated the Telekom Austria Group's innovative strength. The high-speed technology used quadruples the network capacity and thus allows an efficient and cost effective implementation of dynamic packet-based services. Under the motto 'Greentouch Initiative', the 400 Gbps transport reduces energy requirements by 47% and space requirements by 65% compared to a 100 Gbps technology.

Targets for 2015[1)]

- Ensuring Group-wide network coverage of at least 99% with 2G and at least 90% with 3G
- Development of innovative solutions in the healthcare, education and administration sectors
- Promotion of climate-friendly products and solutions
- Increase in customer satisfaction

Environment: Living Green

Telecommunication networks, such as that of the Telekom Austria Group, can play a key role in mitigating climate change. The energy-efficient design of the transmission networks, the increased use of renewable energies, climate-friendly mobility and the preservation of raw materials through optimised recycling and disposal processes are central to the Telekom Austria Group's ecological responsibility. The continuous reduction of the environmental impact of operating activities is a clear focus of this action area.

Sample project: Since 2014, A1 has been Austria's first communication provider to operate an entirely carbon-neutral network. The most important contributions are made by the reduction of energy requirements and the use of innovative, energy-efficient technologies in the network infrastructure. A1 also relies 100% on electricity from renewable energy. 78% of the CO_2 emissions caused by network operations were thus avoided. To offset the remaining 22%, A1 voluntarily supports high-quality climate protection projects. A1's 'carbon-neutral network' has been confirmed by TÜV SÜD. It made a major contribution to A1 reducing CO_2 emissions throughout the company by 65% year-on-year.

Target for 2020

- 25% reduction of CO_2 emissions

Targets for 2015[1)]

- 20% increase in energy efficiency
- Expansion of projects relating to renewable energies
- 10% improvement in the recycling rate
- 10% reduction in the Group's paper consumption
- Increase of the proportion of e-billing in the Group to 50%

LEADING THE CARBON DISCLOSURE PROJECT (CDP)

According to the CDP rating, the Telekom Austria Group ranks among the best companies in the telecommunications sector: Thanks to targeted measures, the Group improved its disclosure score from 93 to 99 points in 2015. The performance score was kept at B. This makes the Telekom Austria Group one of the top three telecommunication companies in the DACH region.

Employees: Empowering People

Skilled, committed and entrepreneurial employees are a key factor in the company's success. Accordingly, the Telekom Austria Group's HR strategy is based on identifying and fostering talent at an early stage, continuous further education and professional training and a balanced management, performance and feedback culture. This action area's key priorities are health, equality and active diversity within the Group.

Sample project: As part of the CSR programme 'Do The Right Thing', the Croatian subsidiary Vipnet launched a paid one-year business development programme called 'Vip alumni' for young university graduates without a job. The purpose of this programme is to provide professional skills and experience in an international environment in order to help the participants to a better starting position on the Croatian labour market. After a year, seven of the eleven participants were hired at Vipnet.

Targets for 2015[1)]

- 35% women in the Group and in management positions
- Promotion of internal appointments, maintenance of a high engagement index
- Increase in international exchange

Society: Creating Equal Opportunities

The Telekom Austria Group firmly believes that the digital world should be open to everyone. It is therefore actively participating in reducing the 'digital gap' and promoting media literacy skills. In addition to targeted media literacy initiatives for young and old alike, the Telekom Austria Group is also promoting equality of opportunity in the digital society with its products and services. Its subsidiaries also support and initiate social projects that meet local requirements.

Sample project: Group-wide rollout of the 'Internet for All' media literacy initiative. After the 'A1 Internet for All' initiative was founded in 2011, projects in Slovenia (2012) and the Republics of Serbia and Macedonia (2013) followed. 2014 saw the launch in Bulgaria, Belarus and Croatia. This project was promoted again in 2015: Last year, around 24,500 people were trained throughout the Group.

Target for 2016

- 100,000 people participating in training to promote media literacy skills

Targets for 2015[1)]

- Increase in cooperation in the Telekom Austria Group to promote media literacy skills
- Implementation of social projects according to local needs
- Implementation and enhancement of cost control tools

1) The degree of achievement of the targets for 2015 will be presented in the Sustainability Report 2015/2016.

PRIZE-WINNING SUSTAINABILITY REPORT

In 2015, for the third consecutive year the Telekom Austria Group's Sustainability Report received the first prize in the Austrian Sustainability Reporting Award (ASRA) competition in the 'Large Enterprises' category.

Compliance

For the Telekom Austria Group, achieving the defined business goals is not the only thing that matters — how it goes about doing so is also essential. The overriding principle is acting with integrity and responsibility towards customers, shareholders, external creditors, the public, and employees.

Prevention and reaction

The Telekom Austria Group owes it to all of its stakeholders that its standards of integrity are realised as a key component of its corporate culture. Acting with honesty, fairness and transparency is the only way to secure the Group's economic success and reputation in the long term.

To achieve this, the Telekom Austria Group has a sophisticated compliance management system based on the central elements of prevention and reaction. To prevent potential misconduct, the Group has expressly included its standards of integrity in its code of values, established clear rules for acting ethically and with integrity in all business relationships, and integrated appropriate controls within its business processes.

To enable an appropriate response to potential misconduct, indications and evidence are collected via a dedicated portal and addressed in strict confidentiality as part of a structured process. This allows the remediation of any weaknesses and the permanent improvement of the compliance management system. A scoping process has identified the following areas as key compliance topics: corruption prevention and integrity, antitrust law, data protection and capital market compliance.

Group Compliance ensures the consistent implementation of the corresponding measures and instruments at all business units of the Telekom Austria Group with the support of the local compliance managers at the international subsidiaries. The Telekom Austria Group's compliance management system is consistent with the internationally recognised standards issued by Transparency International and Institut Deutscher Wirtschaftsprüfer (Institute of Public Auditors in Germany). This was confirmed by an independent auditor in 2013.

Acting with integrity and responsibility

The Code of Conduct is a central instrument in the Telekom Austria Group's compliance management system. It is aimed at all employees and the entire management team of the Group and is intended to help prevent misconduct in the various decisions that have to be taken every single day. It contains advice and regulations on fair conduct, gifts and personal benefits, confidentiality, conflicts of interest, protecting company assets, communicating the content of the Code of Conduct, and the Group's whistleblowing principles. Accordingly, the Code of Conduct provides the elementary guidelines for the implementation of integrity as a value in day-to-day business practice.

This is supplemented by Group-wide guidelines providing detailed assistance on concrete topics, such as anti-corruption and conflicts of interest, gifts and invitations, manage-

FOUR CORPORATE VALUES GUIDE THE WAY IN WHICH THE TELEKOM AUSTRIA GROUP WORKS:

Innovation	Diversity
Quality	Integrity and responsibility

?

WHAT DOES OUR COMPLIANCE MANAGEMENT SYSTEM COMPRISE?

KEY ISSUES

- Corruption prevention and integrity
- Antitrust law
- Data protection
- Capital market compliance

TOOLS

- Code of Conduct
- Group guidelines
- Tone-from-the-top
- Clear communication
- Annual compliance risk assessment
- Training
- Integration of compliance in business processes
- Helpdesk 'ask.me'
- Whistleblowing platform 'tell.me'

> 'We are convinced that in modern societies integrity is a precondition for sustainable business models. In addition, there are also very good financial reasons to behave compliant: Driven by EU and US regulations fines for misbehaviour in the fields of anti-corruption, data privacy, antitrust and capital market compliance are rising and reach unknown amounts.'
>
> Martin Walter, Group Compliance Director

ment consulting and lobbying, sponsorship, donations and advertising, capital market compliance and antitrust law.

To ensure that the principle of integrity is sustainably embodied by all of the Group's units in Austria and all of its subsidiaries in Central and Eastern Europe, target group-optimised training on compliance topics takes place on a regular basis. In 2015, 1,400 employees and managers were trained in compliance classroom training sessions and more than 19,900 employees and managers received the compliance training via e-learning. To clarify any questions they may have, Telekom Austria Group employees can also contact the 'ask.me' compliance helpdesk, which dealt with around 250 questions in 2015.

A matter of corporate culture

Systematic adherence to all rules and regulations in the course of the company's day-to-day work makes compliance a central element of the corporate culture. Key factors include, not least, the example set by senior management and the responsibility of all employees for their own actions. Employees and third parties can use the 'tell.me' whistleblower platform (tip-off portal) to anonymously report information on potential misconduct in order to sustainably prevent and identify potential risks within the Telekom Austria Group. In 2015, approximately 40 tips were submitted via this compliance instrument and carefully investigated by the Group.

The Telekom Austria Group responds to incidents with appropriate sanctions. If an actual case of misconduct is established, the potential consequences range from educational measures and process improvements via reprimands through to dismissals or the termination of business relationships.

COMPLIANCE MANAGEMENT SYSTEM

STRATEGY

- Culture and attitude
- Compliance goals
- Compliance/Management reporting
- Continuous improvement/Audit/Certification

PREVENTION

- Risk assessment/Planning
- Business conduct
- Business process

REACTION

- Tip-off portal
- Detection audit
- Case handling
- Remediation

INFRASTRUCTURE

- Compliance organisation
- Compliance HR
- Compliance IT

Corporate Governance Report

Commitment of the Telekom Austria Group to the Austrian Corporate Governance Code

The shares of Telekom Austria AG have been listed on the Vienna Stock Exchange since November 2000, where the Austrian Corporate Governance Code (ACGC) is generally accepted. The current version of this Code (January 2015) can be viewed at www.corporate-governance.at or www.telekomaustria.com.

The Austrian Corporate Governance Code pursues the goal of the responsible management and control of companies geared towards a sustainable and long-term creation of enterprise value. It aims to ensure a high degree of transparency for all stakeholders and to serve as an important guideline for investors. The Code is based on the provisions of Austrian stock company, stock exchange and capital market law, EU recommendations and the OECD Principles of Corporate Governance. The Telekom Austria Group has been committed to voluntary compliance with the ACGC since 2003. The Group complies with all the legal requirements set out by the ACGC in what are referred to as the 'L' rules.

To explain the deviations from the ACGC's 'C' rules, the Telekom Austria Group has made the following statement regarding Rules 28, 28a as well as Rule 36 of the ACGC:

- Stock option plans and programmes for the beneficial transfer of shares, including the long-term and sustainable exercise criteria, are decided upon by the Supervisory Board to ensure optimal alignment with the business plan. The Annual General Meeting on 27 May 2010 introduced a long-term incentive program which replaced the ESOP stock option programme previously in place as of the 2010 financial year. Details can be found in the Consolidated Financial Statements of the Telekom Austria Group.
- Due to the open discussion culture within the Supervisory Board the self-evaluation of the Supervisory Board as stipulated in Rule 36 of the ACGC is performed every two years.

In accordance with Rule 62 of the ACGC, the Telekom Austria Group's compliance with the provisions of the ACGC and the accuracy of its public reporting in association with this are evaluated externally every three years. The most recent evaluation, carried out by Deloitte Audit Wirtschaftsprüfungs GmbH in early 2014, discovered no facts which conflicted with the declaration made by the Management Board and the Supervisory Board concerning observance of and compliance with the 'C' and 'R' rules of the Austrian Corporate Governance Code for the 2013 financial year.

Composition of executive bodies of the company and executive body remuneration

The Management Board

The members of the Management Board of Telekom Austria AG as of the end of 2015 were Alejandro Plater, Chief Executive Officer (CEO) and Chief Operating Officer (COO), and Siegfried Mayrhofer, Chief Financial Officer (CFO). As of 6 March 2015, Alejandro Plater was appointed Chief Operating Officer (COO) of the Telekom Austria Group for three years with an extension option for two additional years, replacing Chief Technology Officer (CTO) Günther Ottendorfer. The contract of CFO Siegfried Mayrhofer was extended by three years with effect from 1 June 2015 with an extension option for two additional years. Hannes Ametsreiter retired from his position as CEO at Telekom Austria AG as of 31 July 2015. In addition to his tasks as COO, Alejandro Plater assumed those of the Chairman of the Management Board (CEO) as of 1 August 2015.

Alejandro Plater Management Board member (Chief Operating Officer, COO) since 6 March 2015, Chairman of the Management Board (Chief Executive Officer, CEO) and COO since 1 August 2015, appointed until 5 March 2018 with an extension option for two additional years.

Alejandro Plater, born in 1967, can look back on a long international career in the telecommunications industry. He started at Ericsson in 1997 as Sales Director for Argentina and shortly thereafter took on the responsibility of Head of Business Development. In 2004 he moved to the group's global headquarters in Stockholm, Sweden, to take up the position of Sales Director for the Latin America region. Two years later, Plater was appointed Sales Director for Mexico and in the following year he was appointed Vice-President and Key Account Manager. Alejandro Plater studied Business Administration at the University of Buenos Aires and has completed several post-graduate management studies at Columbia University and Wharton School in the USA and at London Business School in the UK.

Alejandro Plater does not hold any supervisory board mandates outside the Telekom Austria Group.

Siegfried Mayrhofer Chief Financial Officer (CFO), first appointed as at 1 June 2014, extension in April 2015, appointed until 31 May 2018 with an extension option for two additional years.

Siegfried Mayrhofer, born 1967, studied industrial and mechanical engineering at the Graz University of Technology.

Siegfried Mayrhofer began his professional career in 1994 at Voest Alpine Eisenbahnsysteme in the international division for the acquisition of investments. From 1998 to 2000 he served as a consultant to Constantia Corporate Finance for Mergers & Acquisitions in various industries.

Siegfried Mayrhofer joined Telekom Austria AG in March 2000. After holding various management positions (including Head of Corporate Planning and Group Controlling, Fixed-line Controlling, Fixed-line Accounting), he became CFO of Telekom Austria TA AG in July 2009. Siegfried Mayrhofer was the Chief Financial Officer of A1 Telekom Austria AG from 8 July 2010 to 31 May 2015.

Siegfried Mayrhofer does not hold any supervisory board mandates outside the Telekom Austria Group.

Hannes Ametsreiter Management Board member from 1 January 2009 to 31 July 2015, Chairman of the Management Board (CEO) from 1 April 2009 to 31 July 2015.

Hannes Ametsreiter was born in Salzburg in 1967. After studying in Austria and the United States, he began his professional career as a brand manager at the international branded goods company Procter & Gamble. His career in the telecommunications sector began in 1996 at mobilkom austria AG. After holding various positions within the Group, he became Chief Marketing Officer of mobilkom austria AG in 2001.

Hannes Ametsreiter was the CEO of Telekom Austria AG from 1 April 2009 to 31 July 2015. From 2010 Hannes Ametsreiter was also the CEO of A1 Telekom Austria AG, which was created by the merger of mobilkom austria AG and Telekom Austria TA AG.

Günther Ottendorfer Chief Technology Officer (CTO) from 1 September 2013 to 5 March 2015.

Born in 1968, Günther Ottendorfer can look back on a successful international career in the telecommunications industry going back more than 20 years. From 1987 to 1992 Günther Ottendorfer studied Computer Sciences at the Vienna University of Technology and graduated with honours.

From 1996 Günther Ottendorfer played a key role in the development of the mobile telephony provider max.mobil in Austria. He gathered comprehensive management experience in positions including that of COO and CTO for T-Mobile Österreich, CTO for T-Mobile Deutschland and European Technology Director for T-Mobile International.

In 2011 Günther Ottendorfer was appointed to the Board of Optus Singtel, Australia's second-largest telecommunications provider, where he was responsible for the entire network infrastructure. He also headed the launch of LTE at Optus and initiated several successful efficiency and restructuring programmes.

Report on Management Board remuneration

The Remuneration Committee of the Supervisory Board is responsible for structuring Management Board remuneration. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component was agreed with the Management Board members Siegfried Mayrhofer, Hannes Ametsreiter, and Günther Ottendorfer. This performance-based component is contingent upon the achievement of defined targets and is limited to 150% of the basic remuneration. The targets for the reporting year consist of 75% financial figures (return on assets in excess of the costs of capital (weighting 25%), free cash flow (weighting 25%) and a revenue indicator (weighting 25%)), as well as strategic objectives. The Remuneration Committee decides about the degree of target achievement and the amount of the variable salary component on the basis of the Consolidated Financial Statements and the implementation of strategy. Performance-based remuneration becomes payable after the result for the financial year in question has been resolved, while for Siegfried Mayrhofer (beginning with June 2015), Hannes Ametsreiter (until July 2015), and Günther Ottendorfer (until March 2015) an advance in the amount of 60% of the fixed salary is paid in 14 instalments in the current financial year. The remuneration of the Management Board member Alejandro Plater for the reporting year was regulated as follows: For his work as a member of the Management Board, Alejandro Plater received a fixed salary and an annual bonus corresponding to around 40% of the fixed salary that is paid along with the fixed salary. This regulation was for the starting period and the reporting year 2015. For 2016, the regulation is planned to be amended and aligned with the regulation for performance-based remuneration components of the other Board members as stated above. Because Alejandro Plater relocated from Mexico to Austria, he also receives an expense allowance for housing and school fees for his children that is paid on a monthly basis.

In addition, members of the Management Board also participate in the long-term incentive program (LTI). The multi-year share-based incentive program introduced in 2010 continued in the 2015 reporting year with the issue of the 2015 tranche. The third tranche of the LTI program (LTI 2012) was paid out in 2015, following the end of the three-year performance period and the determination by the Remuneration Committee of the degree of achievement. The degree of target achievement for LTI 2012 was 18% and the amount of

REMUNERATION OF THE INDIVIDUAL MEMBERS OF THE MANAGEMENT BOARD

Management Board remuneration in EUR '000	Basic remuneration (fixed salary incl. remuneration in kind and expense allowances[5])		Variable remuneration		Multi-year share-based remuneration (LTI)		Total remuneration[6), 7)]	
	2015	2014	2015	2014	2015	2014	2015	2014
Alejandro Plater[1)]	582	–	221	–	–	–	804	–
Siegfried Mayrhofer[2)]	465	268	557	–	17	–	1,039	268
Hannes Ametsreiter[3)]	318	549	512	631	12	43	842	1,224
Günther Ottendorfer[4)]	123	462	405	330	–	–	529	793
Total[6), 7)]	**1,489**	**1,484**	**1,695**	**1,374**	**29**	**87**	**3,213**	**2,944**

1) Alejandro Plater has been a Management Board member since 6 March 2015 and Chairman of the Management Board (CEO) since 1 August 2015.

2) Siegfried Mayrhofer has been a Management Board member since 1 June 2014. The figures for the variable remuneration for 2015 also include the variable remuneration for the year 2014 which was paid out in the reporting year 2015.

3) Hannes Ametsreiter resigned from his function as Management Board Member as of 31 July 2015 and his employment relationship was terminated by mutual agreement as of the same date. The figures for 2015 shown in the table do not include termination benefits in connection with the dissolution of the employment contract and severance payments amounting to EUR 0.290 mn and EUR 1.114 mn respectively.

4) Günther Ottendorfer's employment contract, which was to run until 31 August 2016, was terminated early on 5 March 2015. The figures for 2015 shown in the table do not include termination benefits in connection with the dissolution of the employment contract amounting to EUR 1.630 mn; a further EUR 0.127 mn was paid into the pension fund.

5) Because Alejandro Plater relocated from Mexico to Austria, he receives an expense allowance for housing and school fees for his children which is reported under the basic remuneration.

6) Hans Tschuden's employment contract, which was to run until 31 March 2015, was terminated early on 31 May 2014. The figures for 2015 shown in the table do not include termination benefits paid to Hans Tschuden in connection with the dissolution of the employment contract amounting to EUR 0.298 mn and benefits from the multi-year share-based remuneration (LTI 2012) amounting to EUR 0.012 mn. The figures for 2014 do not include termination benefits of EUR 0.737 mn and severance pay of EUR 0.850 mn as well as benefits from the multi-year share-based remuneration amounting to EUR 0.043 mn; a further EUR 0.213 mn was paid into the pension fund in 2014.

7) There are deviations in the totals due to rounding.

the payments to Management Board members came to 8%. Detailed information about this can be found in the Notes to the Consolidated Financial Statements and the section on the remuneration of the individual members of the Management Board.

The total expense for basic remuneration, including remuneration in kind, of members of the Management Board in 2015 amounted to EUR 1.489 mn (2014: EUR 1.484 mn), and variable remuneration amounted to EUR 1.695 mn (2014: EUR 1.374 mn). EUR 0.029 mn was spent on LTI 2012 for Management Board members in the 2015 reporting year (amount spent on LTI 2011 in 2014: EUR 0.087 mn). Termination benefits in connection with the dissolution of the employment contract and severance payments to former members of the Management Board resulted in the following amounts in 2015: Hannes Ametsreiter: EUR 0.290 mn and EUR 1.114 mn respectively; Günther Ottendorfer: EUR 1.630 mn and EUR 0.127 mn as a payment into the pension fund; Hans Tschuden: EUR 0.298 mn and EUR 0.012 mn from benefits for LTI 2012.

Assuming 100% attainment of their goals in the context of the new 2015 LTI tranche launched in September 2015, the members of the Management Board were provisionally allocated the following number of Telekom Austria shares: 29,300 shares for Alejandro Plater, 48,267 shares for Siegfried Mayrhofer, 11,158 shares for Hannes Ametsreiter, 26,815 shares for Günther Ottendorfer and 4,112 shares for Hans Tschuden. Any actual allocation of these shares or cash settlement will occur after the end of the three-year performance period, i. e. not before 1 September 2018, commensurate with the level of achievement of objectives as determined by the Remuneration Committee.

In terms of old-age provisions, the members of the Management Board receive a contribution to their voluntary pension plan, which is paid into a corporate pension fund by the company and amounts to 20% of their respective fixed salary (excl. expense allowances) and, for Alejandro Plater, 11% of his basic remuneration (incl. expense allowances). Members will receive an eventual pay-out from the corporate pension fund only when they are over 55 years of age and no longer in a contractual relationship with the company.

The amount of the severance payment to be paid in the event of the termination of a Board member's appointment is based on the length of their employment and is capped at one year's total remuneration for Hannes Ametsreiter and Siegfried Mayrhofer. The Mitarbeiter- und Selbstständigenvorsorgegesetz (BMSVG — Austrian Corporate Employee and Entrepreneur Pension Law) applies to Alejandro Plater and Günther Ottendorfer.

Furthermore, the members of the Management Board are entitled to a company car, and casualty insurance provides cover in the event of death or invalidity. There is also supplementary health insurance for Management Board members. The members of the Management Board are included in the D&O insurance policy concluded and paid for by Telekom Austria AG. Moreover, there was also criminal defence insurance for administrative offences or violations of criminal law in 2015.

Long-term incentive program

The Telekom Austria Group's multi-year share-based long-term incentive program (LTI) introduced in the 2010 financial year continued in 2015. This incentive scheme, designed for Management Board members, executives and selected employees, has a term of three years for each tranche. The LTI is based on the performance-based allocation of shares. During the program, participants must hold shares in Telekom Austria, the number of which is determined by the defined number of potential shares for each entitled beneficiary. Any payments are made in cash. The amount of the payment depends on the achievement of targets in the form of key figures defined by the Supervisory Board within a three-year performance period, ranging from 0% to a maximum of 350% of the participant's investment for the tranches starting from LTI 2013 with maximum target achievement of 175%.

The Telekom Austria Group's long-term incentive program is consistent with the requirements of the Austrian Corporate Governance Code (C Rule 28). The relevant target performance indicators are based on the long-term development of the company. The targets and key performance indicators are determined by the Supervisory Board at the beginning of each tranche. Each performance period is three years long. Free cash flow (weighting 45%), total shareholder return (weighting 35%) and EBITDA (weighting 20%) were defined as the targets/key performance indicators for the 2012 tranches. The targets for the 2013 and 2014 tranches were defined as net income (weighting 30%), EBITDA (weighting 35%) and relative total shareholder return (weighting 35%), which will be assessed versus a defined peer group of nine European telecommunication companies. The following targets were set for the 2015 LTI tranche issued in the 2015 reporting year: EBITDA (weighting 35%), free cash flow (weighting 30%) and a revenue-based indicator (weighting 35%).

Benefits under the LTI program in the 2015 reporting year

The third LTI tranche (LTI 2012) which had been granted on 1 August 2012 was distributed to the entitled employees of the Group in August 2015 after the end of the three-year performance period and three years after the grant date. The tranche was paid out in line with the target achievement of 18% as determined by the Remuneration Committee of the Supervisory Board at the value of 71,531 bonus shares in total (measured using the average price for the fourth quarter of 2014 of EUR 5.73 and therefore EUR 0.41 mn (2014: EUR 0.75 mn)). Of this total, Siegfried Mayrhofer received 2,970 shares or EUR 0.017 mn, Hannes Ametsreiter received 2,054 shares or EUR 0.012 mn (2014: EUR 0.043 mn) and Hans Tschuden received 2,160 shares or EUR 0.012 mn (2014: EUR 0.043 mn).

A detailed description of the long-term incentive program can be found in the Notes to the Consolidated Financial Statements.

As at 31 December 2015, the members of the Management Board hold the following shares, some of which serve to satisfy LTI program participation requirements:

NUMBER OF TELEKOM AUSTRIA SHARES HELD AS AT 31 DEC 2015

		of which for LTI participation
Alejandro Plater	14,650	14,650
Siegfried Mayrhofer	24,750	24,134

In accordance with the legal provisions, transactions by managers, Supervisory Board members and their related parties involving Telekom Austria shares are reported to the Austrian Financial Market Authority (see www.fma.gv.at under the menu item 'Directors' Dealings').

Supervisory Board

The Supervisory Board of the Telekom Austria Group comprises ten members elected by the Annual General Meeting. The Central Works Council of A1 Telekom Austria AG delegates four members and one member is delegated by the Staff Council of Telekom Austria AG. Employee co-determination on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria.

The Annual General Meeting on 27 May 2015 saw a change in the Supervisory Board: Rudolf Kemler and Günter Leonhartsberger resigned with effect from 27 May 2015. Karin Exner-Wöhrer and Wolfgang Ruttenstorfer were elected as members of the Supervisory Board at the Annual General Meeting on 27 May 2015.

SUPERVISORY BOARD MEMBERS

Name (year of birth)	Profession
Wolfgang Ruttenstorfer, Chairman (1950)	
Carlos García Moreno Elizondo, Vice Chairman (1957)	CFO América Móvil, S.A.B. de C.V. (Mexico)
Alejandro Cantú Jiménez (1972)	General Counsel América Móvil, S.A.B. de C.V. (Mexico)
Elisabetta Castiglioni (1964)	Business consultant
Karin Exner-Wöhrer (1971)	CEO of Salzburger Aluminium AG
Carlos M. Jarque (1954)	CEO of the FCC Group (Fomento de Construcciones y Contratas SA, Spain)
Rudolf Kemler, Chairman until May 2015 (1956)	Senior Partner at Roland Berger Strategy Consultants GmbH Position until May 2015: Management Board member of Österreichische Bundes- und Industriebeteiligungen GmbH[4)]
Reinhard Kraxner (1970)	Assistant General Counsel Treasury/Finance Philip Morris International Inc. (USA)
Günter Leonhartsberger (1968)	Position until May 2015: Director and Head of Investment Management and Privatisation Division, Österreichische Bundes- und Industriebeteiligungen GmbH[4)]
Ronny Pecik (1962)	Businessman
Stefan Pinter (1978)	Member of Management, Philip Morris Austria GmbH/Head of Corporate Affairs
Oscar Von Hauske Solís (1957)	CEO Telmex Internacional (Mexico), Chief Fixed-Line Operations Officer América Móvil, S.A.B. de C.V. (Mexico)

Members of the Supervisory Board delegated by the Staff Council	
Silvia Bauer (1968)	Member of the Central Works Council of A1 Telekom Austria AG Member of the European Works Council of the Telekom Austria Group
Walter Hotz (1959)	Chairman of the Central Works Council of A1 Telekom Austria AG Chairman of the European Works Council of the Telekom Austria Group
Werner Luksch (1967)	Vice Chairman of the Central Works Council of A1 Telekom Austria AG Member of the European Works Council of the Telekom Austria Group
Alexander Sollak (1978)	Chairman of the Staff Council Committee of Telekom Austria AG Secretary-General of the European Works Council of the Telekom Austria Group
Gottfried Kehrer (1962)	Member of the Central Works Council of A1 Telekom Austria AG

1) Term of office ends at the Annual General Meeting dealing with the 2019 financial year (provisionally May 2020).

2) Term of office ends at the Annual General Meeting dealing with the 2017 financial year (provisionally May 2018).

3) Term of office ends at the Annual General Meeting dealing with the 2015 financial year (provisionally May 2016).

4) By way of a legislative resolution (ÖBIB Act 2015), Österreichische Industrieholding Aktiengesellschaft changed its legal form to become Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) at the Annual General Meeting on 20 March 2015.

Other supervisory board mandates and similar functions at other listed companies (as per the Austrian Corporate Governance Code)	First appointed	End of current term of office on Supervisory Board of Telekom Austria AG or date of departure	Independence as per Rule 53 of the ACGC
CA Immobilien Anlagen AG (Chairman), Flughafen Wien AG, RHI AG, NIS a.d. (Republic of Serbia)	27.05.2010 to 14.08.2014 Reappointed on 27.05.2015	2020[1]	Yes
Royal KPN N.V. (Netherlands)	14.08.2014	2018[2]	Yes
	14.08.2014	2016[3]	Yes
	29.05.2013	2016[3]	Yes
	27.05.2015	2020[1]	Yes
Grupo Carso S.A.B. de C.V. (Mexico)	14.08.2014	2018[2]	Yes
Positions until May 2015: Österreichische Post AG (Chairman), OMV AG (Chairman)	01.11.2012	27.05.2015	Yes
	14.08.2014	2016[3]	Yes
Position until May 2015: Österreichische Post AG	14.08.2014	27.05.2015	Yes
	23.05.2012	2018[2]	Yes
	14.08.2014	2016[3]	Yes
Royal KPN N.V. (Netherlands)	23.10.2012	2018[2]	Yes
	30.01.2009 to 03.11.2010 Re-delegated on 26.07.2012		
	Re-delegated on 06.05.2011		
	03.08.2007 to 20.10.2010 Re-delegated on 11.01.2011		
	03.11.2010		
	27.10.2010		

Independence of the Supervisory Board

The guidelines set out by the Supervisory Board in 2006 to determine the independence of its members were adjusted in 2009 to comply with the modified provisions of the Austrian Corporate Governance Code and are consistent with Annex 1 of the current version of the Code. According to these provisions, the members of the Supervisory Board are deemed to be independent if they have no business or personal relations with the company or its Management Board that could result in a material conflict of interest and thus influence the members' behaviour.

The shareholder representatives on the Supervisory Board are nominated in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and ÖBIB (formerly ÖIAG). The company's free float has been below 20% since 16 October 2014, hence C Rule 54 is not applicable.

Report on Supervisory Board remuneration

The Annual General Meeting on 27 May 2015 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairs and EUR 15,000 for all

REMUNERATION OF SUPERVISORY BOARD MEMBERS

Name	Supervisory Board remuneration awarded for 2014 and paid in 2015 (in EUR)	2015 attendance fees (in EUR)
Wolfgang Ruttenstorfer 1)	9,287.67	1,800.00
Carlos García Moreno Elizondo	8,630.14	3,900.00
Alfred Brogyányi 1)	9,287.67	–
Alejandro Cantú Jiménez	5,753.42	1,500.00
Elisabetta Castiglioni	15,000.00	2,700.00
Henrietta Egerth-Stadlhuber 1)	9,287.67	–
Michael Enzinger 1)	13,931.51	–
Karin Exner-Wöhrer	–	900.00
Carlos M. Jarque	5,753.42	2,700.00
Rudolf Kemler 2), 3)	30,000.00	2,100.00
Reinhard Kraxner	5,753.42	1,800.00
Günter Leonhartsberger 2), 3)	5,753.42	1,200.00
Peter J. Oswald 1)	9,287.67	–
Ronny Pecik 4)	19,643.84	2,700.00
Stefan Pinter	5,753.42	1,800.00
Harald Stöber 5)	5,301.37	–
Oscar Von Hauske Solís	15,000.00	3,900.00
Walter Hotz	–	3,300.00
Silvia Bauer	–	2,400.00
Werner Luksch	–	2,100.00
Alexander Sollak	–	3,300.00
Gottfried Kehrer	–	1,800.00

Name	Supervisory Board remuneration awarded for 2013 and paid in 2015, pro rata in EUR
Edith Hlawati 6)	9,184.93
Wilfried Stadler 6)	6,123.29
Franz Geiger 6)	6,123.29

1) Left Supervisory Board on 14 August 2014; Supervisory Board remuneration for the work as a member of the Supervisory Board for the period from 1 January 2014 to 14 August 2014.

2) Supervisory Board remuneration and attendance fees were paid to ÖBIB (formerly ÖIAG).

3) Left Supervisory Board on 27 May 2015. The reported remuneration relates to the remuneration awarded for 2014 and paid in 2015.

4) Supervisory Board remuneration for the position of Vice Chairman from 1 January 2014 to 14 August 2014 and remuneration as a member of the Supervisory Board from 15 August 2014 to 31 December 2014.

5) Supervisory Board remuneration for the period from 1 January 2014 to 9 May 2014 (passed away on 9 May 2014).

6) Left Supervisory Board on 29 May 2013; Supervisory Board remuneration for the work as a member of the Supervisory Board for the period from 1 January 2013 to 29 May 2013.

other members for the 2014 financial year. The amount of remuneration was therefore unchanged from the previous year. Remuneration for the Supervisory Board for 2014 was paid out following the approval of the actions of the Supervisory Board members by the Annual General Meeting in May 2015. Until further notice the attendance fee for meetings of the Supervisory Board is EUR 300 per member and meeting. Total remuneration including attendance fees of EUR 0.235 mn was paid to members of the Supervisory Board in the 2015 financial year (2014: EUR 0.212 mn). In addition, the members of the Supervisory Board are reimbursed for expenses actually incurred for travel and accommodation in connection with Supervisory Board meetings. This applies in particular to members of the Supervisory Board travelling from abroad.

The members of the Supervisory Board are included in the D&O insurance policy taken out and paid for by Telekom Austria AG; there was also criminal defence insurance for administrative offences or violations of criminal law in 2015.

In the year under review no member of the Supervisory Board personally attended fewer than 50% of the Supervisory Board meetings.

Information concerning the working methods of the Management Board and the Supervisory Board

The Telekom Austria Group complies with established principles to ensure sustainable, value-enhancing corporate development and is committed to the principles of transparency and a policy of open communication. The Group-wide areas of competence and responsibility are clearly regulated by the Articles of Association of Telekom Austria AG and the relevant statutory provisions. In addition, the duties, responsibilities and working methods are also described in greater detail in the Rules of Procedure for the Management Board and the Supervisory Board.

The Management Board defines the strategic focus of the Group in consultation with the Supervisory Board and provides the latter with regular reports on the company's current situation including its risk situation. Furthermore, the Supervisory Board is authorised to demand reports from the Management Board at any time on matters concerning the Telekom Austria Group.

The Supervisory Board has set up three committees, which provide effective support by carrying out preparatory work on selected tasks and issues on behalf of the Supervisory Board.

As of the end of 2015 the **Remuneration Committee** consisted of Wolfgang Ruttenstorfer (Chairman since 27 May 2015; previously Rudolf Kemler, Chairman until 27 May 2015), Carlos García Moreno (Vice Chairman) and Oscar Von Hauske Solís. This committee is responsible for regulating relationships between the company and the members of the Management Board, including granting approval for additional occupation. Resolutions concerning the appointment of Management Board members (or revocation thereof) and granting stock options in the company are resolved by the Supervisory Board as a whole. In this context there were three committee meetings in 2015.

In line with the statutory provisions, in four committee meetings the **Audit Committee** primarily dealt with the audit of and preparation for the adoption of the Annual Financial Statements, the audit of the Consolidated Financial Statements, the proposal for the distribution of profit, the Management Report, the Group Management Report and the Corporate Governance Report. High priority was also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. Furthermore, it prepares the selection of the auditor and checks the independence of the auditor of the Annual and Consolidated Financial Statements, particularly with regard to the performance of additional services. As of the end of 2015 the Audit Committee consisted of Carlos García Moreno as its Chairman, Ronny Pecik as its financial expert, Elisabetta Castiglioni, Carlos Jarque, Wolfgang Ruttenstorfer (since 27 May 2015, previously Rudolf Kemler), Oscar Von Hauske Solís and Silvia Bauer, Walter Hotz and Alexander Sollak (latter three as employee representatives).

The **Staff and Nomination Committee** submits proposals to the Supervisory Board for appointments to positions on the Management Board that have become vacant and also deals with questions of succession planning. Its members are Oscar Von Hauske Solís, Alejandro Cantú, Carlos García Moreno, Wolfgang Ruttenstorfer (since 27 May 2015, previously Rudolf Kemler), Ronny Pecik and Walter Hotz, Werner Luksch and Alexander Sollak. In its three meetings the Staff and Nomination Committee drew up recommendations for the Supervisory Board. These concerned ending the term of office of and employment relationship with Günther Ottendorfer in March 2015 and appointing Alejandro Plater as COO, also in March 2015. In addition, the extension of Siegfried Mayrhofer's contract as CFO was prepared in spring 2015. In July 2015, this committee dealt with ending the term of office of and employment relationship with Hannes Ametsreiter and appointing Alejandro Plater as Chairman of the Management Board (CEO) and COO.

In the 2015 financial year the Supervisory Board dealt in depth with the strategic orientation of the Telekom Austria Group and its business performance in six meetings of the

Supervisory Board and several committee meetings. The main activities of the Supervisory Board in 2015 are compiled in the Supervisory Board's report to the Annual General Meeting, which will be published on the company's website within the required timeline.

Measures to support women

On the Telekom Austria AG Supervisory Board, two of the ten shareholder representatives and one of the five members of the Staff Council are women. There are no women on the Management Board of Telekom Austria AG.

At the subsidiaries of the Telekom Austria Group, five management positions (out of a total of 18) and two Supervisory Board positions are held by women.

The Telekom Austria Group has made a voluntary commitment to gradually increase the proportion of women in managerial positions to 35% by the end of 2015. As of the end of 2015, the Group-wide ratio of women in management positions was 35%, and the overall ratio of women at the company was 38%. In order to pursue the objectives of the plan for the advancement of women in a more systematic way, the Group is aiming to increase the ratio of women in management positions in 2016 by pressing ahead with shared leadership and part-time management, increasing the ratio of women in graduate and talent management programmes, and specifically targeting women in the recruitment process. In addition, the company promotes a good work-life balance by means of flexible working time models, childcare initiatives, paternity leave and a baby month. It also provides an expanded range of information for managers and employees and offers support within its own women's network.

Directors and officers (D&O) insurance

The Telekom Austria Group has concluded a directors and officers (D&O) insurance policy for the members of the Group's Management Board, executives and the members of the Supervisory Board. It also pays the associated costs.

Auditor

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. has credibly demonstrated its impartiality to the Audit Committee of the Supervisory Board, in particular regarding reporting in accordance with section 270 (1a) of the Austrian Business Enterprise Code ('UGB'). A detailed analysis by the Audit Committee revealed no legal obstacle to the appointment of Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. The Annual General Meeting on 27 May 2015 appointed Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as the auditor of the Annual and Consolidated Financial Statements for the 2015 financial year.

Report by Group Internal Audit and risk management

Group Internal Audit is established as a staff unit of the CFO of Telekom Austria AG with a duty to report to the entire Management Board. There are also local Internal Audit units at all material operating subsidiaries of Telekom Austria AG which report to Group Internal Audit.

All companies, divisions and processes fall within the audit purview of Group Internal Audit without restriction. The associated rights and duties, in addition to the regulations for audit activities, are set out in a Group Internal Audit Charter.

Group Internal Audit performs independent and objective audits throughout the entire Group and reports to the Management Board of Telekom Austria AG. Audit subjects are specified as part of an annual audit plan, which is prepared according to risk criteria, and supplemented by ad hoc audit orders as required. After an initial joint evaluation by Group Compliance, reports received via the 'tell.me' whistleblowing system are examined by Internal Audit.

In accordance with C Rule 18 of the Austrian Corporate Governance Code, the head of Group Internal Audit reports to the Audit Committee of the Supervisory Board on the annual audit plan in addition to an annual report on the audits performed and its material findings. Furthermore, significant issues as well as whistleblowing information from the 'tell.me' system are reported to the Audit Committee of the Supervisory Board by Group Internal Audit on an intra-year basis where necessary.

The Telekom Austria Group's risk management system, which the auditor has reported on to the Audit Committee, enables the Group-wide, structured identification, assessment and processing of risks on the basis of a defined risk policy in addition to strategic and operational objectives. The Audit Committee monitors the functionality and suitability of risk management and the effectiveness of the internal control system.

The internal control system of the Telekom Austria Group serves to ensure the effectiveness and profitability of business activities, the integrity and reliability of financial reporting and compliance with all relevant laws and regulations. In addition, Telekom Austria AG implemented an internal control system in accordance with the US Sarbanes-Oxley Act (SOX) in the 2015 financial year. To prevent the passing on or misuse of confidential information that might affect the share price, a Group-wide capital market compliance guideline has been implemented and classified units have been defined within the company.

The Telekom Austria Group has also implemented a Group-wide information security policy that governs the use of confidential information such as customer data, traffic data, content data and business and trade secrets. This policy is supplemented by country-specific guidelines at a local level. Information security and data protection managers have been appointed at all Group subsidiaries. Regular internal and external audits in addition to staff training ensure the effective implementation of this corporate policy. Since 2005 A1 has been the first network operator in Austria to be certified according to the ISO 27001 standard. It was followed by Vipnet in 2007 and Mobiltel in 2012. The processes stipulated by this standard ensure the highest possible level of data security within the company. Furthermore, since 2014 A1 has also complied with the ISAE 3402 Type II standard, which attests to an effective internal control system for accounting and IT services.

Certified Compliance Management System of the Telekom Austria Group

In recent years the Management Board of Telekom Austria AG has taken numerous measures to comprehensively develop the Group-wide compliance management system. The compliance management system of the Telekom Austria Group was audited according to the German audit standard IDW PS 980 in 2013. The audit and consulting company PwC issued Telekom Austria AG with a positive audit report with no comments, i. e. no suggestions for improvement. The audit report can be found here: http://www.telekomaustria.com/en/group/compliance-management.

The Management Board is regularly informed about activities in the area of compliance management and, in particular, the measures taken to prevent corruption; the Supervisory Board is informed annually. Moreover, the Supervisory Board is informed annually about the capital market compliance activities.

Martin Walter, Group Compliance Director, reports directly to the Management Board and is independent in his work. He is supported by experts in the Group Compliance division and the local compliance managers at the subsidiaries of the Telekom Austria Group. The Telekom Austria Group today has a compliance management system which consists essentially of the core elements of prevention and reaction. The compliance measures necessary for this are firmly established in all divisions of the company.

In 2015 around 1,400 employees and managers were trained in the areas of corruption prevention and integrity, antitrust law, data protection and capital market compliance in classroom training sessions, while around 19,900 employees and managers received the same training via e-learning. The compliance helpdesk 'ask.me' is available to employees to answer any questions. 'ask.me' handled around 250 questions in 2015.

In 2012 the Telekom Austria Group established the whistleblowing platform ('tell.me') to enable employees and third parties to inform anonymously about cases of potential misconduct. Around 50% of the approximately 40 tips received in 2015 were substantiated and investigated further. In instances where misconduct was found to have occurred, consequences extended from individual training to the termination of employment, depending on the extent of the transgression.

Vienna, 25 January 2016

The Management Board

Alejandro Plater	Siegfried Mayrhofer
CEO and COO	CFO

Group Management Report

audited pursuant to section 269 of the Austrian Business Enterprise Code ('UGB')

The Group Management Report and the Consolidated Financial Statements are a translation from the original German versions, which are solely valid.

General economic environment[1)]

In 2015, economic recovery continued in industrialised countries while there was a decline in momentum in developing and emerging countries. This was driven by falling commodity prices and the slowdown of economic growth in China to less than 7%. In autumn, the International Monetary Fund (IMF) decreased its forecast for global economic growth in 2015 to 3.1%, 0.2 percentage points below the figure anticipated in July 2015. IMF experts are currently anticipating a growth of 3.6% in 2016 despite the increased risk of a slowdown.

In a forecast published at the beginning of November in the year under review, the European Commission estimated that economic growth in the European Union would be 1.9% in 2015. In 2016, growth is set to increase to 2.0%. In 2015, the Austrian economy saw growth of 0.6%. In Bulgaria, the increase in GDP is estimated at 1.7% in 2015. In Croatia, the economy is set to develop by another 1.1% in the same period after several years of decline. In contrast, a drop in economic output of 3.6% has been anticipated for Belarus. This was driven by the recession in Russia. In 2015, the economy grew by 2.6% and 3.2% in Slovenia and the Republic of Macedonia respectively based on European Commission estimates. GDP growth of 0.7% in 2015 was anticipated for the Republic of Serbia.

The European Central Bank (ECB) continued with its policy of monetary easing using its bond buying programme in the year under review. Within the framework of this programme launched in March 2015, the ECB is expected to buy securities in the amount of EUR 60 bn per month until at least March 2017. Meanwhile, the Federal Reserve increased its key interest rate for the first time since 2006 from 0.00–0.25% to 0.25–0.5% in December 2015.

Industry trends and competition

The business performance of the Telekom Austria Group is significantly influenced by a number of external factors. In 2015, the market environment on both the fixed-line and the mobile communications market proved to be highly competitive once again, particularly on mature markets. This was also the case in the no-frills segment, not least as a result of the emergence of additional mobile virtual network operators (MVNOs). This led to sustained pressure on prices. Regulatory provisions continued to negatively impact revenues and earnings. This includes the threefold increase in frequency usage fees in Croatia in addition to the provisions on termination rates and roaming tariffs in mobile communications. Meanwhile, the uncertain political and economic situation in the CEE region affected consumer behaviour in many countries despite signs of a slight recovery. The Telekom Austria Group counters these factors through the systematic implementation of its convergence strategy, a clear focus on high-value customers, innovative products and services as well as strict cost management.

In Austria, the Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed-line and mobile communications solutions under its A1 brand. The latest market report issued by the regulatory authority, which tracked the most recent market data in Austria up to the first half of 2015, underlines the high degree of maturity of the Austrian market and describes the following average trends across all operators:[2)]

- Average revenues generated per mobile customer increased in the first half year from EUR 14.1 to EUR 14.5, while end customer revenues also rose by 1.8% year-on-year. While the number of voice minutes fell slightly by 1.7% compared with the first half of 2014 and the number of text messages saw a further significant downturn of 17.2%, data volume enjoyed

DEVELOPMENT OF REAL GDP IN THE MARKETS OF TELEKOM AUSTRIA GROUP

in %

	2014	2015e	2016e
Austria	0.4	0.6	1.5
Bulgaria	1.5	1.7	1.5
Croatia	–0.4	1.1	1.4
Belarus	1.6	–3.6	–2.2
Slovenia	3.0	2.6	1.9
Republic of Serbia	–1.8	0.7	1.4
Republic of Macedonia	3.8	3.2	3.5

Source: IMF for Belarus; European Commission for all other countries significant growth once again, rising by 71.3%. As previously, the strongest stimulus for this trend came from smartphone users, where an increase by 5.7% to more than 3.6 million users was recorded.

- On the Austrian fixed-line market, the trend of fixed to mobile substitution continued in the year under review — the number of fixed access lines decreased by 2.7% against the previous year. The share of total voice minutes attributable to fixed lines shrunk further from 14.2% in the first half of 2014 to 13.1% in the first half of 2015. Average voice revenues per month in the fixed-line segment also remained on a downward trend, declining by 10.3% for private customers and 7.5% for business customers. The strong demand for broadband solutions continued in 2015 and resulted in an overall rise by 4.0% to over 8 million broadband connections. Fixed-line broadband grew by 5.3%, while mobile broadband remained stable.

According to Statistik Austria, the share of Austrian households with internet access rose from 81% to 82%. Broadband lines in private households increased to 81%, while lines at companies remained stable at 96%.[3] While the above-mentioned indicators collectively suggest increased use of telecommunications solutions, telecommunications spending as a percentage of users' average income is generally declining at the same time. The information and communications technology (ICT) price basket tends to confirm this, which is published regularly by the International Telecommunication Union (ITU). It calculates spending on the basis of a defined basket of products comprising fixed-line telephony, mobile telephony and fixed broadband services as a percentage of average gross national income per capita. The index value for Austria declined from 1.1% in 2008 to 0.5% in 2013. In 2014, the year of the most recent report, a slight increase to 0.6% was reported.[4]

ICT SPENDING ON MARKETS OF THE TELEKOM AUSTRIA GROUP

in % of gross national income per capita

	2013	2014
Austria	0.5	0.6
Bulgaria	3.2	3.0
Croatia	1.5	1.7
Belarus	1.0	1.0
Slovenia	1.2	1.2
Republic of Serbia	2.8	2.6
Republic of Macedonia	2.7	2.8

In Bulgaria, the high level of competitive intensity and the difficult market environment continued to have a severe influence on pricing for mobile communications services as well as convergent product packages in the year under review. In 2015, the internet penetration rate across all households increased from 56.7% to 59.1% year-on-year, with mobile broadband currently being used by 38.7% of all users.[5]

The Croatian ICT market revealed a slight downturn in competitive intensity towards the end of the year under review. In addition, the economic situation started to recover overall. Against this backdrop, the number of mobile customers remained almost stable at the end of the third quarter of 2015 as against the previous year. Broadband penetration in the fixed-line business amounted to 22.7% in the third quarter of 2015.[6]

In Belarus, the ICT market has developed strongly in recent years, which has led to a steady increase in the number of internet customers and the number of mobile telephone users. The proportion of households with internet access also rose steadily, amounting to 57.1% at the end of 2014.[7]

In the Additional Markets segment of the Telekom Austria Group, Slovenia had the most developed ICT market, with an internet penetration rate of 77.6% in the year under review. According to official statistics, a further increase in mobile voice minutes was reported in Slovenia while voice minutes attributable to fixed lines significantly decreased in 2015.[8]

1) Sources: GDP for World and Belarus: IMF http://www.imf.org/external/pubs/ft/weo/2015/02/pdf/text.pdf, dated October 2015, pages 2, 35; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Macedonia and Republic of Serbia: http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip011_en.pdf, dated 5 November 2015, pages 22, 71, 89, 107, 115, 127 and 131
2) https://www.rtr.at/de/inf/TK_Monitor_4_2015/TM4_2015.pdf; pages 12, 17, 18, 19, 34, 48, 53, 55, 66 (Telekom Austria Group calculation)
3) http://www.statistik.at/web_de/statistiken/informationsgesellschaft/index.html
4) http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2009/MIS2009_w5.pdf; page 56; http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2014/MIS2014_without_Annex_4.pdf; pages 166-167; http://www.itu.int/en/ITU-D/Statistics/Documents/publications/misr2015/MISR2015-w5.pdf; page 140
5) http://www.nsi.bg/en/content/6099/households-who-have-internet-access-home
6) http://www.hakom.hr/UserDocsImages/2015/e_trziste/KVA%20ENG%203Q%202015%20Share%20of%20prepaid%20and%20postpaid%20subscribers_Mobile.pdf; http://www.hakom.hr/UserDocsImages/2015/e_trziste/KVA%20ENG%20Q3%202015%20Fixed%20broadband%20penetration.pdf
7) http://belstat.gov.by/en/ofitsialnaya-statistika/otrasli-statistiki/transport-i-svyaz/osnovnye-pokazateli-za-period-s-1995-po-2010-gody/main-indicators-of-general-use-communications-development/; http://belstat.gov.by/en/bgd/katalog-publikatsii/public_compilation/index_219/; page 351
8) http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre_Repozitorij/&lang=1; http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H083E&ti=&path=../Database/Hitre_Repozitorij/&lang=1

In the Republic of Serbia, the catch-up process on internet access continued, starting from a far lower level than on the other markets of the Telekom Austria Group. Overall, 63.8% of all households already had internet access in 2015. Meanwhile, 90.3% of all Serbian households also own mobile telephones and 64.4% have a computer.[9)]

According to the Statistical Office of the Republic of Macedonia, 69.4% of all Macedonian households had internet access in the first quarter of 2015, with broadband connections accounting for 99.5% of this figure. 71.2% of people with internet access used a mobile device to access the web.[10)]

Regulation

As the market leader, A1 Telekom Austria AG is classified as a provider with substantial market power in Austria and is therefore subject to the corresponding regulatory measures. These include extensive network access and price regulations. The international subsidiaries of the Telekom Austria Group are also subject to far-reaching regulatory provisions on their respective national markets. The relevant regulation for A1 Telekom Austria AG in the fixed-line network applies at retail and wholesale levels. This includes access obligations to give alternative providers access to infrastructure and services. However, decisions on regulation are made not just at a national level, but are also being made at a European level. For example, this is the case for the European Commission roaming regulations, which apply equally to all EU member states.

Fixed-line telecommunication markets

In the spring of 2015, the Austrian regulatory authority initiated the fifth round of the statutory market review process. It is oriented towards the European Commission's new 'markets recommendation' of October 2014. Initial decisions on the markets to be examined are not being expected before the end of the first quarter of 2016. In previous decisions on regulations, the authorities particularly aimed at reducing fixed-line and mobile termination rates to a comparable and significantly lower level throughout the EU in line with the European Commission's draft recommendation pertaining to these termination rates. In connection with the new market analysis, the first decisions on fixed-line and mobile origination were published on 22 December 2015. This provided for the abolition of price regulations on incoming calls in mobile and fixed-line from countries outside the European Economic Area (EEA). This follows the example of several EU member states that allow national operators to freely negotiate termination rates if underlying calls come from non-EEA countries. There is a considerable imbalance in fees here, resulting in a net cash outflow from EU countries with stricter price regulations to third countries.

As part of the network expansion towards next generation access (NGA), A1 Telekom Austria AG focuses on an innovative wholesale product: virtual unbundled local access (VULA). Meanwhile, the pioneers in this area, A1 Telekom Austria AG and British Telecommunications plc, have already set a precedent and many European operators are now offering similar wholesale products. The VULA product has been confirmed by both the national regulatory authority and the European Commission as a central wholesale product for NGA expansion. The requirements of the latest rulings on the wholesale markets 'Physical access' and 'Wholesale broadband' are also formulated accordingly. The purpose of the product is to fulfil the open access obligation in connection with sponsored expansion projects. It will also be used in the expansion of broadband using vectoring technology.

Mobile telecommunications markets

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

After two years of negotiations, the new regulation on network neutrality and roaming ('Connected Continent' or the 'Telecom Single Market' package) was confirmed in the plenary session of the European Parliament in October 2015. In accordance with the regulation, internet access service providers will be obliged to treat data traffic overall in an equal manner, regardless of the transmitter, receiver, application or terminal in question. In addition to internet access services, specialised services could also be offered although this has certain limitations.

As far as roaming in EU member states is concerned, the abolition of retail roaming surcharges as of 15 June 2017 was resolved. From 30 April 2016 to 14 June 2017, there will be a transition period in which network operators will be able to apply roaming surcharges in the amount of wholesale caps in addition to domestic prices. An implementing regulation to be adopted by 15 December 2016

9) http://webrzs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indId%3d270101IND01%2662%3d1%2c2%2c3%2c4%2c5%2635%3d6%262%3d%23All%231%26sAreaId%3d270101%26dType%3dName%26lType%3dEnglish; http://webrzs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indId%3d270102IND01%2c270102IND02%2c270102IND03%262%3d201500%2635%3d6%26sAreaId%3d270102%26dType%3dName%26lType%3dEnglish

10) http://www.stat.gov.mk/PrikaziSoopstenie_en.aspx?rbrtxt=77

GLIDEPATHS FOR MOBILE TERMINATION RATES

	Jan 14	Jul 14	Sep 14	Jan 15	Jul 15	Jan 16
Austria (EUR)	0.008049	0.008049	0.008049	0.008049	0.008049	0.008049
Bulgaria (BGN)	0.02	0.02	0.02	0.019	0.019	0.019
Croatia (HRK)	0.1282*	0.1282*	0.1282*	0.063*	0.063*	0.063*1)
Belarus (BYR)	180/90**	180/90**	180/90**	180/90**	180/90**	180/90**
Slovenia (EUR)	0.0324	0.0324	0.0114	0.0114	0.0114	0.0114
Republic of Serbia (RSD)	3.95	3.95	3.95	3.43	3.43	3.43 1)
Republic of Macedonia (MKD)	1.20	1.20	0.90	0.90	0.90	0.90

* National MTRs stated. International MTRs differ.

** Belarus values: peak times/off-peak times — the medium weighted MTR value amounts to BYR 150 per minute.

1) National regulatory authority currently reviews wholesale markets and cost accounting models. Outcome of analysis/proceedings can lead to MTR reductions in the first quarter of 2016.

at the latest is set to determine so-called ‘fair use’ borders to prevent improper or abnormal use. The named provisions will apply to the mobile communications companies of the Telekom Austria Group in EEA member states Austria, Bulgaria, Croatia and Slovenia and have a negative impact on future roaming revenues. However, the regulation lacks elements both in terms of network neutrality and roaming details and leaves room for interpretation.

In the year under review, the Group’s international subsidiaries acquired additional frequency rights for a total of EUR 29.9 mn. In November 2015 frequencies in the 800 MHz frequency band were acquired in the Republic of Serbia for EUR 35.0 mn, which were payable in January 2016. In 2016, further spectrum prolongations and auction processes will take place in the markets of the Telekom Austria Group (see chapter Outlook 2016 for more details).

Information on financial reporting

The Telekom Austria Group reports on five business segments: Austria, Bulgaria, Croatia, Belarus and Additional Markets. The segment Corporate & Other performs strategic and management functions for all segments in addition to financing agendas.

The Telekom Austria Group reports the financial performance indicators EBITDA comparable and EBITDA including effects from restructuring and impairment tests to present the operational development of individual business units transparently. EBITDA is defined as the net result excluding financial result, income tax, depreciation and amortisation. EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring programme and, where applicable, of impairment charges as well as for income from the reversal of impairment losses.

EU ROAMING GLIDEPATH

Retail (in EURc)	Jul 14	30 Apr 2016	15 Jul 2017
Data (per MB)	20	domestic tariff + 5*	domestic tariff
Voice-calls made (per minute)	19	domestic tariff + 5*	domestic tariff
Voice-calls received (per minute)	5	weighted average MTR*	domestic tariff
SMS (per SMS)	6	domestic tariff + 2*	domestic tariff

Wholesale (in EURc)	Jul 14	30 Apr 2016	15 Jul 2017
Data (per MB)	5	5	?**
Voice (per minute)	5	5	?**
SMS (per SMS)	2	2	?**

* Sum of the domestic retail price and any surcharge applied for regulated roaming calls made, regulated roaming SMS messages sent or regulated data roaming services shall 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 shall not exceed the weighted average of mobile termination rates across the Union.

** Upon entry into force of the new regulation, the Commission shall initiate a review of the wholesale roaming market with a view to assessing measures necessary to enable abolition of retail roaming surcharges.

KEY FINANCIALS

in EUR million

	2015	2014	Change in %
Revenues	4,026.6	4,018.0	0.2
EBITDA comparable	1,372.6	1,286.1	6.7
EBITDA comparable margin	34.1%	32.0%	–
EBITDA incl. effects from restructuring and impairment tests	1,372.2	850.8	61.3
Operating income	574.0	–3.0	n. m.
Net result	392.8	–185.4	n. m.
Earnings per share (in EUR)	0.55	–0.46	n. m.
Free cash flow per share (in EUR)	0.53	0.34	57.9
Capital expenditure*	780.0	757.4	3.0
Net debt	2,676.4	2,693.3	–0.6

* Excluding capital expenditure arising from asset retirement obligations

EXPENSES

in EUR million

	2015	2014	Change in %
Material expenses	518.6	497.3	4.3
Employee costs	853.2	876.4	–2.6
Other operating expenses	1,408.4	1,477.1	–4.7
Restructuring charges	0.4	89.6	–99.6
Impairment charges	0.0	345.7	n. m.
Depreciation and amortisation	798.2	853.8	–6.5

The restructuring programme includes social plans for employees in Austria whose employment contracts are being terminated in a socially responsible manner and future expenses for civil servants who no longer provide services to the Telekom Austria Group, but whose employment contracts cannot be terminated due to their civil servant status. Restructuring expenses also take into account expenses for the transfer of civil servants to the Austrian government.

The use of automated calculation systems when adding up rounded figures can give rise to rounding differences.

Application of IAS 29 'Financial Reporting in Hyperinflationary Economies'

Following the classification of Belarus as a hyperinflationary economy, hyperinflationary accounting according to IAS 29 was applied to the financial statements of the Belarusian segment from 2011 to 2014 (see Notes (1) and (3) to the Consolidated Financial Statements).

Revenue and earnings development

In the 2015 financial year, the Telekom Austria Group focused once again on counteracting competitive price pressure and regulatory intervention through a clear value focus and strict cost management. In addition to the operational development the Telekom Austria Group strengthened its position with M&A activities. The following transactions are highlighted:

- The acquisition of the fixed-line reseller Amis in Slovenia and in Croatia, consolidated as of 1 September 2015
- The acquisition of the fixed-line operator Blizoo in Bulgaria, consolidated as of 1 October 2015
- The merger of Vip operator in the Republic of Macedonia with the 3rd operator in the country, ONE, consolidated as of 1 October 2015

For further details on purchasing prices and cash outflow see Note (2) to the Consolidated Financial Statements.

Additionally, the performance in 2015 compared to the previous year was impacted by the following extraordinary effects:

- EUR 28.2 mn negative extraordinary revenue effects in Austria in Q2 2014: Introduction of new fixed-line billing system interface
- EUR 10.5 mn positive extraordinary revenue effects in Austria in Q4 2015: Reversal of accruals
- EUR 26.8 mn positive one-off effect in the other operating income in Q3 2014: Merger of mobilkom liechtenstein with Telecom Liechtenstein
- EUR 30.0 mn positive extraordinary effect in the other operating income of Slovenia in Q1 2015 (EUR 20.0 mn) and in Q4 2015 (EUR 10.0 mn): Agreement on settling mutual relations and business collaboration with Telekom Slovenije
- EUR 30.1 mn negative extraordinary effect in operating expenses in Austria in Q4 2014: Provision for potential subsequent payments for civil servants
- Negative FX effects on revenues of EUR 80.7 mn and EBITDA comparable of EUR 38.8 mn in 2015, with EUR 75.3 mn and EUR 37.7 mn respectively stemming from Belarus

In Austria, new mobile virtual network operators (MVNOs) entering the market increased competitive pressure, particularly in the no-frills and SIM-only segments. To secure the premium customer business, the subsidy level was again raised significantly and tariffs for existing and new customers were enriched to include additional data volumes and bandwidths in 2015. In its fixed-line business, the company also focused increasingly on the development of broadband capacities and services in the year under review, with the aim of meeting the rising demand for data. To this end, management plans to invest around EUR 400 mn for the accelerated fibre rollout in Austria until 2018 in addition to regular capital expenditure. This plan is subject to the announced government broadband subsidy programme as well as annual budget approvals by the Supervisory Board. In 2015 the rollout concentrated on not subsidised projects as the broadband subsidy programme was not approved until 22 December 2015.

In 2015, the Bulgarian segment continued to suffer from strong macroeconomic pressure and intense competition on the mobile market, particularly affecting the business segment. Mobiltel continued its focus on value-based management and greater efforts to retain high-value customers. In addition, the convergent basis was strengthened with the acquisition of Blizoo, the second-largest fixed-line operator, on 1 October 2015. In 2015, after years of recession, there were again signs of a slight recovery in Croatia's economic environment. Furthermore, the intensity of the competitive situation has somewhat diminished in the country. Since Croatia's accession to the EU in July 2013, regulatory cuts and the threefold increase in frequency usage fees in July 2014 have had a negative impact on profitability. In contrast, mobile tariffs introduced at the end of March 2015, focusing on LTE and data monetisation, had a positive influence on revenues in the year under review. Healthy growth in the fixed-line business also continued in 2015.

In the year under review, the macroeconomic environment in Belarus significantly deteriorated due to the recession in Russia. Nevertheless, velcom showed strong operating results driven by the ongoing strong demand for smartphone tariffs and higher data volumes. The prevailing high exchange rate risk became visible again in the form of a devaluation of the Belarusian Rouble, particularly in January and August 2015. In the year under review, the Additional Markets segment was shaped by the takeover of the fixed-line reseller Amis in Slovenia on 1 September 2015 and the merger of Vip operator with ONE in the Republic of Macedonia on 1 October 2015. In the Republic of Serbia, revenues were negatively impacted by a changed distribution model which led to a different accounting treatment.

In mobile communications, the Telekom Austria Group saw growth of 3.5% to approximately 20.7 million customers in the year under review. The Republic of Macedonia enjoyed the strongest growth thanks to the merger with ONE, contributing approximately 590,000 customers. In Austria and in Slovenia, the mobile subscriber base rose by 30,600 and 27,000 customers respectively. The number of customers also rose by 14,700 in Bulgaria. In the Republic of Serbia, Vip mobile lost 50,200 mobile customers, particularly in the prepaid segment. In the fixed-line business, the company gained around 645,000 access lines at Group level, corresponding to growth of 23.7% to around 3.4 mn access lines. This growth mainly resulted from the acquisition of Blizoo in Bulgaria with approximately 378,000 customers as well as Amis in Slovenia and Croatia with approximately 90,000 customers. Furthermore, the number of fixed access lines rose as a result of the merger of Vip operator with ONE in the Republic of Macedonia as well as the demand for broadband services in Austria.

As a result of the developments described above, the Telekom Austria Group experienced a slight growth in revenues of 0.2% to EUR 4,026.6 mn in 2015. Higher revenues in the Austrian and Additional Markets segments were offset by declines in Bulgaria, Croatia and Belarus. Adjusted for the above-mentioned extraordinary as well as FX effects, revenues rose by 1.3% compared with the previous year.

The Telekom Austria Group continued to focus on the ongoing optimisation of operating efficiency and strict cost management in 2015. In addition to lower employee expenses the decline in interconnection costs as well as costs for support services were the main factors in the reduction in operating expenses by 2.5% to EUR 2,780.3 mn. In the year-on-year comparison employee expenses benefited from the negative one-off effect from the previous year. The organisational consolidation of Croatia and the Republic of Macedonia as well as Slovenia and the Republic of Serbia into management clusters is expected to lead to additional savings, for instance in human resources, IT, market activities and investments.

KEY PERFORMANCE INDICATORS TELEKOM AUSTRIA GROUP

in EUR million

Revenues	2015	2014	Change in %
Austria	2,526.7	2,472.0	2.2
Bulgaria	364.7	371.3	–1.8
Croatia	371.3	378.2	–1.8
Belarus	327.1	355.0	–7.9
Additional Markets	481.4	481.1	0.1
Corporate & Other, Eliminations*	–44.6	–39.6	n. m.
Total	**4,026.6**	**4,018.0**	**0.2**

EBITDA comparable	2015	2014	Change in %
Austria	886.3	755.4	17.3
Bulgaria	132.8	143.1	–7.2
Croatia	83.0	84.3	–1.5
Belarus	163.6	172.4	–5.1
Additional Markets	138.2	137.0	0.9
Corporate & Other, Eliminations*	–31.3	–6.0	n. m.
Total	**1,372.6**	**1,286.1**	**6.7**

EBITDA incl. effects from restructuring and impairment tests	2015	2014	Change in %
Austria	885.9	665.8	33.1
Bulgaria	132.8	–197.5	n. m.
Croatia	83.0	84.3	–1.5
Belarus	163.6	172.4	–5.1
Additional Markets	138.2	131.9	4.8
Corporate & Other, Eliminations*	–31.3	–6.0	n. m.
Total	**1,372.2**	**850.8**	**61.3**

Operating income	2015	2014	Change in %
Austria	418.1	157.2	166.0
Bulgaria	42.1	–284.9	n. m.
Croatia	13.1	15.9	–17.5
Belarus	86.6	82.2	5.4
Additional Markets	45.4	31.8	42.5
Corporate & Other, Eliminations*	–31.3	–5.2	n. m.
Total	**574.0**	**–3.0**	**n. m.**

* For details of the content and composition of the reconciliation item, please refer to the report on the Group's operating segments in the Notes to the Consolidated Financial Statements.

In 2015, other operating income climbed by 6.1% to EUR 126.3 mn influenced by the positive extraordinary effects described above.

EBITDA comparable grew by 6.7% to EUR 1,372.6 mn in the financial year 2015, largely as a result of the considerable decline in operating expenses. The Austrian and Additional Markets segments saw growth in EBITDA comparable of 17.3% and 0.9% respectively, thereby more than offsetting declines of 7.2%, 1.5% and 5.1% in the Bulgarian, Croatian and Belarusian segments. Adjusted for the above-mentioned extraordinary as well as FX effects EBITDA comparable rose year-on-year by 4.0%. All in all, the EBITDA comparable margin improved from 32.0% in the previous year to 34.1% in the year under review.

Restructuring expenses originating entirely from the Austrian segment amounted to EUR 0.4 mn in the year under review after EUR 89.6 mn in the previous year. These include social plans for employees exempt from work ('freigestellte Mitarbeiter') whose employment is being terminated in a socially responsible way, and expenses for the transfer of civil servants to the government. Restructuring expenses include a positive one-off effect in the amount of EUR 21.6 mn in Q4 2015 stemming from a settlement. The strong decline in the year-on-year comparison was also driven by a negative one-off in the amount of EUR 15.0 mn in 2014, which stemmed from a provision for payments to civil servants.

COMPANY KEY FIGURES

	2015	2014	Change in %
Earnings per share (in EUR)	0.55	–0.46	n. m.
Dividend per share (in EUR)	0.05*	0.05	n. m.
Free cash flow per share (in EUR)	0.53	0.34	57.9
ROE	16.9%	–10.1%	–
ROIC	9.3%	–0.1%	–

* Proposal to the 2015 Annual General Meeting, which will take place on 25 May 2016.

In 2014, there were also impairment charges in the Bulgarian segment and the Republic of Macedonia in the amount of EUR 340.6 mn and EUR 5.1 mn respectively.

Largely as a result of these effects, EBITDA including the effects of restructuring and impairment tests climbed by 61.3% to EUR 1,372.2 mn. Depreciation and amortisation fell year-on-year by 6.5% to EUR 798.2 mn. Operating income soared from a negative EUR 3.0 mn in the previous year to a positive EUR 574.0 mn.

The Telekom Austria Group recorded a financial result of EUR 157.4 mn in the year under review, 13.1% lower than in the previous year. This was due mainly to a decline in the interest result by EUR 24.4 mn. This stemmed on one side from lower interest rates applied to the positions provision for restructuring and employee benefit obligation as well as the lower leverage. On the other side interest income increased year-on-year due to the higher short-term investments resulting from the capital increase in 2014. FX differences amounted to a negative EUR 2.3 mn after a negative EUR 1.9 mn in 2014.

Tax expenses rose from EUR 1.3 mn in 2014 to EUR 23.8 mn in the year under review due to the positive earnings before taxes.

Overall, the Telekom Austria Group reported a positive net income of EUR 392.8 mn in 2015 compared with a negative EUR 185.4 mn in the previous year.

Net assets and financial position

As of 31 December 2015, the balance sheet remained almost stable at EUR 8,304.5 mn compared with the previous year.

Current assets declined by 6.9% to EUR 1,905.2 mn in the year under review. This was primarily due to lower cash and cash equivalents. As described in the chapter Cash flow, cash and cash equivalents decreased due to the fact that the year-on-year increase in cash flow from operating activities was more than offset by the higher outflow of cash from investing activities and financing activities. Income tax receivables also fell, which was attributable to better taxable income in Austria in particular.

BALANCE SHEET STRUCTURE

in EUR million

	31 Dec 2015	As % of the balance sheet total	31 Dec 2014	As % of the balance sheet total
Current assets	1,905.2	22.9	2,047.3	24.6
Property, plant and equipment	2,357.4	28.4	2,246.1	27.0
Goodwill	1,229.7	14.8	1,189.5	14.3
Other intangible assets	2,507.9	30.2	2,570.1	30.9
Other assets	304.4	3.7	263.4	3.2
ASSETS	**8,304.5**	**100.0**	**8,316.4**	**100.0**
Current liabilities	2,253.3	27.1	1,537.5	18.5
Long-term debt	2,584.1	31.1	3,385.0	40.7
Employee benefit obligation	196.5	2.4	200.9	2.4
Non-current provisions	750.3	9.0	867.5	10.4
Other long-term liabilities	94.3	1.1	107.4	1.3
Stockholders' equity	2,426.0	29.2	2,218.0	26.7
LIABILITIES AND STOCKHOLDERS' EQUITY	**8,304.5**	**100.0**	**8,316.4**	**100.0**

Non-current assets climbed by 2.1% to EUR 6,399.3 mn as a result of higher property, plant and equipment as well as goodwill following acquisitions in the financial year and due to investments, primarily in the LTE and fibre rollout in Austria. These additions to tangible assets were higher than depreciation and amortisation in the year under review. This was offset by foreign exchange differences, particularly in Belarus. Because hyperinflation accounting according to IAS 29 is no longer applicable for Belarus since 1 January 2015, inflation adjustment was no longer performed for tangible assets in Belarus in the financial year.

Current liabilities increased by 46.6% to EUR 2,253.3 mn in 2015, largely as a result of the reclassification of a EUR 750 mn bond maturing on 29 January 2016 to short-term borrowings. The bond will be repaid from current cash flow. The rise in short-term borrowings was mitigated by a lower share of maturing long-term loans. Other current liabilities increased due to the liability for the outstanding purchase price amounting to EUR 100 mn for the acquisition of ONE in the Republic of Macedonia prior to the merger with Vip operator. The share purchase agreement also includes call and put options for the exit of Telekom Slovenije Group within three years of the closing of the merger. As a result of the reclassification of the bond as described above, non-current liabilities declined by 20.5% to EUR 3,625.2 mn. This decrease was intensified by lower non-current provisions due to the continued utilisation of the provision for restructuring.

Dividend payments for the 2014 reporting year, which also include the coupon payments in the amount of EUR 33.8 mn for the outstanding EUR 600 mn hybrid bond, jumped from EUR 56.0 mn in the previous year to EUR 67.1 mn in the year under review. This resulted from the jump in shares without par value as part of the capital increase in 2014 from 443,000,000 to 664,500,000 with an unchanged dividend of EUR 0.05 per share.

The rise in equity from EUR 2,218.0 mn to EUR 2,426.0 mn results from the net income for 2015 combined with retained earnings. This also entailed an increase in the equity ratio as of 31 December 2015 to 29.2% after 26.7% as of 31 December 2014.

Net debt

The Telekom Austria Group's net debt decreased slightly by 0.6% to EUR 2,676.4 mn in the year under review due to a positive cash flow development. (Details are provided in the following chapter Cash flow.) Together with the increase in EBITDA comparable, this resulted in a reduction of the net debt to EBITDA comparable ratio from 2.1× as of 31 December 2014 to 1.9× as of 31 December 2015.

Cash flow

Following a positive operating performance, gross cash flow increased by 2.6% year-on-year. The change in assets and liabilities (working capital) of EUR 149.0 mn was primarily the result of the continued utilisation of the provision for restructuring and increased receivables in Austria, the Republic of Serbia, Belarus and Croatia. There was a year-on-year decline in working capital needs, which was attributable to early payments of liabilities in the previous year and the higher rise in instalment plans for handsets in 2014. This led to a year-on-year boost in cash flow from operating activities by 19.0% to EUR 1,072.4 mn.

Cash flow from investing activities climbed from EUR 781.6 mn in the previous year to EUR 864.0 mn in the year under review, primarily driven by the acquisition of Blizoo in Bulgaria and Amis in Slovenia and Croatia. This was countered by a decline in capital expenditure on tangible assets and intangible assets in the year under review. The decline was primarily due to the fact that spectrum in the 800 MHz frequency band, that was acquired in the Republic of Serbia in November 2015, was payable only at the beginning of the year 2016.

Cash flow from financing activities fell from cash inflows of EUR 696.5 mn — including the capital increase of EUR 996.6 mn implemented in the previous year — to cash outflows of EUR 311.4 mn in the year under review.

Overall, this resulted in a decline in cash and cash equivalents by EUR 108.9 mn in the year under review compared with a rise of EUR 816.7 mn in the previous year.

NET DEBT

in EUR million

	31 Dec 2015	31 Dec 2014
Long-term debt	2,584.1	3,385.0
Short-term borrowings	1,003.8	340.8
Cash and cash equivalents, short-term investments	–911.5	–1,032.5
Derivative financial instruments for hedging purposes	0.0	0.0
Net debt Telekom Austria Group	**2,676.4**	**2,693.3**
Net debt/EBITDA comparable	1.9×	2.1×

CASH FLOW

in EUR million

	2015	2014	Change in %
Gross cash flow	1,221.3	1,190.4	2.6
Changes in assets and liabilities	–149.0	–289.0	n. m.
Cash flow generated from operations	1,072.4	901.4	19.0
Cash flow used in investing activities	–864.0	–781.6	n. m.
Cash flow generated from (used in) financing activities	–311.4	696.5	n. m.
Effects of exchange rate changes	–5.9	–0.1	n. m.
Loss of purchasing power on cash and cash equivalents	0.0	0.5	n. m.
Change in cash and cash equivalents	–108.9	816.7	n. m.

Free cash flow, which is calculated as cash flow from operating activities less capital expenditures plus proceeds from the sale of property, plant, equipment and intangible assets, rose from EUR 156.1 mn in the previous year to EUR 354.9 mn in the year under review. This was primarily due to the higher cash flow from operating activities.

Capital expenditure

In the year under review, capital expenditure rose by 3.0% to EUR 780.0 mn, which was mainly attributable to the fibre rollout in Austria in the year under review.

In 2015, tangible CAPEX rose by 16.2% to EUR 568.0 mn since declines in the Croatian segment as well as in Slovenia and the Republic of Serbia were offset by higher investments in the Austrian, Bulgarian and Belarusian segments as well as the Republic of Macedonia. The rise in tangible CAPEX in Austria was attributable to increased investments due to the fibre rollout. Due to the decline in network spending, tangible CAPEX in the Croatian segment dropped as against the previous year. The integration of ONE and Vip operator into one company, one.Vip, allowed for a jump in tangible CAPEX in the Republic of Macedonia compared to the previous year.

The significant reduction in intangible capital expenditure to EUR 212.0 mn (2014: EUR 268.8 mn) is largely due to the acquisition of mobile frequencies in Bulgaria and Slovenia in the previous year. Lower spending on IT as well as for mobile operating software led to a reduction in intangible capital expenditure in Austria. In Bulgaria, intangible capital expenditure decreased year-on-year following the prolongation of 900 MHz and 1,800 MHz frequency bands for EUR 30.6 mn in April 2014. In Croatia, intangible capital expenditure rose due to the purchase of 1,800 MHz spectrum for EUR 18.5 mn as against the previous year. In Belarus, the acquisition of frequencies in the 900 MHz spectrum in December 2015 for EUR 4.5 mn led to an increase in intangible capital expenditure. In Slovenia, intangible capital expenditure significantly declined as a result of the purchase of the mobile spectrum for EUR 63.9 mn in the previous year, while additions to intangible assets rose by EUR 6.9 mn in the Republic of Serbia as a result of the purchase of

CAPITAL EXPENDITURE

in EUR million

	2015	2014	Change in %
Tangible Austria	355.8	288.4	23.4
Tangible Bulgaria	50.3	45.3	10.9
Tangible Croatia	45.3	57.7	–21.5
Tangible Belarus	55.6	42.2	31.7
Tangible Additional Markets	63.3	55.0	15.1
Tangible Corporate & Other, Eliminations	–2.3	0.0	n. m.
Total tangible	**568.0**	**488.6**	**16.2**
Intangible Austria	96.6	110.3	–12.4
Intangible Bulgaria	24.0	57.6	–58.2
Intangible Croatia	27.1	12.2	121.8
Intangible Belarus	10.5	6.2	68.5
Intangible Additional Markets	53.8	82.5	–34.8
Intangible Corporate & Other, Eliminations	0.0	0.0	n. m.
Total intangible	**212.0**	**268.8**	**–21.1**
Total capital expenditure*	**780.0**	**757.4**	**3.0**

* Excluding capital expenditure arising from asset retirement obligations

frequencies in the 1,800 MHz spectrum in February 2015. In November 2015 additional spectrum in the 800 MHz frequency band was acquired in the amount of EUR 35.0 mn in the Republic of Serbia which was paid at the beginning of 2016.

Segment analysis

Segment Austria

In 2015, competition on the Austrian mobile communications market intensified with the entry of additional mobile virtual network operators (MVNOs) particularly in the no-frills and SIM-only business. Against this backdrop, A1 Telekom Austria AG succeeded in safeguarding the premium customer business against new competitors by means of higher handset subsidies and increased data volumes included and bandwidths. In the no-frills segment, A1 Telekom Austria AG was also able to maintain its competitiveness thanks to price adjustments next to increased data volumes included.

Convergent product bundles remained a key element of the operating strategy in 2015. In its fixed-line business, the company also focused increasingly on the development of broadband capacities and services in the year under review, with the aim of meeting the rising demand for data. Against this backdrop, A1 Telekom Austria AG started to invest even more in the accelerated rollout of the Austrian fibre network in 2015. The company plans to spend around EUR 400 mn in total between 2015 and 2018 in addition to regular capital expenditure. This plan is subject to the announced government broadband subsidy programme as well as annual budget approvals by the Supervisory Board. In 2015 the rollout concentrated on not subsidised projects as the broadband subsidy programme was not approved until 22 December 2015.

In the year under review, A1 Telekom Austria AG reported a slight rise in the number of mobile communications customers by 0.6% to around 5.5 million. This was driven by a lower churn rate and higher gross additions. Nevertheless, the market share in mobile communications fell from 41.1% in the previous year to 39.5% in the year under review. The proportion of contract customers dropped from 70.2% in the previous year to 68.3% in the year under review. The number of fixed access lines rose slightly by 3,500 lines to nearly 2.3 million lines year-on-year. Fixed broadband and A1 TV enjoyed considerable year-on-year growth of 4.4% and 7.0% to more than 1.5 million and 269,400 customers respectively. Growth in fixed broadband lines was particularly driven by the increasing demand for the 16 and 30 Mbps products. These positive developments were offset by another decline in fixed-line voice minutes by 10.0% (2014: –12.8%).

On the revenue side, the Austrian segment reported growth of 2.2% to EUR 2,526.7 mn in 2015. In the fourth quarter of 2015, the positions monthly fee and traffic revenues (in the fixed-line business) as well as wholesale (incl. roaming) included positive extraordinary effects of EUR 10.5 mn. In the second quarter of 2014, results included negative extraordinary effects in the revenue positions monthly fee and traffic revenues as well as in data and ICT solutions. There were also positive extraordinary effects in the revenue positions wholesale (incl. roaming) and other revenues. In total a negative effect of EUR 28.2 mn was booked. A revenue growth of 0.6% could be generated, also when adjusted for the extraordinary effects. The jump in gross additions in mobile communications as well as lower retention subsidies in combination with a stable number of replaced handsets led to revenue growth from the sale of handsets. Wholesale revenues also showed growth adjusted for the one-off effects, which is attributable to higher income from satellite solutions and visitor roaming revenues. The adjusted decline in monthly fee and traffic revenues and lower interconnection revenue somewhat weakened the overall increase. Lower revenues from mobile data tariffs and in the no-frills business as well as stable premium customer revenues led overall to lower ARPU relevant revenues. Declining voice minutes continued to negatively impact fixed-line revenues, but were partly compensated by gains in broadband and TV.

Average monthly revenue per mobile user (ARPU) dropped from EUR 16.2 to EUR 15.9 in the year under review. This was attributable to a change in the calculation method of ARPU as value-added services were no longer included. Given the further decline in the fixed-line voice business, which was only partially mitigated by higher revenues from broadband and A1 TV, average monthly revenue per fixed access line (ARPL) fell to EUR 29.6 in the year under review (2014: EUR 30.4). Adjusted for the above-mentioned extraordinary effect, ARPL declined by 3.2% to EUR 29.5.

As a result of a strict focus on cost efficiency operating expenses were cut by 3.9% to EUR 1,733.4 mn. Material expenses climbed following increased gross additions. Meanwhile, a positive extraordinary effect of EUR 30.1 mn in 2014 led to a year-on-year decline in employee expenses. Cost savings in marketing and sales as well as support services and lower maintenance and repair led to a further reduction in operating expenses. Roaming and interconnection expenditure also saw a decline.

Higher revenues as well as the reduction in operating expenses allowed for an increase in reported EBITDA comparable by 17.3% to EUR 886.3 mn in the year under review. Adjusted for the extraordinary effects in revenues and employee costs in the years 2014 and 2015, EBITDA comparable rose by 7.6%. The EBITDA comparable margin increased from 30.6% in the previous year to 35.1% in 2015.

In the Austrian segment, a restructuring charge of EUR 0.4 mn (2014: EUR 89.6 mn) was recognised for the 2015 reporting period. This includes social plans for employees exempt from work ('freigestellte Mitarbeiter') whose employment is being terminated in a socially responsible way, and expenses for the transfer of civil servants to the government. Q4 2015 included a positive one-off effect in the amount of EUR 21.6 mn stemming from a

KEY PERFORMANCE INDICATORS AUSTRIA

Key financials (in EUR million)	2015	2014	Change in %
Revenues	2,526.7	2,472.0	2.2
of which monthly fee and traffic	1,807.3	1,777.2	1.7
of which data and ICT solutions	225.0	220.7	1.9
of which wholesale (incl. roaming)	145.9	147.7	–1.3
of which interconnection	182.2	191.8	–5.0
of which equipment	138.7	112.9	22.8
of which other	27.7	21.6	28.4
EBITDA comparable	886.3	755.4	17.3
EBITDA comparable margin	35.1%	30.6%	–
EBITDA incl. effects from restructuring and impairment tests	885.9	665.8	33.1
Operating income	418.1	157.2	166.0
Capital expenditure	452.4	398.7	13.5

Mobile communication			
ARPU (in EUR)*	15.9	16.2	–1.4
Mobile communication subscribers (in '000)	5,454.7	5,424.1	0.6
Share of contract customers	68.3%	70.2%	–
Market share	39.5%	41.1%	–
Mobile broadband subscribers (in '000)	663.1	714.9	–7.2
Penetration	161.2%	155.1%	–

Fixed-line			
ARPL (in EUR)	29.6	30.4	–2.7
Total access lines (in '000)	2,290.6	2,287.1	0.2
of which fixed broadband lines (in '000)	1,533.2	1,469.1	4.4
of which retail	1,495.2	1,433.1	4.3
of which wholesale	38.1	36.1	5.6
Unbundled lines (in '000)	236.1	239.3	–1.3
Fixed line voice traffic (in million minutes)	1,639.5	1,821.9	–10.0
of which domestic traffic	995.3	1,138.1	–12.5
of which fixed-to-mobile traffic	465.3	483.5	–3.8
of which international fixed-line traffic	178.8	200.3	–10.7
Mobile and fixed broadband penetration in Austria in % of households	130.6%	124.2%	–

Employees (full-time equivalents, as of 31 Dec)	8,512	8,635	–1.4

* As of Q1 2015 ARPU excludes mobile value-added services.

OPERATING EXPENSES AUSTRIA

in EUR million

	2015	2014	Change in %
Material expenses	265.0	237.2	11.7
Employee costs	676.7	704.2	–3.9
Other operating expenses	791.7	861.7	–8.1
Restructuring charges	0.4	89.6	–99.6
Depreciation and amortisation	467.7	508.6	8.0

settlement. The strong decline in the year-on-year comparison was also driven by a negative one-off in the amount of EUR 15.0 mn due in 2014, which stemmed from a provision for payments to civil servants. As a result, EBITDA including the effects of restructuring and impairment testing climbed by 33.1% to EUR 885.9 mn.

Depreciation and amortisation declined by 8.0% to EUR 467.7 mn, with lower amortisation for intangible assets and depreciation for UMTS equipment, but higher infrastructure depreciation due to the fibre and LTE rollout. As a result of the developments described above, the operating income of the Austrian segment amounted to EUR 418.1 mn (2014: EUR 157.2 mn).

Segment Bulgaria

In Bulgaria, the market environment in 2015 was still shaped by a weak economy and intense competition on the mobile market; the business segment in particular was negatively affected by this. Operationally, Mobiltel counteracted these challenges by focusing on value creation through up- and cross-selling and retaining premium customers. Mobiltel also strengthened its convergent basis with the purchase of Blizoo, the second-largest fixed-line operator in Bulgaria, which has been consolidated since 1 October 2015. Management also aimed to mitigate revenue pressure on profitability by way of strict cost management.

Despite significant price pressure, Mobiltel succeeded in slightly growing its mobile customer base in the year under review, largely on the back of growth in the business segment as well as the no-frills and residential contract business. As a result, its market share increased from 37.6% to 38.8%. The ongoing rise in the use of data led to a further increase in mobile broadband customers by 28.4% to over 319,600. Moreover, the number of smartphone customers using voice and data packages increased by approximately 48% due to successful upselling. The number of fixed-line customers rose to 583,600. This was largely the result of the acquisition of Blizoo with approximately 378,000 access lines. Excluding the acquisition, access line growth of approximately 34% was also reported. The number of broadband customers jumped by 268,700 year-on-year. Blizoo contributed approximately 252,000 lines. In the TV business, a visible increase to 378,600 customers was reported, thereof Blizoo contributed approximately 331,000 customers.

Revenues decreased year-on-year by 1.8% to EUR 364.7 mn. This was mainly attributable to the decline in monthly fee and traffic revenues. The ongoing strong price pressure in the business segment led to a significant reduction in ARPU relevant revenues. This negative development in the mobile business was only partly mitigated by the rise in ARPL relevant revenues, particu-

KEY PERFORMANCE INDICATORS BULGARIA

Key financials (in EUR million)	2015	2014	Change in %
Revenues	364.7	371.3	–1.8
EBITDA comparable	132.8	143.1	–7.2
EBITDA comparable margin	36.4%	38.5%	–
EBITDA incl. effects from restructuring and impairment tests	132.8	–197.5	n. m.
Operating income	42.1	–284.9	n. m.
Capital expenditure	74.3	102.9	–27.7
Mobile communication			
ARPU (in EUR)	5.5	6.1	–9.3
Mobile communication subscribers (in ’000)	4,235.7	4,221.0	0.3
Share of contract customers	82.5%	78.7%	–
Market share	38.8%	37.6%	–
Mobile broadband subscribers (in ’000)	319.6	248.9	28.4
Penetration	149.2%	152.7%	–
Fixed-line			
ARPL (in EUR)	12.0	14.4	–16.8
Total access lines (in ’000)	583.6	153.6	279.9
of which fixed broadband lines (in ’000)	413.8	145.1	185.1
Employees (full-time equivalents, as of 31 Dec)	3,607	2,527	42.8

larly thanks to Blizoo's contribution in the amount of EUR 11.7 mn. Additionally, the decline was mitigated somewhat by increased interconnection revenues due to the larger proportion of tariffs with free minutes to national networks included.

Average monthly revenue per mobile user (ARPU) declined significantly to EUR 5.5 (2014: EUR 6.1). This was mainly stemming from price erosion as well as a higher share of business customers with a low ARPU. Average monthly revenue per access line (ARPL) fell from EUR 14.4 in the previous year to EUR 12.0, as a result of the increasingly larger proportion of satellite TV customers with a low ARPL. In contrast, fixed service revenues reported a rise of 42.3% to EUR 37.8 mn.

To counteract ongoing revenue pressure, Mobiltel's management team continued to focus on effective cost management in the year under review. Higher interconnection and roaming expenses were partly mitigated thanks to lower material expenses owing to a smaller number of handsets sold. In contrast, the rise in energy, rental and employee expenses was mainly driven by the acquisition of Blizoo. All in all, operating expenses climbed by 2.7% to EUR 248.3 mn.

Following the decline in revenues and the increase in costs, EBITDA comparable fell by 7.2% to EUR 132.8 mn in the year under review. Excluding Blizoo's contribution of EUR 3.3 mn, EBITDA comparable would have declined by 9.5%. In the year under review, the EBITDA comparable margin fell to 36.4% (2014: 38.5%). In 2015, depreciation and amortisation rose as against the previous year, while an impairment in the amount of EUR 340.6 mn was reported in 2014. All in all, this resulted in a positive operating income of EUR 42.1 mn in the year under review compared with a negative figure of EUR 284.9 mn in 2014.

Segment Croatia

In 2015, considerable regulatory pressure in the form of reduced mobile termination rates as well as the threefold increase in frequency usage fees in June 2014 had an effect on the operating development in Croatia. In contrast, the economic environment and the competitive situation showed initial signs of easing. Mobile tariffs introduced at the end of March 2015, focusing on LTE and data monetisation, had a noticeably positive effect on revenues in the year under review. Trends in the fixed-line business remained encouraging on the back of the sales focus on broadband and TV services. The fixed-line business was further strengthened thanks to the acquisition of Amis Croatia, which has been consolidated since 1 September 2015.

KEY PERFORMANCE INDICATORS CROATIA

Key financials (in EUR million)	2015	2014	Change in %
Revenues	371.3	378.2	–1.8
EBITDA comparable	83.0	84.3	–1.5
EBITDA comparable margin	22.4%	22.3%	–
EBITDA incl. effects from restructuring and impairment tests	83.0	84.3	–1.5
Operating income	13.1	15.9	–17.5
Capital expenditure	72.4	70.0	3.5
Mobile communication			
ARPU (in EUR)	11.3	11.1	2.1
Mobile communication subscribers (in '000)	1,733.6	1,741.0	–0.4
Share of contract customers	48.2%	46.8%	–
Market share	36.0%	36.0%	–
Mobile broadband subscribers (in '000)	139.1	144.2	–3.6
Penetration	113.7%	112.6%	–
Fixed-line			
ARPL (in EUR)	22.0	21.4	2.9
Total access lines (in '000)	283.4	219.9	28.9
of which fixed broadband lines (in '000)	200.2	136.0	47.2
Employees (full-time equivalents, as of 31 Dec)	1,239	1,151	7.6

The total number of mobile communications customers remained mostly stable at around 1.7 million in the year under review. The proportion of contract customers increased to 48.2% over the course of the year (2014: 46.8%). In 2015, the market share remained unchanged at 36.0%. In the fixed-line business, there was a rise in fixed access lines by 28.9% to 283,400, resulting from both organic growth and the purchase of Amis Croatia. Broadband lines even soared by 47.2% to around 200,200 in the year under review, while the number of TV customers rose by 12.5% to around 188,700. With Amis Croatia, 24,300 fixed lines, the majority of them broadband lines, as well as 9,100 TV customers were added.

In the year under review, Vipnet reported a decline in revenues of 1.8% to EUR 371.3 mn that was nearly exclusively attributable to lower revenues from the sale of handsets and lower interconnection revenues. While the former was driven by lower handset subsidies, the latter was caused by mobile termination rate cuts in January 2015. Most notably, there was a rise in revenues from monthly fee and traffic revenues that was predominantly based on higher fixed-line services and partially mitigated the declines described above.

Average monthly revenue per mobile user (ARPU) rose from EUR 11.1 to EUR 11.3, whereas particularly prepaid ARPU went up. Average monthly revenue per fixed-line (ARPL) increased to EUR 22.0 (2014: EUR 21.4) due to the upselling of fixed-line customers. In total, revenues from ARPU relevant revenues declined by 1.5%; ARPL relevant revenues climbed by 21.9%.

In the year under review, operating expenses decreased by 3.1% to EUR 292.0 mn. This was driven by lower interconnection costs following the decline in termination rate. There was also a decline in material expenses that was driven by the lower number of handsets sold. These effects were mitigated by the significant rise in frequency usage fees.

Lower costs somewhat bolstered the downturn in revenues, resulting in a decline in EBITDA comparable of 1.5% to EUR 83.0 mn. The EBITDA comparable margin remained almost stable at 22.4% in the year under review (2014: 22.3%). Together with higher depreciation and amortisation, this resulted in an operating income of EUR 13.1 mn, down 17.5% year-on-year.

Segment Belarus

Since 1 January 2015, hyperinflation accounting according to IAS 29 has no longer been applicable for Belarus. This was ruled by a committee of the big four audit firms as the accumulated inflation rate fell below 100% as well as due to other factors that were taken into account. As a result, period-average FX rates have been used for consolidation purposes since Q1 2015.

Throughout the year under review, the macroeconomic environment in Belarus deteriorated due to the recession in Russia. Already in January 2015, the Belarusian Rouble strongly declined in value. After comparably stable development, it took another hit at the end of August. During the rest of the year, Belarus' currency remained almost stable, losing 29.2% in value overall (2014: –9.0%). At 12.0%, the 2015 rate of inflation was slightly below the level of the prior year (16.2%).

In light of these developments, velcom's management team continued to concentrate on a tariff and equipment portfolio centred

KEY PERFORMANCE INDICATORS BELARUS

Key financials (in EUR million)	2015	2014	Change in %
Revenues	327.1	355.0	–7.9
EBITDA comparable	163.6	172.4	–5.1
EBITDA comparable margin	50.0%	48.6%	–
EBITDA incl. effects from restructuring and impairment tests	163.6	172.4	–5.1
Operating income	86.6	82.2	5.4
Capital expenditure	66.1	48.5	36.4
Mobile communication			
ARPU (in EUR)*	4.6	5.1	–9.5
Mobile communication subscribers (in '000)	4,956.8	4,949.9	0.1
Share of contract customers	80.9%	80.6%	–
Market share	42.5%	42.4%	–
Mobile broadband subscribers (in '000)	308.8	284.1	8.7
Penetration	123.0%	123.3%	–
Employees (full-time equivalents, as of 31 Dec)	1,777	1,881	–5.5

* As per September 2015 the presentation for value-added services in the ARPU has been changed, which negatively impacts ARPU.

around on smartphones and tablets in 2015 in addition to its position as a premium provider with a high network quality with the aim of benefiting from the rising demand for data. Furthermore, the company continued to focus its efforts on optimising operating expenses and disconnecting them from currency effects.

velcom's customer base remained stable at around 4.96 million in the year under review. The 8.7% jump in the number of mobile broadband customers to around 308,800 reflects the continuous rise in demand for data services as mentioned above. velcom's market share remained almost unchanged at 42.5% in the year under review (2014: 42.4%).

Including negative currency effects in the amount of EUR 75.3 mn, revenues fell by 7.9% year-on-year to EUR 327.1 mn in 2015. Local currency revenues rose by 20.2%. Inflation-related price adjustments at the end of 2014 and as of 1 December 2015, upselling effects and steadily increasing data usage were the main reasons for growth in monthly fee and traffic revenues. Equipment revenues also climbed as a result of devaluation-driven higher prices for handsets. velcom also generated higher interconnection revenues, primarily as a result of increased international tariffs. Owing to the negative exchange rate development, average monthly revenue per mobile user (ARPU) sank from EUR 5.1 to EUR 4.6.

In the year under review, operating expenses fell by 10.2% to EUR 169.4 mn, while they rose by 19.2% in local currency. This increase was mainly the result of higher material expenses caused by devaluation-driven higher prices for handsets. Other currency-dependent positions such as maintenance and repair expenses were also higher. Increased interconnection costs were the result of higher international tariffs. Decreased expenses for bad debt and services received could not compensate for the aforementioned effects.

Despite the positive operating development, EBITDA comparable decreased in the year under review by 5.1% to EUR 163.6 mn, which was driven by negative FX translation effects in the amount of EUR 37.7 mn. The EBITDA comparable margin still climbed to 50.0% in the year under review (2014: 48.6%), the highest margin in the Group yet again. The lower level of depreciation and amortisation owing to the negative FX effect translated into an increase in operating income of 5.4% to EUR 86.6 mn despite lower EBITDA comparable.

Additional Markets segment

In the year under review, the Additional Markets segment was primarily shaped by a takeover and a merger. In Slovenia, the acquisition of Amis, a fixed-line reseller, was closed on 1 September 2015. This step allowed Si.mobil to develop operations from a mobile-only player into a fully converged operator. In the Republic of Macedonia, the merger with ONE was closed on 1 October 2015. The merger with the former number three mobile operator strengthened the position of Vip operator (now known as one.Vip) as the number one player on the country's mobile market.

In 2015, the mobile customer base nearly doubled in the Republic of Macedonia owing to the merger with ONE, which contributed approximately 590,000 mobile customers. In Slovenia, the number of customers increased by 4.0%, particularly as a result of gains in the no-frills and business segment, while the number of customers in the Republic of Serbia fell by 2.3%. In the year under review, one.Vip's market share in the Republic of Macedonia amounted to 53.7%, while it was 28.2% prior to the merger in 2014. In Slovenia, the market share increased slightly from 29.2% in the previous year to 29.9% in the year under review. By contrast, it was the same in the Republic of Serbia at 22.5%. Slovenia and the Republic of Macedonia also recorded 65,700 and 144,500 fixed access lines respectively at year-end in 2015.

Revenues in the Additional Markets segment were almost stable at EUR 481.4 mn, mainly as a result of ONE's contribution of approximately EUR 13 mn in the Republic of Macedonia. The fixed-line operator blizoo Macedonia, which was already acquired in July 2014, contributed EUR 13.3 mn to revenues in 2015. In Slovenia, revenues fell by 4.4% despite Amis' contribution of EUR 11.1 mn. This was attributable to negative regulatory effects on interconnection revenues as well as the decline in monthly fee and traffic revenues due to the fiercely competitive environment. In the Repub-

KEY PERFORMANCE INDICATORS ADDITIONAL MARKETS

Key financials (in EUR million)	2015	2014	Change in %
Revenues	481.4	481.1	0.1
EBITDA comparable	138.2	137.0	0.9
EBITDA comparable margin	28.7%	28.5%	–
EBITDA incl. effects from restructuring and impairment tests	138.2	131.9	4.8
Operating income	45.4	31.8	42.5
Capital expenditure	117.0	137.4	–14.9

lic of Serbia, monthly fees and traffic revenues were negatively impacted by a changed distribution model which led to a different accounting treatment while interconnection revenues went up following the introduction of national termination rates for SMS in June 2015. Excluding FX translation effects of EUR 6.4 mn in total, segment revenues rose by 1.4%.

Average monthly revenue per mobile user (ARPU) declined to EUR 16.3 (2014: EUR 19.1) in Slovenia and to EUR 6.5 in the Republic of Macedonia (2014: EUR 6.9) while it remained unchanged in the Republic of Serbia at EUR 6.9. Average monthly revenue per fixed-line (ARPL) amounted to EUR 42.9 in Slovenia and EUR 13.1 in the Republic of Macedonia at year-end in 2015.

Other operating income rose by EUR 31.1 mn to EUR 43.0 mn in the year under review due to a positive one-off effect in the amount of EUR 30.0 mn from an agreement on settling mutual relations and business collaboration with Telekom Slovenije. The payment by Telekom Slovenije was made in two tranches of EUR 20.0 mn in January 2015 and EUR 10.0 mn in October 2015.

In the Additional Markets segment, operating expenses rose by 8.5% to EUR 386.2 mn. This was driven largely by the Republic of Macedonia and the Republic of Serbia. In addition to higher interconnection costs, expenses particularly in connection with the merger such as employee expenses, services received and energy expenses were cost drivers in the Republic of Macedonia. Higher operating expenses in the Republic of Serbia are predominantly attributable to higher interconnection and roaming expenses. The former was the result of termination rates for SMS, which were newly introduced in June 2015.

All in all, increased revenues and increased operating expenses adjusted for the one-off effect in Slovenia as well as FX translation effects of EUR 1.3 mn led to a decline in EBITDA comparable from 20.1% to EUR 109.5 mn (reported EBITDA comparable EUR 138.2 mn). Amis contributed EUR 0.9 mn while ONE contributed approximately EUR 2 mn and blizoo Macedonia EUR 4.1 mn. As a result of this as well as lower D&A, the operating result rose by 42.5% to EUR 45.4 mn in 2015.

KEY PERFORMANCE INDICATORS SLOVENIA

Key financials (in EUR million)	2015	2014	Change in %
Revenues	190.8	199.6	–4.4
EBITDA comparable	80.9	63.6	27.3
EBITDA comparable margin	42.4%	31.8%	–
EBITDA incl. effects from restructuring and impairment tests	80.9	63.6	27.3
Operating income	56.7	41.0	38.2
Capital expenditure	17.9	89.9	–80.1
Mobile communication			
ARPU (in EUR)	16.3	19.1	–14.8
Mobile communication subscribers (in '000)	708.5	681.5	4.0
Share of contract customers	80.5%	79.4%	–
Market share	29.9%	29.2%	–
Mobile broadband subscribers (in '000)	35.7	24.3	46.8
Penetration	113.7%	111.8%	–
Fixed-line			
ARPL (in EUR)	42.9	n. a.	n. m.
Total access lines (in '000)	65.7	n. a.	n. m.
of which fixed broadband lines (in '000)	65.3	n. a.	n. m.
Employees (full-time equivalents, as of 31 Dec)	508	399	27.4

KEY PERFORMANCE INDICATORS REPUBLIC OF SERBIA

Key financials (in EUR million)	2015	2014	Change in %
Revenues	206.8	213.2	–3.0
EBITDA comparable	43.5	64.0	–32.0
EBITDA comparable margin	21.0%	30.0%	–
EBITDA incl. effects from restructuring and impairment tests	43.5	64.0	–32.0
Operating income	–7.6	–2.9	n. m.
Capital expenditure	77.7	37.8	105.2
Mobile communication			
ARPU (in EUR)	6.9	6.9	–0.3
Mobile communication subscribers (in ’000)	2,109.3	2,159.5	–2.3
Share of contract customers	55.0%	50.4%	–
Market share	22.5%	22.5%	–
Penetration	132.0%	133.6%	–
Employees (full-time equivalents, as of 31 Dec)	879	933	–5.8

KEY PERFORMANCE INDICATORS REPUBLIC OF MACEDONIA

Key financials (in EUR million)	2015	2014	Change in %
Revenues	80.0	62.0	28.9
EBITDA comparable	16.8	12.6	33.6
EBITDA comparable margin	21.0%	20.3%	–
EBITDA incl. effects from restructuring and impairment tests	16.8	7.5	124.7
Operating income	–0.6	–2.6	n. m.
Capital expenditure	21.5	9.4	127.7
Mobile communication			
ARPU (in EUR)	6.5	6.9	–5.8
Mobile communication subscribers (in ’000)	1,163.5	622.0	87.1
Share of contract customers	54.7%	52.4%	–
Market share	53.7%	28.2%	–
Penetration	105.5%	107.4%	–
Fixed-line			
ARPL (in EUR)	13.1	n. a.	n. m.
Total access lines (in ’000)	144.5	62.6	130.8
of which fixed broadband lines (in ’000)	99.9	50.2	99.0
Employees (full-time equivalents, as of 31 Dec)	942	535	76.2

Non-financial performance indicators

Corporate social responsibility

The Telekom Austria Group strives to increase enterprise value in a sustainable manner, while taking into account all relevant economic, ecological and social aspects. This goal is supported by the Group's commitment to the Austrian Corporate Governance Code and the application of all the requirements of the internal control system, the Code of Conduct and the compliance guidelines. An integrated CSR management system, defined standards and processes, Group-wide environmental management and compliance with the principles of the UN Global Compact ensure the development of strategies and goals oriented towards sustainability and the involvement of all business units and hierarchies. Sustainability reporting is based on the guidelines of the Global Reporting Initiative (GRI) and is independently validated by an external auditor.

A materiality analysis was conducted with the help of various interest groups to identify central sustainability issues. Four strategic areas of activity were then derived, which are considered material to the future development of the Telekom Austria Group. Specific targets, measures and performance indicators were defined for these areas of activity.

The area of activity named 'Providing responsible products' builds on the innovative application options for secure, high performance communication networks and their positive impact on the environment and society. 'Living green' highlights the specific measures to reduce the Telekom Austria Group's ecological footprint. To allow performance measurement in this area, environmental indicators are drawn across the Group. The targeted promotion of employees is at the heart of the area of activity named 'Empowering people'. Finally, 'Creating equal opportunities' comprises the Telekom Austria Group's initiatives aimed at fostering digital media skills on its markets.

The environmental management systems at A1 Telekom Austria AG, Si.mobil d.d. and Vip mobile d.o.o. are ISO 14001 certified. Furthermore, EMAS requirements in Austria and Slovenia are met. Energy management at A1 Telekom Austria AG is also ISO 50001 certified. Since 2014, A1 Telekom Austria AG has been the first CO_2 neutral network in Austria to be assessed and validated by TÜV SÜD in line with the PAS 2060 international standard.

Employees

The Telekom Austria Group had 17,673 employees at year-end 2015, 8.8% more than in the previous year. This development was primarily attributable to the acquisition of Blizoo in Bulgaria and Amis in Croatia and Slovenia as well as the merger of Vip operator with ONE in the Republic of Macedonia. Headcount in the Austrian segment was reduced by 1.4% to 8,512 employees as part of the ongoing restructuring measures. Around 50% of existing employees have civil servant status. The segments outside of Austria saw an increase of 20.6% to 8,952 employees, caused solely by the above-mentioned acquisitions.

With a view to maintaining its competitiveness and innovative drive, the Telekom Austria Group invests in extensive professional training for its employees on an ongoing basis. The Telekom Austria Group Business School functions as a central

EMPLOYEES

Employees at year-end*	2015	2014	Change in %
Austria	8,512	8,635	–1.4
Bulgaria	3,607	2,527	42.8
Croatia	1,239	1,151	7.6
Belarus	1,777	1,881	–5.5
Additional Markets	2,329	1,867	24.8
Corporate	209	181	15.9
Total	**17,673**	**16,240**	**8.8**

* Full-time equivalent employees

development platform. It developed and organised more than 45 training opportunities for 671 participants in the course of 2015. In addition to the training offered by this central institution, Telekom Austria Group uses a central e-learning platform to provide trainings to all its employees throughout the Group. The Telekom Austria Group subsidiaries have also developed their own training programmes tailored to the needs of their respective markets. To meet future requirements for experts and managers, the Telekom Austria Group is particularly committed to apprenticeship training. In Austria, university and college graduates are offered a twelve-month graduate programme while school-leavers can experience on-the-job training with the A1 trainee programme. Internal mobility is being pursued in order to have the right people and skills in place. The use of internal trainings, coachings and mentorings has been forced to provide sufficient know-how transfer and development possibilities to all employees.

Total spending on further education and professional training in the year under review amounted to EUR 5.2 mn (2014: EUR 7.8 mn). This corresponds to an average of EUR 294 per employee at year-end (2014: EUR 480).

Innovation and technology

The dynamic growth of the data volumes transported via the networks of the Telekom Austria Group will be accounted for by extensive development activities. To prepare for future requirements, the development of the network infrastructure as well as new products and services shall be focused on in the Group's innovation strategy.

With the successful implementation of field trials in order to virtualise the network architecture and network functions (Network Function Virtualisation, NFV), the Telekom Austria Group has played a leading role in the technological transformation process in this area of the telecommunications industry at the A1, Mobiltel, Vipnet, Vip mobile and one.Vip subsidiaries. NFV represents a paradigm shift that will have a huge impact on the entire sector in the following years. Virtualisation must be understood as the separation of software and hardware functions in order to operate the network and its services with open programme interfaces in a location-independent and fully automated manner. In this way, NFV ensures that services are provided more efficiently and flexibly, especially at optimal costs. In Austria, the first successful field trials with virtual modem solutions for the business and end consumer area have already been performed.

The accelerated rollout of LTE in Austria, Croatia, Slovenia, the Republic of Serbia and the Republic of Macedonia led to a considerable improvement in the provision of high-speed mobile internet. Si.mobil already offers coverage of 96% in Slovenia, while A1 offers coverage of 74% in Austria. Vipnet in Croatia offers coverage of 55%, one.Vip's coverage in the Republic of Macedonia is at 54% and Vip mobile in the Republic of Serbia has a coverage of 24%. After the successful completion of a test phase, voice over LTE (VoLTE) was also introduced to A1's network. This technology allows calls to be set up remarkably quicker with the highest speech quality.

The largest broadband expansion in the history of A1 was initiated in 2015. At the end of the year under review, 39% of all Austrian private and commercial addresses were already equipped with A1's 30 Mbps product. With G.fast, A1 reached data transfer rates of more than 500 Mbps on conventional copper lines back in 2014. A1 showcased its new broadband technology (VDSL2 35b) in 2015. While G.fast is ideally used on line lengths in order of 200 metres, VDSL2 35b achieves a significantly enhanced performance compared to conventional DSL technologies, particularly on line lengths up to approximately 500 metres. As a result, this technology is also suitable for less densely populated areas. When combined with vectoring — a technology that the Group has already been using since 2012 to filter interferences on copper lines — VDSL2 35b uses higher frequencies, which allow for data speeds of more than 100 Mbps. On shorter distances, even data speeds of around 200 Mbps can be achieved. As a result, A1 has once again demonstrated that the margin criteria of the funding guideline on the government broadband subsidy programme can be fulfilled in the context of an FTTC expansion.

The Machine-to-Machine (M2M) business area of the Telekom Austria Group successfully conducted numerous innovative projects in the period under review. These stretch from managed connectivity as a basic product to extensive solutions for asset tracking or fleet management, for instance. Activities in the area of smart metering are focused on Austria due to the national implementation of the EU legal framework, which requires the conversion of 95% of existing electricity meters to smart meters by 2019. The innovative product brought onto the market by the company under the name 'Österreich Zähler' combines intelligent electricity metering with future-oriented communications technology. It is already being used by a distribution network operator, Netz Burgenland. In addition, six network operators already rely on the smart metering all-in-one solution provided by Telekom Austria Group M2M. Moreover, the presentation of the first smart meter with an LTE connection generated great interest throughout Europe.

Research partnerships with scientific and industrial partners and joint projects with national and international institutions are supporting the Telekom Austria Group in the development and integration of technologies of the future for market and customer-oriented communications solutions. In 2015, the Telekom Austria Group had research partnerships with the Research Centre for Telecommunications in Vienna, the Vienna University of Technology, the Christian Doppler Laboratory for Wireless Technologies for Sustainable Mobility and the Josef Ressel Centre for User-friendly Secure Mobile Environments. Beyond its own sphere of action, A1 also promotes innovation by new companies with a start-up initiative that provides expertise and infrastructure to help make innovations a reality. Furthermore, the Telekom Austria Group is a partner of the Loadshift Smart City project. It is also involved in the discussion on the future introduction of intelligent electricity networks as part of the stakeholder process of the Smart Grids Austria technology platform. To prepare for future technological challenges, the Telekom Austria Group is also involved in European (European Telecommunications Standards Institute, ETSI) and international (3rd Generation Partnership Project, 3GPP; TeleManagement Forum, TMF and Next Generation Mobile Networks, NGMN) organisations.

Disclosure in accordance with section 243a of the Austrian Business Enterprise Code ('UGB')

Shareholder structure and capital disclosures

At the end of 2015, a total of 59.70% or 396,705,196 shares of Telekom Austria AG were directly or indirectly held by América Móvil, S.A.B. de C.V. ('América Móvil'). The Republic of Austria holds 28.42% via Österreichische Bundes- und Industriebeteiligungen GmbH ('ÖBIB') — previously known as Österreichische Industrieholding AG (ÖIAG), while the remaining 11.88% reflect the free float. 0.1% or 0.4 million shares of the latter were held by the company itself. Employee shares that are being held in a collective custody account are also part of the free float. The associated voting rights are exercised by a custodian (notary). There were no significant changes in shareholder structure in 2015. The number of no-par value shares remains at 664,500,000.

The following information concerning the Shareholders' Agreement is based solely on publicly available information. The company has no additional information. The shareholders' agreement between ÖBIB, América Móvil and Carso Telecom B.V. ('Carso Telecom') came into force on 27 June 2014 (see Note (29) to the Consolidated Financial Statements). 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 AG 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 Carso Telecom and two by ÖBIB. ÖBIB has the right to appoint the Chairman of the Supervisory Board. Carso Telecom has the right to appoint the Deputy Chairman. The Management Board of the company consists of three members. Two members are nominated by Carso Telecom, while one member of the Management Board, namely the Chief Executive Officer (CEO), is nominated by ÖBIB. On 24 July 2015 the Chief Executive Officer responsibilities of Telekom Austria AG were allocated to Alejandro Plater per 1 August 2015 as proposed by the two majority shareholders América Móvil and ÖBIB. The Extraordinary General Meeting on 14 August 2014 also amended the Articles of Association to state that, as long as the Republic of Austria directly or indirectly holds at least 25% plus one share of the share capital of the company, resolutions on capital increases and the issue of instruments containing a conversion right or a conversion obligation for shares of the company and amendments to the provisions of the Articles of Association relating to capital increases and such instruments shall require a majority of at least three quarters of the share capital represented at the vote on the resolution.

ÖBIB and Carso Telecom have agreed that at least 24% of the shares of the company should be in free float while the shareholders' agreement is in place. This minimum free float requirement is based on ÖBIB's maximum equity interest of 25% plus one share. If ÖBIB holds more than 25% plus one share of the share capital of the company, the minimum free float requirement decreases accordingly so that América Móvil can retain an equity interest in the company of 51%. If the number of shares in free float falls below the minimum while the shareholders' agreement is in place, (i) Carso Telecom undertakes to sell shares within the next 24 months and (ii) América Móvil undertakes to ensure that neither it nor its subsidiaries purchase any additional shares until the minimum free float requirement is restored.

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

Standard change-of-control clauses that can ultimately lead to the termination of contracts are contained in various financing agreements or affect the majority of financing agreements. None of these clauses came into effect in the 2015 financial year.

Changes to the Management Board and the Supervisory Board

At the Annual General Meeting on 27 May 2015, Rudolf Kemler resigned from the Supervisory Board. As a result, Wolfgang Ruttenstorfer was elected with immediate effect as the Chairman of the Supervisory Board. Furthermore, Karin Exner-Wöhrer was elected to the Supervisory Board, taking on Günter Leonhartsberger's role on the Supervisory Board.

As of 6 March 2015, Alejandro Plater was appointed Chief Operating Officer (COO) of the Telekom Austria AG for three years with an extension option for two additional years, replacing Chief Technology Officer (CTO) Günther Ottendorfer. The contract of CFO Siegfried Mayrhofer was extended by three years with effect from 1 June 2015 with an extension option for two additional years. Hannes Ametsreiter retired from his position as CEO at Telekom Austria AG as of 31 July 2015. In addition to his tasks as COO, Alejandro Plater assumed those of the CEO and Chairman of the Management Board as of 1 August 2015.

Cash-use policy

The Telekom Austria Group follows a conservative financial strategy, in which a solid investment grade rating of Baa2 by Moody's and BBB by Standard & Poor's is at its core. This orientation ensures a solid balance sheet structure with moderate leverage (Net debt to EBITDA comparable) and financial flexibility for investments and unrestricted access to debt capital markets.

The Telekom Austria Group's dividend policy is based on a minimum dividend of EUR 0.05 per share and is aimed at achieving a sustainable pay-out level with the potential to grow. The planned dividend is announced at the start of each financial year. After the end of the financial year, additional payments to the shareholders may be defined depending on the Group's actual results, taking

TELEKOM AUSTRIA AG: MEMBERS OF THE SUPERVISORY BOARD

Name (year of birth)	Date of first appointment	End of current term of office/leaving date
Elisabetta Castiglioni (1964)	29.05.2013	2016*
Karin Exner-Wöhrer (1971)	27.05.2015	2020***
Carlos García Moreno Elizondo, first Deputy Chairman (1957)	14.08.2014	2018**
Carlos M. Jarque (1954)	14.08.2014	2018**
Alejandro Cantú Jiménez (1972)	14.08.2014	2016*
Rudolf Kemler, Chairman (1956)****	01.11.2012	27.05.2015
Reinhard Kraxner (1970)	14.08.2014	2016*
Günter Leonhartsberger (1968)	14.08.2014	27.05.2015
Ronny Pecik (1962)	23.05.2012	2018**
Stefan Pinter (1978)	14.08.2014	2016*
Wolfgang Ruttenstorfer, Chairman (1950)*****	27.05.2010 to 14.08.2014, reappointed on 27.05.2015	2020***
Oscar Von Hauske Solís (1957)	23.10.2012	2018**

Members of the Supervisory Board delegated by the Staff Council	
Silvia Bauer (1968)	30.01.2009 to 03.11.2010, re-delegated on 26.07.2012
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
Alexander Sollak (1978)	03.11.2010
Gottfried Kehrer (1962)	27.10.2010

* The term of office ends at the Annual General Meeting for the 2015 financial year (provisionally May 2016).

** The term of office ends at the Annual General Meeting for the 2017 financial year (provisionally May 2018).

*** The term of office ends at the Annual General Meeting for the 2019 financial year (provisionally May 2020).

**** Chairman until 27 May 2015

***** Chairman from 27 May 2015

into account free cash flow as well as the Group's planned capital structure and investment needs in particular. For the financial year 2015, the minimum dividend of EUR 0.05 per share was still held out in prospect.

Risk management

Principles and methods

As one of the leading telecommunications companies in Austria as well as Central and Eastern Europe, the Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. The risk management system of the Telekom Austria Group anticipates such developments at an early stage in order to allow an effective response. It consists essentially of four areas: Market and business risks, which may arise in the respective countries due to competition, regulatory intervention or an unclear legal situation, are monitored and analysed throughout the Group by a central risk manager. Risks that may influence the guaranteed availability and security of the services offered, such as technical or topographical risks, are covered by business interruption management. Compliance risks are monitored by Group Compliance, which is aided by local compliance managers. Finally, financial risks such as liquidity, default, currency, transfer and interest rate risks are handled by Treasury.

The market and competition risks explained below are managed at Group level by means of the regular analysis of risks and opportunities and the use of effective measures to mitigate and detect these. This is pursued through monthly performance calls (MPC) or leadership team meetings (LTM). The effects of deviations from planning are evaluated using scenario and probability calculations. The overall risk situation of this risk category is derived from the sum of the individual risks. In addition to the fixed-line and mobile communications market in Austria, the Telekom Austria Group holds leading positions on six other telecommunications markets abroad. This ensures broad diversification in terms of both sectors and geographical regions. The risk sets of the respective markets vary, which is why risk management is the responsibility of the local operational units. Risk management is controlled by the holding company. In addition to the regular operating meeting (MPC) and strategic (LTM) meetings, a four-year plan comprising strategic risk assessment will also be created. Here, the potential strategic risks and opportunities of the individual companies and thus of the entire Group will be assessed, documented and reported to Management or the Audit Committee. This close integration of business planning and risk management ensures appropriate risk control.

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

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

Risks

Market and competition risks

High competitive intensity on the Telekom Austria Group's markets is leading to sharp price reductions in both mobile communications and data traffic. Additional competition is arising from innovative and efficient over-the-top players (OTTs), which are able to offer their services without owning a network. Accordingly, there is a risk that growth in traffic volumes will not be sufficient to offset these price declines. In addition, falling prices for mobile communications are also accelerating fixed-to-mobile substitution. However, the Group is addressing this risk by means of attractive product bundles and by expanding its convergent business strategy to include all foreign markets. The trend towards smartphones is being exploited to make higher-value tariffs more attractive, although a potential increase in handset subsidies has also taken place. The focus remains on convergent products and the monetisation of the data business to increase revenue potential in this manner.

The telecommunications sector is facing the challenge to be able to offer new services and products at increasingly faster rates. TV content, cloud services, over-the-top services and Machine-to-Machine (M2M) are only a few examples of new business areas where the Telekom Austria Group is convinced of their growth potential. However, shorter innovation cycles are also associated with innovation risks. As part of the América Móvil Group, the Telekom Austria Group is involved in the exchange and bundling of the discussion on innovations. In this context, decisions on innovations are not made by each company unit separately, but initiated in coordination with América Móvil.

The economic and financial crisis led to increased volatility in the overall economic environment on the Telekom Austria Group's operating markets. Accordingly, the monitoring of key macroeconomic indicators in order to assess any changes in consumer behaviour is an important aspect of risk management as well as strategic pricing and product design.

Regulatory and legal risks

Telecommunications services offered by a provider with significant market power are subject to extensive network access and price regulations. In Austria, the Telekom Austria Group is classified as this kind of provider on several sub-markets. Regulation at both retail and wholesale levels restricts operational flexibility with regard to products and product bundles. There is also an obligation to provide access to infrastructure and fixed-line services for alternative providers. The foreign subsidiaries are also subject to regulatory frameworks. Additional regulatory rulings such as a reduction in mobile and fixed-line termination rates as a result of the European Commission's recommendation on termination rates could negatively affect the Telekom Austria Group's earnings development.

As described in the chapter 'Regulation', a new regulation on network neutrality and roaming also exists ('Connected Continent' or the 'Telecom Single Market' package). However, the regulation lacks elements both in network neutrality and roaming details and leaves room for interpretation. Due to that the extent of its effects cannot be fully predicted at the time. This is associated with legal-regulatory as well as financial insecurity.

Telekom Austria Group and its subsidiaries are party to a number of legal proceedings both in and out of court with authorities, competitors and other parties. An ongoing dialogue with the stakeholders involved and a regular exchange of information on controversial issues that could pose a threat to the company enable the Group to identify problems at an early stage and develop measures to counteract them in a targeted manner if need be. The Telekom Austria Group has joined the ongoing proceedings as a private party in connection with past misconduct. Most of the proceedings are still pending and some of them are in the second instance.

Compliance risks

The annual compliance risk assessment process — which is an essential element of the Telekom Austria Group's compliance management system — identifies relevant compliance risks on the basis of structured management interviews and workshops and defines risk-mitigating measures.

Financial risks

The Telekom Austria Group is exposed to liquidity, default, currency, transfer and interest rate risks (see Note (33) to the Consolidated Financial Statements).

Investment risks

In general, the Telekom Austria Group counters investment risks with measures such as the active management of equity investments through target requirements, coordination processes and, where acquisitions of equity interests are concerned, thorough due diligence and enterprise valuation (see Note (17) to the Consolidated Financial Statements).

It should also be mentioned that there is a profit and loss elimination agreement in place between A1 Telekom Austria AG and Telekom Austria Personalmanagement GmbH. Based on this agreement, A1 Telekom Austria AG takes on the profit or loss of Telekom Austria Personalmanagement GmbH and ensures its liquidity. In addition, there is a profit and loss elimination agreement in place between Telekom Austria AG and Telekom Projektentwicklungs GmbH (TPG) and Telekom Finanzmanagement GmbH (TFG), on the basis of which TFG must transfer its profit or loss to TPG, which must accept the profit or loss of TFG, and TPG must transfer its profit or loss to Telekom Austria AG, which must accept the profit or loss of TPG.

Personnel-related risks

The Telekom Austria Group counters personnel-related risks in various ways. For example, young talents are recruited as part of the '1A Career' programme, which focuses on graduates, trainees and apprentices and ensures diversity in the company. The risk of losing key employees is counteracted by means of forward-looking skill management and succession planning, a Group-wide talent management and the definition of top talents. Managers operate in accordance with Group-wide leadership standards with the dimensions 'Person', 'Team' and 'Business'. Group-wide feedback for manager and employee development is provided as part of performance dialogues. An internal business school develops employees' skills and abilities and serves as a platform for the Group-wide transfer of expertise. In addition to business plan-oriented cost planning, human resources planning includes measures aimed at encouraging employee mobility. Managers are faced with the challenge of getting more out of fewer resources while preventing burnout. In A1, a survey has been inducted by the independent agency IFES helping managers to work on priorities together with health management in the years to follow and to learn how to motivate and encourage employees in the face of pressure to perform and to ensure work-life balance.

In 1996, civil servants of the Republic of Austria were allocated to Telekom Austria AG or predecessor companies until their retirement in accordance with the Austrian Postal Services Structure Act ('Poststrukturgesetz'). Basically, this employee group can be used for work outside the company only with their consent. Transfers within the company are limited. Civil servants are employed according to public law. The rights and duties associated with their employment status are exclusively based on provisions under public law, particularly the Public Sector Employment Law of 1979 ('Beamten-Dienstrechtsgesetz 1979').

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

Around 50% of employees in the Austrian segment have civil servant status. This corresponds to 24% at Group level. To address the structure of employee costs, the Austrian segment has developed not only several social plans in cooperation with employee representatives, but also models which enable employees with civil servant status to transfer to government ministries or to take part in internal mobility initiatives.

Technical and topographical risks

Maintaining a high level of availability and reliability of the services and products offered is a key aspect of operational risk management, as a host of 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, while the redundancy of critical components ensures failure safety, and efficient organisational structures for operations and security serve to secure high standards of quality. Furthermore, a separate Group guideline ensures uniform methods for the recognition and management of the most important risks to operational processes. In every major disruption, causes will be clarified and conclusions will be drawn on ways to reduce the risks of repeating the same causes of error. Fortunately, the Group did not face such crises in 2015.

Environmental risks

Climate change can give rise to risks for the Telekom Austria Group's network infrastructure (ranging from rising average temperatures and high rainfall levels through to flooding, mudslides, etc.). The 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 infrastructural facilities as necessary.

Internal control system for financial reporting

Telekom Austria Group has an internal control system (ICS) over the financial reporting process as required by law. The ICS is intended to provide reasonable assurance regarding the reliability, completeness and accuracy of external financial reporting in compliance with international and national accounting standards. Regular internal reporting to management and the review of the internal control system by Internal Audit also ensure that weaknesses are identified promptly, and reported and eliminated accordingly. The most important content and principles apply to all Telekom Austria Group subsidiaries. Each significant financial transaction is reflected in a risk and control matrix to ensure that its financial reporting is accurate and complete. The effectiveness of the ICS is reviewed, analysed and assessed at regular intervals. At the end of each year, the Group's management carries out an assessment of the relevant companies with the involvement of the respective business units. Based on the findings of this assessment and the defined criteria, management stated the internal control system to be effective as of 31 December 2015.

Due to the listing of the ultimate parent América Móvil at the New York Stock Exchange (NYSE) the implementation of the U.S. Sarbanes-Oxley Act (SOX) is required (again) pursuant to the specifications of América Móvil. Therefore an adjustment and amendment of the internal control system to this standard in the financial year 2015 had to be implemented. For the financial year 2015 Telekom Austria Group was included in the SOX scope by América Móvil for the first year of the SOX implementation. Full scope for SOX in 2015 was defined for Austria, for all other segments a limited scope was defined. The scope of SOX is redefined each year by the ultimate parent, América Móvil.

Subsequent Events

No events subject to reporting requirements have occurred since 31 December 2015.

Outlook 2016

During the year 2015 Telekom Austria Group managed to stabilise its revenues and to grow EBITDA comparable. This was achieved despite an increase in competition in the Austrian mobile market as well as ongoing challenges in the CEE region. A devaluation of the BYR dampened growth in EUR terms in Belarus while fragile economies continued to impact demand and resulted in intense competition across most of the Group's mobile markets. In addition, regulatory headwinds, particularly a tripled spectrum fee in Croatia since June 2014, have hampered operations.

In 2016, most of the above-mentioned business conditions are expected to remain intact. In Austria, strong competition in the mobile market will continue to persist and is anticipated to remain centred predominantly on no-frills offers. In the CEE region a forecasted mixed economic backdrop will lend only weak support. A further burden for the Telekom Austria Group will arise from the abolition of retail roaming in the EU as of May 2016, which will overshadow operational improvements. On a positive note, demand for fixed-line services is expected to remain supportive across Telekom Austria Group's convergent markets.

In spite of the illustrated challenges the management of Telekom Austria Group remains committed to its growth strategy by concentrating on the following focus areas: Excel in the core business, expansion of products and services as well as value accretive mergers and acquisitions.

These activities will be coupled with ongoing efforts to continuously increase operating efficiency.

For the year 2016 the management of Telekom Austria Group targets to offset the negative revenue impact of the abolition of retail roaming and to achieve slight growth in Group revenues.

In order to monetise the strong growth of data centric solutions, Telekom Austria Group will further invest into the LTE rollout across its markets as well as the accelerated fibre deployment in Austria. This means that CAPEX before spectrum investments and acquisitions will increase moderately to approximately EUR 750 mn in 2016. The intended dividend is expected to remain stable at EUR 0.05 per share. In order to ensure its financial flexibility, Telekom Austria Group remains committed to maintaining its Baa2/BBB ratings by Moody's and Standard & Poor's.

The outlook is based on constant currencies, with the exception of the Belarusian Rouble. Whilst the management of Telekom Austria Group acknowledges the limited predictability of the Belarusian Rouble, it expects the currency to devalue close to inflation by approximately 20% versus the EUR in 2016.

With regard to frequencies, the governments of Croatia, the Republic of Serbia and the Republic of Macedonia are expected to sell spectrum in 2016: 900 MHz spectrum in the Republic of Serbia and the Republic of Macedonia and 2,100 MHz spectrum in Croatia.

Vienna, 25 January 2016

The Management Board

Alejandro Plater	Siegfried Mayrhofer
CEO and COO	CFO

CONSOLIDATED FINANCIAL STATEMENTS 2015

Telekom Austria AG

Contents

The Consolidated Financial Statements and the Group Management Report are a translation from the original German versions, which are solely valid.

TELEKOM AUSTRIA AG – Consolidated Statements of Profit or Loss

Notes	in TEUR	2015	2014
(4)	Operating revenues	4,026,582	4,017,964
(5)	Other operating income	126,275	119,035
	Material expenses	−518,642	−497,336
	Employee expenses, including benefits and taxes	−853,198	−876,409
(6)	Other operating expenses	−1,408,447	−1,477,149
	Operating expenses	**−2,780,288**	**−2,850,894**
	EBITDA comparable	**1,372,569**	**1,286,105**
(22)	Restructuring	−394	−89,565
(17) (18) (19)	Impairment and reversal of impairment	0	−345,700
	EBITDA incl. effects from restructuring and impairment tests	**1,372,175**	**850,840**
(18) (19)	Depreciation and amortisation	−798,179	−853,826
	OPERATING INCOME	**573,996**	**−2,986**
(7)	Interest income	22,449	14,562
(7)	Interest expense	−177,990	−194,545
(7)	Foreign exchange differences	−2,257	−1,921
(7)	Other financial result	164	105
(15)	Result from investments in affiliates	240	668
	Financial result	**−157,394**	**−181,131**
	EARNINGS BEFORE TAXES	**416,602**	**−184,117**
(30)	Income taxes	−23,829	−1,281
	NET RESULT	**392,774**	**−185,398**
	Attributable to:		
	Owners of the parent	367,286	−210,900
	Non-controlling interests	175	190
(29)	Hybrid capital holders	25,313	25,313
(29)	Basic and fully diluted earnings per share	0.55	−0.46

See accompanying Notes to the Consolidated Financial Statements.
The use of automated calculation systems may give rise to rounding differences.

TELEKOM AUSTRIA AG – Consolidated Statements of Comprehensive Income

Notes	in TEUR	2015	2014
	Net result	**392,774**	**–185,398**
(8) (16)	Unrealised result on securities available-for-sale	–424	–51
	Income tax (expense) benefit	89	5
(7)	Realised result on securities available-for-sale	–5	14
	Income tax (expense) benefit	3	–3
(33)	Realised result on hedging activities	5,840	5,840
	Income tax (expense) benefit	–1,460	–1,460
(29)	Foreign currency translation adjustment	–136,056	–18,354
	Items that may be reclassified to profit or loss	**–132,014**	**–14,010**
(27)	Re-measurement of defined benefit obligations	7,044	–26,115
	Income tax (expense) benefit	–1,843	6,433
	Items that are not reclassified to profit or loss	**5,201**	**–19,682**
	Other comprehensive income (loss)	**–126,812**	**–33,692**
	Total comprehensive income	**265,961**	**–219,090**
	Attributable to:		
	Owners of the parent	240,474	–244,593
	Non-controlling interests	175	191
(29)	Hybrid capital holders	25,313	25,313

See accompanying Notes to the Consolidated Financial Statements.
The use of automated calculation systems may give rise to rounding differences.

TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

Notes	in TEUR	31 December 2015	31 December 2014
	ASSETS		
	Current assets		
	Cash and cash equivalents	909,176	1,018,065
(8)	Short-term investments	2,367	14,433
(9)	Accounts receivable – trade, net of allowances	624,635	600,068
(10)	Receivables due from related parties	878	1,255
(11)	Inventories	130,972	140,124
(12)	Prepaid expenses	115,597	125,418
(30)	Income tax receivable	4,448	27,373
(13)	Non-current assets held for sale	0	413
(14)	Other current assets	117,129	120,137
	Total current assets	**1,905,203**	**2,047,288**
	Non-current assets		
(15)	Investments in associates	40,428	38,253
(16)	Long-term investments	8,226	7,400
(17)	Goodwill	1,229,712	1,189,481
(18)	Other intangible assets, net	2,507,855	2,570,106
(19)	Property, plant and equipment, net	2,357,367	2,246,115
(20)	Other non-current assets	49,012	46,859
(30)	Deferred tax assets	206,719	170,895
	Total non-current assets	**6,399,319**	**6,269,110**
	TOTAL ASSETS	**8,304,522**	**8,316,397**
	LIABILITIES AND STOCKHOLDERS' EQUITY		
	Current liabilities		
(21)	Short-term borrowings	–903,640	–340,813
(23)	Accounts payable – trade	–573,650	–522,344
(22)	Current provisions and accrued liabilities	–335,473	–337,297
(10)	Payables due to related parties	–1,829	–7,058
(30)	Income tax payable	–38,885	–33,448
(23)	Other current liabilities	–238,305	–132,703
(24)	Deferred income	–161,518	–163,877
	Total current liabilities	**–2,253,301**	**–1,537,539**
	Non-current liabilities		
(25)	Long-term debt	–2,584,122	–3,384,984
(27)	Employee benefit obligations	–196,550	–200,916
(22)	Non-current provisions	–750,298	–867,518
(30)	Deferred tax liabilities	–71,427	–90,804
(28)	Other non-current liabilities and deferred income	–22,804	–16,595
	Total non-current liabilities	**–3,625,200**	**–4,560,818**
	Stockholders' equity		
(29)	Common stock	–1,449,275	–1,449,275
(29)	Treasury shares	7,803	7,803
(29)	Additional paid-in capital	–1,100,148	–1,100,148
(29)	Hybrid capital	–591,186	–591,186
(29)	Retained earnings	78,750	418,032
(29)	Available-for-sale reserve	387	50
(29)	Hedging reserve	32,848	37,227
(29)	Translation adjustments	596,706	460,649
	Equity attributable to equity holders of the parent	**–2,424,115**	**–2,216,846**
	Non-controlling interests	–1,907	–1,195
	TOTAL STOCKHOLDERS' EQUITY	**–2,426,022**	**–2,218,041**
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**–8,304,522**	**–8,316,397**

See accompanying Notes to the Consolidated Financial Statements.
The use of automated calculation systems may give rise to rounding differences.

TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows

Notes	in TEUR	2015	2014
	Net result	392,774	–185,398
	Adjustments to reconcile net result to cash flow		
(18) (19) (17)	Depreciation, amortisation, impairment and reversal of impairment	798,179	1,199,526
(27)	Employee benefit obligation – non-cash	10,549	20,806
(6)	Bad debt expenses	40,740	48,645
(30)	Change in deferred taxes	–38,783	–41,614
(15)	Result from investments in affiliates	475	1,056
(31)	Share-based compensation	955	662
(22)	Change in asset retirement obligation – non-cash	5,160	6,209
(22)	Provision for restructuring – non-cash	7,389	99,017
(7)	Result on sale of investments	–20	–53
(6)	Result on disposal/retirement of equipment	3,051	1,041
(7)	Gain on monetary items – non cash	0	841
(32)	Other	868	39,649
	Gross cash flow	**1,221,338**	**1,190,390**
(9)	Accounts receivable – trade	–50,981	–11,584
(10)	Receivables due from related parties	389	–1,274
(11)	Inventories	7,163	–11,318
(12) (14)	Prepaid expenses and other assets	27,843	–105,962
(23)	Accounts payable – trade	–16,050	–49,555
(27)	Employee benefit obligation	–11,284	–7,840
(22)	Provisions and accrued liabilities	–108,390	–107,214
(23) (24)	Other liabilities and deferred income	7,710	4,151
(10)	Payables due to related parties	–5,369	1,608
	Changes in assets and liabilities	**–148,968**	**–288,989**
	Cash flow from operating activities	**1,072,370**	**901,401**
(18) (19)	Capital expenditures	–726,661	–757,419
(2) (15)	Acquisitions of subsidiaries, net of cash acquired	–155,740	–25,173
(2) (15)	Sale of subsidiaries, net of cash disposed	563	–4,458
(18) (19)	Sale of property, plant, equipment, intangible assets	9,234	12,136
(8) (16)	Purchase of investments	–4,401	–16,132
(8) (16)	Sale of investments	13,039	9,463
	Cash flow from investing activities	**–863,966**	**–781,582**
(25)	Principal payments on long-term debt	–247,326	–246,170
(21)	Change in short-term borrowings	3,045	4,008
(29)	Capital increase	0	996,570
(29)	Dividends paid	–67,118	–55,963
(2)	Deferred consideration paid for business combinations	0	–1,904
	Cash flow from financing activities	**–311,399**	**696,542**
	Effect of exchange rate changes	–5,895	–114
	Monetary loss on cash and cash equivalents		485
	Change in cash and cash equivalents	**–108,890**	**816,731**
	Cash and cash equivalents at beginning of the year	1,018,065	201,334
	Cash and cash equivalents at end of the year	909,176	1,018,065

See accompanying Notes to the Consolidated Financial Statements.
The use of automated calculation systems may give rise to rounding differences.

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

in TEUR	Common stock Par value	Treasury shares at cost	Additional paid-in capital	Hybrid capital	Retained earnings
At 1 January 2014	966,183	–7,803	582,618	591,186	–190,208
Net result	0	0	0	0	–185,588
Other comprehensive income (loss)	0	0	0	0	–19,682
Total comprehensive income	0	0	0	0	–205,269
Distribution of dividends	0	0	0	0	–47,442
Hyperinflation adjustment	0	0	0	0	24,887
Capital increase	483,092	0	517,530	0	0
At 31 December 2014	1,449,275	–7,803	1,100,148	591,186	–418,032
Net result	0	0	0	0	392,598
Other comprehensive income (loss)	0	0	0	0	5,201
Total comprehensive income	**0**	**0**	**0**	**0**	**397,800**
Distribution of dividends	0	0	0	0	–58,517
Change in reporting entities	0	0	0	0	0
At 31 December 2015	**1,449,275**	**–7,803**	**1,100,148**	**591,186**	**–78,750**

See accompanying Notes to the Consolidated Financial Statements.
The use of automated calculation systems may give rise to rounding differences.
The tax benefit resulting from the accrued interest attributable to hybrid capital holders is included in the distribution of dividends (see Note (29)).

Available-for-sale reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
−15	−41,607	−442,296	1,458,058	1,089	1,459,147
0	0	0	−185,588	190	−185,398
−36	4,380	−18,354	−33,692	0	−33,692
−36	4,380	−18,354	−219,279	190	−219,090
0	0	0	−47,442	−84	−47,526
0	0	0	24,887	0	24,887
0	0	0	1,000,622	0	1,000,622
−50	−37,227	−460,649	2,216,846	1,195	2,218,041
0	0	0	392,598	175	392,774
−337	4,380	−136,056	−126,812	0	−126,812
−337	4,380	−136,056	265,786	175	265,961
0	0	0	−58,517	−163	−58,680
0	0	0	0	700	700
−387	−32,848	−596,706	2,424,115	1,907	2,426,022

TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements
Consolidated Segment Reporting

2015 (in TEUR)	Austria	Bulgaria	Croatia
External revenues	2,505,897	362,274	360,504
Intersegment revenues	20,801	2,456	10,831
Total revenues	**2,526,698**	**364,729**	**371,335**
Other operating income	92,922	16,338	3,692
Segment expenses	−1,733,361	−248,290	−291,978
EBITDA comparable	**886,258**	**132,777**	**83,049**
Restructuring	−394	0	0
Impairment and reversal of impairment	0	0	0
EBITDA incl. effects from restructuring and impairment tests	**885,865**	**132,777**	**83,049**
Depreciation and amortisation	−467,746	−90,721	−69,954
Operating income	**418,118**	**42,056**	**13,096**
Interest income	2,366	2,212	689
Interest expense	−30,060	−554	−9,213
Equity in earnings of affiliates	376	0	0
Other financial income	97	38	563
Earnings before income taxes	**390,897**	**43,752**	**5,134**
Income taxes			
Net result			
Segment assets	4,914,337	991,493	589,637
Segment liabilities	−2,540,187	−167,928	−406,931
Non-current assets	3,671,616	900,142	438,243
Cost to acquire property, plant and equipment and intangible assets	465,649	75,274	72,730
Other non-cash items	38,645	2,235	8,947
EBITDA comparable margin	35.1%	36.4%	22.4%

2014 (in TEUR)	Austria	Bulgaria	Croatia
External revenues	2,452,215	368,624	369,365
Intersegment revenues	19,767	2,636	8,869
Total revenues	**2,471,983**	**371,260**	**378,234**
Other operating income	86,497	13,541	7,502
Segment expenses	−1,803,110	−241,736	−301,406
EBITDA comparable	**755,370**	**143,065**	**84,331**
Restructuring	−89,565	0	0
Impairment and reversal of impairment	0	−340,600	0
EBITDA incl. effects from restructuring and impairment tests	**665,805**	**−197,535**	**84,331**
Depreciation and amortisation	−508,590	−87,333	−68,464
Operating income	**157,214**	**−284,868**	**15,866**
Interest income	2,376	1,256	225
Interest expense	−42,836	−497	−9,784
Equity in earnings of affiliates	571	0	0
Other financial income	644	−44	−1,137
Earnings before income taxes	**117,969**	**−284,152**	**5,170**
Income taxes			
Net result			
Segment assets	4,814,359	881,609	596,438
Segment liabilities	−2,650,203	−95,041	−421,255
Non-current assets	3,709,677	789,913	421,643
Cost to acquire property, plant and equipment and intangible assets	404,478	103,341	70,301
Other non-cash items	211,392	4,536	13,327
EBITDA comparable margin	30.6%	38.5%	22.3%

For further information on segments, see Note (3).
The use of automated calculation systems may give rise to rounding differences.

Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
327,070	470,837	0	0	4,026,582
15	10,521	0	−44,624	0
327,085	**481,358**	**0**	**−44,624**	**4,026,582**
5,891	43,009	27,514	−63,091	126,275
−169,401	−386,158	−58,920	107,820	−2,780,288
163,576	**138,209**	**−31,405**	**105**	**1,372,569**
0	0	0	0	−394
0	0	0	0	0
163,576	**138,209**	**−31,405**	**105**	**1,372,175**
−76,951	−92,818	0	10	−798,179
86,625	**45,391**	**−31,405**	**115**	**573,996**
13,011	2,399	35,955	−34,184	22,449
−2,009	−4,119	−166,155	34,120	−177,990
0	0	−136	0	240
−1,025	−130	465,500	−467,136	−2,093
96,603	**43,542**	**303,759**	**−467,085**	**416,602**
				−23,829
				392,774
402,231	1,029,734	8,007,367	−7,630,276	8,304,522
−53,121	−277,353	−4,287,996	1,855,017	−5,878,501
321,966	762,947	0	21	6,094,935
66,508	118,288	0	−2,305	796,144
4,269	5,486	6,554	0	66,137
50.0%	28.7%	n.a.	n.a.	34.1%

Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
354,962	472,797	0	0	4,017,964
16	8,295	0	−39,583	0
354,978	**481,091**	**0**	**−39,583**	**4,017,964**
5,966	11,888	54,500	−60,859	119,035
−188,578	−355,966	−60,025	99,927	−2,850,894
172,366	**137,013**	**−5,525**	**−515**	**1,286,105**
0	0	0	0	−89,565
0	−5,100	0	0	−345,700
172,366	**131,913**	**−5,525**	**−515**	**850,840**
−90,168	−100,068	0	797	−853,826
82,198	**31,846**	**−5,525**	**282**	**−2,986**
9,457	1,308	35,295	−35,354	14,562
−2,015	−2,449	−172,325	35,361	−194,545
0	0	97	0	668
454	−1,118	−662,075	661,461	−1,816
90,095	**29,586**	**−804,533**	**661,749**	**−184,117**
				−1,281
				−185,398
568,810	807,660	7,701,935	−7,054,416	8,316,397
−68,228	−198,071	−4,270,118	1,604,559	−6,098,357
477,039	607,454	0	−23	6,005,702
52,104	138,713	0	0	768,936
4,232	5,142	−21,742	0	216,886
48.6%	28.5%	n.a.	n.a.	32.0%

Table of Other Intangible Assets

in TEUR	Licenses	Brand names	Software	Customer base	Advances/ construction in progress	Other	Total
Cost							
At 1 January 2014	1,135,319	573,442	1,205,413	1,121,786	1,082,074	188,264	5,306,298
Hyperinflation adjustment	5,645	5,603	3,729	19,954	523	279	35,733
Additions	95,874	0	87,438	0	73,504	11,964	268,780
Disposals	−44	0	−161,204	0	−45	−3,403	−164,696
Transfers	456,499	325	75,709	−51	−522,113	23,377	33,746
Translation adjustment	−12,145	−104	−1,935	−257	−146	−3,420	−18,006
Changes in reporting entities	−116	−386	−709	2,633	−1	−116	1,305
At 31 December 2014	**1,681,032**	**578,881**	**1,208,440**	**1,144,064**	**633,796**	**216,947**	**5,463,160**
Hyperinflation adjustment	0	0	0	0	0	0	0
Additions	27,939	0	56,182	0	105,164	22,709	211,993
Disposals	0	0	−83,069	0	−374	−9,464	−92,907
Transfers	5,043	0	65,586	0	−62,718	−6,097	1,813
Translation adjustment	−32,334	−30,245	−23,323	−107,847	−1,421	−2,038	−197,207
Changes in reporting entities	20,370	8,986	5,139	90,815	−12	16,572	141,870
At 31 December 2015	**1,702,050**	**557,622**	**1,228,954**	**1,127,032**	**674,435**	**238,628**	**5,528,722**
Accumulated amortisation and impairment							
At 1 January 2014	−721,564	−33,227	−891,954	−937,306	0	−131,977	−2,716,029
Hyperinflation adjustment	−2,075	0	−3,317	−13,859	0	−238	−19,489
Additions	−87,278	−8,401	−149,425	−54,941	0	−13,649	−313,694
Disposals	37	0	160,740	0	0	1,856	162,633
Transfers	0	−325	−1,519	51	0	−14,443	−16,236
Translation adjustment	4,266	13	1,397	163	0	3,108	8,947
Changes in reporting entities	68	0	625	0	0	121	814
At 31 December 2014	**−806,546**	**−41,940**	**−883,453**	**−1,005,892**	**0**	**−155,223**	**−2,893,054**
Hyperinflation adjustment	0	0	0	0	0	0	0
Additions	−85,584	−2,220	−142,939	−49,628	0	−14,318	−294,689
Disposals	0	0	82,451	0	0	9,344	91,795
Transfers	0	0	−201	0	0	4,743	4,541
Translation adjustment	14,442	−5	18,413	91,199	0	1,476	125,526
Changes in reporting entities	−739	0	−2,680	−41,298	0	−10,268	−54,986
At 31 December 2015	**−878,427**	**−44,165**	**−928,409**	**−1,005,619**	**0**	**−164,246**	**−3,020,867**
Carrying amount at							
31 December 2015	823,623	513,457	300,545	121,413	674,435	74,382	2,507,855
31 December 2014	874,486	536,941	324,987	138,172	633,796	61,724	2,570,106

For further information on other intangible assets, see Note (18).
The use of automated calculation systems may give rise to rounding differences.

Table of Property, Plant and Equipment

in TEUR	Land, buildings & leasehold improvements	Communications network and other equipment	Advances/ construction in progress	Total
Cost				
At 1 January 2014	901,845	10,193,057	140,719	11,235,622
Hyperinflation adjustment	2,306	25,324	1,761	29,391
Additions	9,306	316,482	174,369	500,156
Disposals	–17,359	–545,079	–374	–562,812
Transfers	2,724	88,583	–124,551	–33,244
Translation adjustment	–662	–15,926	–1,016	–17,604
Changes in reporting entities	–968	17,488	288	16,808
At 31 December 2014	**897,191**	**10,079,929**	**191,197**	**11,168,317**
Hyperinflation adjustment	0	0	0	0
Additions	7,737	375,347	201,067	584,151
Disposals	–30,290	–517,481	–1,860	–549,630
Transfers	4,569	168,848	–174,209	–792
Translation adjustment	–12,571	–146,064	–12,409	–171,044
Changes in reporting entities	2,939	273,727	8,581	285,247
At 31 December 2015	**869,576**	**10,234,306**	**212,366**	**11,316,249**
Accumulated depreciation and impairment				
At 1 January 2014	–596,664	–8,330,831	0	–8,927,495
Hyperinflation adjustment	–275	–17,218	0	–17,493
Additions	–30,324	–509,808	0	–540,132
Disposals	14,739	527,450	0	542,189
Transfers	–204	16,219	0	16,015
Translation adjustment	327	10,584	0	10,911
Changes in reporting entities	897	–7,094	0	–6,197
At 31 December 2014	**–611,505**	**–8,310,697**	**0**	**–8,922,202**
Hyperinflation adjustment	0	0	0	0
Additions	–32,340	–471,150	0	–503,490
Disposals	25,251	478,582	0	503,833
Transfers	–666	–4,483	0	–5,149
Translation adjustment	2,031	100,615	0	102,646
Changes in reporting entities	–780	–133,739	0	–134,519
At 31 December 2015	**–618,009**	**–8,340,872**	**0**	**–8,958,881**
Carrying amount at				
31 December 2015	251,567	1,893,434	212,366	2,357,367
31 December 2014	285,686	1,769,232	191,197	2,246,115

For further information on property, plant and equipment, see Note (19).
The use of automated calculation systems may give rise to rounding differences.

(1) The Company and Significant Accounting Policies

Description of business and relationship with the Federal Republic of Austria

Telekom Austria AG is incorporated as a joint stock corporation ('Aktiengesellschaft') under the laws of the Republic of Austria and is located in Austria, Lassallestrasse 9, 1020 Vienna. Telekom Austria AG and its subsidiaries ('Telekom Austria Group') are engaged as full service telecommunications providers of long distance, local and wireless services, corporate data communications services as well as internet services and television broadcasting. Telekom Austria Group also supplies telephones and technical equipment for telephone communications. These activities are conducted primarily in Austria, Bulgaria, Croatia, Belarus, Slovenia, the Republic of Serbia and the Republic of Macedonia.

The parent company of Telekom Austria Group is América Móvil, S.A.B. de C.V. ('América Móvil'), which is located in Mexico. The Federal Republic of Austria, through Österreichische Bundes- und Industriebeteiligungen GmbH ('ÖBIB') formerly Österreichische Industrieholding AG ('ÖIAG'), with an interest of 28.42% is the second significant shareholder of Telekom Austria Group. América Móvil's and ÖBIB's stake in Telekom Austria Group is disclosed in Note (29).

In addition to the related party transactions described in Note (10), the Federal Republic of Austria regulates certain activities of Telekom Austria Group in Austria via the Rundfunk und Telekom Regulierungs-GmbH ('RTR'). In addition, the government holds the taxing authority for the Austrian operations of Telekom Austria Group and imposes taxes such as corporate income tax and value-added taxes.

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

Basis of presentation

Telekom Austria Group prepared the accompanying Consolidated Financial Statements as of 31 December 2015 in compliance with the International Financial Reporting Standards ('IFRS/IAS'), issued by the International Accounting Standards Board ('IASB'), the interpretations of the IFRS Interpretations Committee ('IFRIC') and the interpretation of the former Standards Interpretation Committee ('SIC'), effective as of 31 December 2015 and as endorsed by the European Union, as well as in accordance with the supplemental regulations of section 245a of the Austrian Business Enterprise Code ('Österreichisches Unternehmensgesetzbuch').

The Consolidated Financial Statements are generally prepared by applying the principle of amortised cost. Excluded from this principle are assets available for sale and liabilities resulting from the long-term incentive programme. These are measured at fair value.

The following amendments to existing IFRS and one new IFRIC are effective as of 1 January 2015.

IFRIC 21	Levies
all IFRSs	Amendments as a Result of Improvements Project 2011–2013

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

The following standards and interpretations were issued by the IASB, but were not effective for the financial year 2015. Telekom Austria Group has not early adopted these standards and interpretations and is currently evaluating their impact on its Consolidated Financial Statements.

		Effective *	Effective**
IAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014	1 February 2015
all IFRSs	Annual Improvements 2010–2012	1 July 2014	1 February 2015
IFRS 14	Regulatory Deferral Accounts	1 January 2016	will not be endorsed
IFRS 11	Amendments Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	1 January 2016
IAS 16.38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	1 January 2016
IAS 41	Agriculture: Bearer Plants	1 January 2016	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2018	not endorsed
IFRS 9	Financial Instruments	1 January 2018	not endorsed
all IFRSs	Annual Improvements 2012–2014	1 January 2016	1 January 2016
IAS 27	Equity Method in Separate Financial Statements	1 January 2016	1 January 2016
IAS 1	Disclosure Initiative	1 January 2016	1 January 2016
IFRS 10	Investment Entities – Applying the Consolidation Exception	1 January 2016	not endorsed
IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	postponed by the IASB	not endorsed
IFRS 16	Leases	1 January 2019	not endorsed

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

IFRS 15 includes a five-step model to be applied to revenue from contracts with customers (with a few exceptions). The type of transaction or the sector of the entity is not relevant. IFRS 15 contains additional qualitative and quantitative disclosure obligations. These are aimed at enabling users of the financial statements to understand the nature, amount, timing and the uncertainties of revenue and the resulting cash flows arising from contracts with customers. The impact of IFRS 15 on the Group is currently being evaluated for individual revenue groups. Possible changes from the current recognition of revenue are primarily expected for contracts with customers containing multiple elements. Currently, the possible impact on the Consolidated Financial Statements from the initial adoption of IFRS 15 cannot be estimated.

IFRS 9 concerns the classification and measurement of financial assets and financial liabilities, hedge accounting and impairment of financial assets. The application of the improvements of IFRS 9 will have an effect on the classification and measurement of financial assets as well as hedge accounting, but will not affect the classification and measurement of financial liabilities in the Consolidated Financial Statements. The business model of Telekom Austria Group is 'hold to collect' and 'hold to collect and sell', respectively, and no derivative financial instruments are held. The contractual cash flows of non-derivative financial instruments mainly consist of principal and interest. Although management does not expect major measurement changes of financial instruments, currently the possible impact on the Consolidated Financial Statements from the initial adoption of IFRS 9 cannot be estimated.

Principles of consolidation

Note (38) shows a list of all subsidiaries included in the Consolidated Financial Statements on 31 December 2015 and 2014.

Subsidiaries are consolidated when Telekom Austria Group may exercise control. Control is defined as the rights to variable returns and the ability to affect those returns through power over an investee.

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

Investments in companies in which Telekom Austria Group has significant influence, but no control of the investee, are accounted for using the equity method. The Consolidated Financial Statements include two investments (2014: two) accounted for using the equity method. Under the equity method, only Telekom Austria Group's investments in as well as receivables due from and liabilities due to these equity investees are included in the consolidated statements of financial position. Telekom Austria Group's share of the investee's earnings is included in the consolidated statements of profit or loss. In the consolidated statements of cash flows only dividends, loans or cash received from or paid to the investee are included.

All significant intercompany balances and transactions have been eliminated in consolidation.

Foreign currency translation

The Consolidated Financial Statements of Telekom Austria Group are expressed in thousand Euros ('TEUR').

Financial statements of subsidiaries where the functional currency is a currency other than the Euro are translated using the functional currency principle. For these entities, assets and liabilities are translated using the year-end exchange rates, while revenues and expenses are translated using the average exchange rates prevailing during the year except for subsidiaries located in a hyperinflationary economy for which the year-end exchange rates are applied. Until the disposal of the respective subsidiary, the foreign currency translation adjustment classified in stockholders' equity, is recognised in other comprehensive income (OCI).

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

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

	Exchange rates at 31 December		Average exchange rates for the period ended 31 December	
	2015	2014	2015	2014
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.6380	7.6580	7.6144	7.6348
Czech Koruna (CZK)	27.0230	27.7350	27.2791	27.5361
Hungarian Forint (HUF)	315.9800	315.5400	309.9362	308.7371
Serbian Dinar (RSD)	121.6261	120.9583	120.7386	117.2601
Swiss Franc (CHF)	1.0835	1.2024	1.0680	1.2146
Rumanian Leu (RON)	4.5240	4.4828	4.4452	4.4445
Turkish Lira (TRY)	3.1765	2.8320	3.0252	2.9073
Macedonian Denar (MKD)	61.5947	61.4814	61.6102	61.6224
Belarusian Rouble (BYR)*	20,300.0000	14,380.0000	17,690.3640	14,380.0000
US Dollar (USD)	1.0887	1.2141	1.1093	1.3284
Great Britain Pound (GBP)	0.7340	0.7789	0.7259	0.793
Bosnian convertible mark (BAM)	1.9558	1.9558	1.9558	1.9558
Polish Zloty (PLN)	4.2639	4.2732	4.1838	4.1859

*Year-end rates were used for the translation of revenues and expenses as IAS 29 'Financial Reporting in Hyperinflationary Economies' was applied in 2014.

Financial reporting in hyperinflationary economies

Financial statements of subsidiaries located in hyperinflationary economies are restated before translation to the reporting currency of the group and before consolidation in order to reflect the same value of money for all items. Items recognised in the statements of financial position which are not measured at the applicable year-end measuring unit are restated based on the general price index. All non-monetary items measured at cost or amortised cost are restated for the changes in the general price index from the date of transaction to the reporting date. Monetary items are not restated. All items of stockholders' equity are restated for the changes in the general price index since their addition until the end of the reporting period. All items of comprehensive income are restated for the change in a general price index from the date of initial recognition to the reporting date. Gains and losses resulting from the net position of monetary items are reported in the consolidated statements of profit or loss in financial result in exchange differences.

Until 31 December 2014, hyperinflation accounting according to IAS 29 was applied to the subsidiary in Belarus. Until 31 December 2014, the assets, liabilities, revenues and expenses of this foreign subsidiary were translated at year-end exchange rates for consolidation purposes. Since 1 January 2015, hyperinflation accounting has been discontinued, as the characteristics indicating hyperinflation have no longer been met. All amounts expressed in the measuring unit at 31 December 2014 are treated as the basis for the carrying amounts in 2015. Revenues and expenses are translated again using the average exchange rate, while the year-end exchange rates were used during the application of hyperinflation accounting, for the purpose of consolidation.

The financial statements of the subsidiaries in Belarus are generally based on historic cost. From 2011 to 2014, this basis had to be restated due to changes in the value of money of its functional currency. The financial statements of the subsidiaries in Belarus were therefore reported at the applicable measuring unit at the reporting date. The consumer price indexes published by the Belarusian 'National Statistical Committee' were applied. The following table provides the inflation rates used in the calculation:

Year	Inflation in %
2008	13.4
2009	9.8
2010	10.1
2011	108.7
2012	21.8
2013	16.5
2014	16.2

Format of the consolidated statements of profit or loss

Telekom Austria Group defines EBITDA as the net result excluding financial result, income taxes and depreciation and amortisation. EBITDA comparable and EBITDA incl. effects from restructuring and impairment tests are used to better evaluate trends in Telekom Austria Group's underlying operations. EBITDA comparable comprises EBITDA adjusted for effects from the restructuring programme described in Note (22) and from impairment testing, if any. The restructuring programme includes social plans for certain employees whose employment will be terminated in a socially responsible way, and expenses for the future compensation of civil servants, who will no longer provide services for Telekom Austria Group but who cannot be laid off due to their status as civil servants. Furthermore, expenses for the transfer of civil servants to the Austrian government are adjusted for the purpose of determining EBITDA comparable.

Revenue recognition

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

Telekom Austria Group generates revenues from fixed-line services and mobile communication services to individuals, commercial and non-commercial organisations and other national and foreign carriers.

Fixed-line services include access fees, domestic and long distance services including internet, fixed-to-mobile calls, international traffic, voice value-added services, interconnection, call centre services, data and ICT solutions, television services and public payphone services. Mobile communications services comprise digital mobile communications services including value-added services, text and multimedia messaging, m-commerce and information services. Certain arrangements that Telekom Austria Group enters into provide for the delivery of multiple deliverables by Telekom Austria Group. For the mobile communication services, these multiple element arrangements typically include the sale of a handset, the activation fee, the yearly SIM card fee and the phone service contract. For fixed-line services, these arrangements typically include internet and fixed-line and optional TV and mobile communication services. In general, Telekom Austria Group determines that such arrangements are divided into separate 'units of accounting' based on a determination of a separable value to the customer for each deliverable on a standalone basis. The total arrangement consideration is allocated to the units of accounting based on the relative fair value and after taking into consideration any uncertainty of future revenues.

Telekom Austria Group recognises long distance and local service revenue based on minutes of use processed or based on contracted fixed fee schedules at the time the services are rendered. Revenues due from other national and foreign carriers for incoming calls from outside Telekom Austria Group's network are recognised in the period the call occurs.

Access fees, monthly base fees, maintenance fees, service fees and lines leased to business customers are billed in advance resulting in deferred revenues. These fees are recognised over the period the service is provided. Cash discounts and rebates are accounted for as reductions in revenues when granted.

Revenues from the sale of merchandise and revenues generated from other services are recognised upon delivery and acceptance by the customers or when the services are provided in accordance with contract terms.

Setting up customer lines is a separate service, offered by Telekom Austria Group independently from other services. Revenue on such installation work is recognised when the setup is completed.

Telekom Austria Group has entered into a limited number of agreements with other telecommunication operators outside of Austria whereby Telekom Austria Group has granted contractually agreed access to existing capacity within its physical network in return for similar access to the physical network of the counterparty. Telekom Austria Group does not recognise revenue or liabilities to the counterparty under such agreements apart from the trade revenue arising from subscriber transactions under normal tariff plans as the services transacted under such agreements are equivalent. The benefits and costs of such swap agreements are reflected in Telekom Austria Group's results of operations in the periods in which they are realised through reduced interconnection revenues and expenses, respectively.

Telekom Austria Group recognises mobile and roaming service revenue based upon minutes of traffic processed or contracted fee schedules when the services are rendered. Revenues due from foreign carriers for international roaming calls are included in revenues in the period in which the call occurs.

Certain prepaid services are billed in advance resulting in deferred revenues. These fees are deferred and recognised over the period the service is provided.

Cash discounts and rebates are accounted for as a reduction in revenues when granted. Customer acquisition costs are recognised pro-rata over the contract period as marketing expenses when a service contract exists.

In the case of customer loyalty programmes, under which the customers can redeem mobile handsets or accessories against bonus points (award credits) granted to them as part of the sales transactions, revenue is deferred at the time of the granting of the award credits until the goods are redeemed or the awards expire.

Activation revenues and related expenses are generally recognised over the minimum contract term. Activation fees do not have a standalone value to customers and are therefore allocated as part of the arrangement consideration according to the relative fair value method to the units of accounting.

Research and development costs

In accordance with IAS 38, research costs, defined as costs of original and planned research performed to gain new scientific or technical knowledge and understanding, are expensed as incurred. Development costs are defined as costs incurred to achieve technical and commercial feasibility. If development costs cannot be separated from research costs or do not meet the relevant recognition criteria, the development costs as well as research costs are expensed as incurred according to IAS 38. In 2015 and 2014, research as well as not capitalised development expenses of TEUR 15,518 and TEUR 17,136, respectively, were recognised based on their origination as employee expenses, depreciation and amortisation as well as other operating expenses in the consolidated statements of profit or loss.

Interest, royalties and dividends

Interest is recognised using the effective interest method in accordance with IAS 39. Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement; dividends are recognised when the shareholder's right to receive payment is established.

Earnings per share
Basic and diluted earnings per share are calculated by dividing the net income or loss by the weighted average number of common shares outstanding for the year. The Management Board determined to settle all shares granted in the course of the long-term incentive programme in cash. Thus, no related dilutive effect has been considered in 2015 and 2014 for current employee incentive programmes.

Cash and cash equivalents
Telekom Austria Group considers cash in banks and highly liquid investments with remaining maturities of up to three months from the date of acquisition to be cash and cash equivalents. Money market deposits with remaining maturities of more than three months from the date of acquisition are classified as short-term investments along with marketable securities. The financial resource fund in the consolidated statements of cash flows is equal to unrestricted cash and cash equivalents reported in the consolidated statements of financial position.

Marketable securities and other long-term investments
In accordance with IAS 39, Telekom Austria Group has classified all marketable securities and certain long-term investments as available-for-sale, and carries these securities at fair value. When the fair value cannot be determined, the investment is recorded at cost. Unrealised gains and losses resulting from the change in the fair value of available-for-sale investments are recorded in other comprehensive income (OCI), net of income tax.

Telekom Austria Group's policy for determining if an impairment of a security exists is based on a two-step approach taking into consideration the significance of the difference between the acquisition cost and the fair value of the security as well as the period of time for which such a difference exists. Telekom Austria Group determines, on an individual security basis, whether the change in fair value is temporary and insignificant. If the change is neither temporary nor insignificant, Telekom Austria Group recognises an impairment loss in other financial result. Furthermore, Telekom Austria Group evaluates whether there is any indication for a complete loss of a debtor (credit risk).

If the reasons for the impairment no longer exist, the impairment charge is fully or partly reversed. Impairment losses recognised in profit or loss for investments in equity instruments classified as available-for-sale shall not be reversed through profit or loss. In case the fair value of a debt instrument classified as available-for-sale increases and such increase is a result of an event that occurred after recognition of the impairment loss, the impairment loss shall be reversed in profit or loss.

Investments in unquoted equity instruments are not carried at fair value because their fair value cannot be reliably determined. They are carried at cost less impairment losses, if applicable. The amount of an impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flow discounted at the current market rate of return for a similar financial asset. The subsequent reversal of such impairment losses in the future is not allowed.

Receivables
Accounts receivable – trade and other financial receivables are classified as loans and receivables and are measured at amortised cost or the lower recoverable amount.

An impairment of loans, accounts receivable – trade and other receivables is recorded (specific allowance) if there is objective evidence that Telekom Austria Group will not be able to collect all amounts due according to the original terms. Serious financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that the receivable is impaired.

Additionally, for groups of similar financial assets, Telekom Austria Group records a general allowance, which is determined based on historical data of payment statistics for similar financial assets.

The carrying amount of financial assets is reduced through the use of allowance accounts, and the impairment charge is recognised in the consolidated statements of profit or loss in other operating expenses. When a receivable is considered to be irrecoverable, the amount is written off against the receivable.

Inventories
Inventories consist of merchandise sold in retail shops or by retailers and material and spare parts used for the construction and maintenance of networks, mainly for Telekom Austria Group's own use. Inventories are measured at the lower of cost or net realisable value, with cost being determined on the basis of weighted average cost. Net realisable value of merchandise is the estimated selling price in the ordinary course of business less the estimated selling expense. Telekom Austria Group assumes that replacement costs are the best measure of the net realisable value of spare parts and material used for construction and maintenance.

Assets held for sale
In accordance with IFRS 5, assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. They are no longer depreciated and are classified separately in the statements of financial position as assets held for sale. The net gains or losses on the sale of assets held for sale are recorded together with gains and losses from the retirement of property, plant and equipment either in other operating expenses or other operating income.

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

Other intangible assets with finite useful lives are amortised over their respective useful lives to their estimated residual values and tested for impairment if an event or circumstance indicates that the assets may be impaired.

In each reporting period, Telekom Austria Group is required to re-evaluate its decision that an intangible asset has an indefinite useful life. If an intangible asset with an indefinite useful life is subsequently determined to have a finite useful life, the intangible asset is written down to its recoverable amount if lower than its carrying amount and amortised prospectively over its remaining useful life.

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

Telekom Austria Group performs these impairment tests by calculating the value in use based on capital-market oriented valuation methodology. The weighted average cost of capital ('WACC') applied corresponds to the weighted average interest on equity and debt. Value in use is determined by estimating the future net cash flows of the cash-generating unit based on the business plans, which are prepared for periods of four years. Significant assumptions to determine the value in use comprise the development of revenues, cost drivers, capital expenditure, growth rate and discount rate.

Assumptions used in business plans are based on actuals, industry forecasts and external economic parameters such as development of gross domestic product (GDP), inflation rates, currency rates, population and other.

Costs and capital expenditure are based on past experience and extended to include internal expectations.

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

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

If the recoverable amount of the cash-generating unit exceeds its carrying amount, the cash-generating unit and the goodwill allocated to that cash-generating unit shall be regarded as not impaired. Rather, Telekom Austria Group examines if impairment losses recognised in the past (with the exception of goodwill) have to be reversed. If the carrying amount of the cash-generating unit exceeds its recoverable amount, the entity shall recognise an impairment loss in the consolidated statements of profit or loss. The impairment loss shall first be allocated to the carrying amount of any goodwill allocated to the cash-generating unit, and then to the other assets of the cash-generating unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit, provided that the recoverable amount is less than the carrying amount of the cash-generating unit. These reductions in the carrying amounts represent impairment losses on individual assets.

Intangible assets with a finite useful life are stated at cost and are amortised using the straight-line method over their estimated useful lives, as shown below:

	Year
Mobile communications and fixed net licenses*	3–30
Patents and proprietary rights	2–30
Subscriber base	2–14
Software	2–12
Other	2–50

* See also terms in Note (18).

Other intangible assets amortised over more than 20 years relate to indefeasible rights of use of cable fibre or wave length over a fixed period of time. The indefeasible rights are amortised over the term of the contract.

Brand names are classified as intangible assets with indefinite useful life based on an analysis of product life cycles, contractual and legal control of the asset and other pertinent factors. If Management intends to discontinue the use of a brand name in the foreseeable future, its carrying amount is amortised over the remaining estimated useful life.

Internally developed software

Certain direct and indirect development costs associated with internally developed software, including direct costs of materials and services, and payroll costs, are capitalised once the project has reached the application development stage. The costs are amortised using the straight-line method over a period not exceeding four years, beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, maintenance and training costs and research and development costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment are stated at cost, which includes certain costs that are capitalised during the installation and expansion of the telecommunications network including material, payroll, direct overhead and interest costs as well as the present value of estimated decommissioning and restoration obligations. Value-added tax ('VAT'), which is charged by suppliers and refunded by the tax authorities, is not included in cost. Plant and equipment under finance leases are stated at the lower of present value of minimum lease payments or fair value.

Depreciation on plant and equipment is calculated using the straight-line method and the estimated useful lives of property, plant and equipment. Plant and equipment under finance lease and leasehold improvements are amortised using the straight-line method over the lease term or the estimated useful life of the asset, whichever is shorter.

The useful lives are:

	Year
Transmission equipment	3–20
Cables and wires	2–20
Communications equipment	5–20
Furniture, fixtures and other	2–10
Buildings and leasehold improvements	3–50

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

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

Government grants

Investment grants are deducted from the cost of the asset. Performance-related grants are recorded as other operating income in the consolidated statements of profit or loss.

Impairment of property, plant and equipment and intangible assets

In the event that facts and circumstances indicate that Telekom Austria Group's property, plant and equipment or intangible assets with finite useful lives may be impaired, an evaluation of recoverability is performed, regardless of whether they are to be held and used or to be disposed of. In accordance with IAS 36, an impairment loss is recognised when an asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. Fair value is the amount obtainable from the sale of the asset in an arm's length transaction. Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Impairment charges are recorded separately in the consolidated statements of profit or loss.

If there is any indication that the impairment recognised in prior periods no longer exists, Telekom Austria Group considers the need to reverse all or a portion of the impairment charge.

Financial liabilities

All financial liabilities are classified as other liabilities in accordance with IAS 39, and are recognised initially in the amount corresponding to the financial inflow. Differences between the amount received and the amount to be repaid are recognised over the term of the liability using the effective interest rate method in the financial result (amortised cost).

Other liabilities

Other liabilities are carried at amortised cost.

Provisions

A provision is recorded when an obligation to a third party exists, the payment is probable and the amount can be reasonably estimated. Long-term provisions relating to personnel and social costs, restructuring provisions and asset retirement obligation are recorded at their net present value.

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

Leases

Lease agreements in which Telekom Austria Group assumes substantially all the risks and rewards of ownership as a lessee are classified as finance leases; otherwise, they are classified as operating leases. Plant and equipment acquired by way of finance leasing is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

If substantially all risks and rewards are attributable to Telekom Austria Group as a lessor, the leased asset is recognised by Telekom Austria Group. Measurement of the leased asset is then based on the accounting policies applicable to that asset in accordance with IAS 16. The lease payments are recognised over the term of the lease contract in the consolidated statements of profit or loss as earned. If Telekom Austria Group as a lessor transfers substantially all the risks and rewards incidental to legal ownership to the lessee, the lease agreements are classified as finance leases. Lease receivables are recorded at an amount equal to the net investment in the lease.

Employee benefit obligations

Telekom Austria Group provides retirement benefits under defined contribution and defined benefit plans.

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

All other employee benefit obligations are unfunded defined benefit plans for which Telekom Austria Group records provisions which are calculated using the projected unit credit method in accordance with IAS 19. The future benefit obligations are measured using actuarial methods on the basis of an appropriate assessment of the discount rate, rate of employee turnover, rate of compensation increase and rate of increase in pensions.

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

According to IAS 19.133, Telekom Austria Group chooses to distinguish between current and non-current liabilities arising from employee benefit obligations.

Changes in existing decommissioning, restoration and similar liabilities

In accordance with IAS 16 'Property, Plant and Equipment', the cost of an item of property, plant and equipment includes the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located. The resulting liability is measured in accordance with IAS 37. The effects of changes in the measurement of existing decommission, restoration and similar liabilities are accounted for in accordance with the provisions of IFRIC 1. The provisions require that an increase in the liability that reflects the passage of time shall be recognised in profit or loss. Changes in the measurement of these liabilities resulting from changes in the estimated timing or amount of the outflow of resources or changes in the discount rate shall be added or deducted from the cost of the assets in the current period. The amount deducted from the asset shall not exceed its carrying amount. A possible exceeding amount is reported in the consolidated statements of profit or loss. If the adjustment results in an addition to the asset, it shall be considered whether there is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset shall be tested for impairment and any impairment losses shall be recorded.

Income taxes

Income taxes are calculated for each taxable entity based on the expected actual income tax rate applicable. In accordance with IAS 12 'Income Taxes', deferred tax assets and liabilities are recognised for all temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and their tax bases, for current-year tax losses and tax losses carried forward as well as certain impairment losses on investments for which recognition for tax purposes is deferred over a specified period. For the purpose of calculating deferred tax assets and liabilities, Telekom Austria Group uses the tax rates that have been enacted or substantively enacted at the reporting date. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period the tax rate is effectively enacted. A deferred tax asset is recognised only to the extent that it is probable that sufficient future taxable income will be available. The distribution of dividends by Telekom Austria AG has no effect on the tax rate.

Investment tax credits are recognised as a reduction in income taxes in the period in which those credits are granted. Income tax receivables or payables cover obligations for current and prior periods.

Share-based payments

In accordance with IFRS 2, share-based payments are measured at fair value at the grant date. The expense is recognised over the vesting period. Depending on the settlement of share-based payment transactions either in equity instruments or cash, Telekom Austria Group records an increase in equity or a liability. Due to the Management Board's decision to settle bonus shares granted in the course of the long-term incentive programme in cash, the share-based payments granted are recorded as a liability. Until their settlement in cash, the liabilities are re-measured at their fair value at each reporting date as well as at the settlement date. Changes in the fair value are recorded in profit or loss.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

For financial liabilities carried at amortised cost, gains or losses are recognised in profit or loss when the financial liability is derecognised.

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position only when the entity has a contractual right to offset the recognised amounts and intends to settle on a net basis.

Financial assets include, in particular, cash and cash equivalents, accounts receivable – trade and other receivables, receivables due from related parties and available-for-sale investments.

Financial liabilities include, in particular, accounts payable – trade, issued bonds, bank debt, other financial liabilities and payables due to related parties.

Telekom Austria Group classifies its financial assets and financial liabilities in accordance with IAS 39. Management determines the classification of its financial assets and financial liabilities at initial recognition.

Fair value of financial instruments

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

Concentration of risks

A portion of Telekom Austria Group's revenue is derived from services provided to other companies in the telecommunications industry, mainly to alternative telecommunications and cellular companies as well as to providers of internet online services. As a result, Telekom Austria Group has a certain concentration of credit risk in its customer base. To limit such risk, Telekom Austria Group performs credit evaluations of these key accounts on an ongoing basis.

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

Through its expansion into the Central Eastern European (CEE) region, Telekom Austria Group operates in markets that have been experiencing political and economic change. This has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the CEE region involve uncertainties, including transfer, currency and tax uncertainties, which typically do not exist in other markets. The accompanying Consolidated Financial Statements reflect the Management Board's assessment of the impact of the CEE business environment on the operations and the financial position of Telekom Austria Group. The actual development of the future business environment may differ from Management's assessment.

Use of estimates

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

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

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

b) Impairments: The impairment test for goodwill, other intangible assets and property, plant and equipment (PPE) is generally based upon discounted estimated future net cash flows from the continuing use and ultimate disposal of the assets. Changes in the discount rates used, in the development of revenues, in cost drivers as well as in asset additions could lead to impairments or, to the extent permitted, to reversals of impairments (see Note (17)). For more information on the carrying amounts of goodwill, other intangible assets and property, plant and equipment, see Notes (17), (18) and (19).

c) The estimated useful lives of property, plant and equipment and intangible assets subject to depreciation and amortisation represent the estimated periods during which the assets will be in use. With respect to changes in depreciation and amortisation resulting from changes in the useful lives, see Note (19).

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

e) Deferred taxes: In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all the deferred tax assets will be realised. The ultimate realisation of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. If Telekom Austria Group does not generate sufficient taxable income, deferred tax assets cannot be realised and therefore will not be recognised (see Note (30)).

f) Restructuring (includes provisions for onerous contracts according to IAS 37 as well as provisions for social plans according to IAS 19): The provision is based on various parameters such as discount rate, salary increase, employee turnover and the probability of the acceptance of termination offers. Changes in these parameters could result in higher or lower expenses (see Note (22)).

g) Allowances for doubtful accounts receivables are based on estimated credit risk of receivables. Deviation of actual from estimated payments of customers may result in higher or lower expenses (see Notes (9), (14) and (20)).

(2) Business Combinations

With the business combinations subsequently described Telekom Austria Group further implements the convergence strategy.

In the first half of 2015, Telekom Austria Group acquired 100% of eight cable operators in the Republic of Macedonia through its subsidiary Blizoo.

The fair value of the assets acquired and liabilities assumed at the acquisition date were determined based on the allocation of consideration transferred and are shown in the following table:

Acquisitions by Blizoo in the Republic of Macedonia in TEUR	Fair values on acquisition date
Property, plant and equipment	2,867
Intangible assets	3,007
Accounts receivable – trade	153
Other assets and receivables	13
Cash and cash equivalents	33
Short-term borrowings	–76
Deferred tax liabilities	–482
Accounts payable – trade and other liabilities	–893
Net assets acquired	**4,622**
Goodwill	1,478
Gain resulting from bargain purchase	–103
Total purchase consideration	**5,997**
Purchase price not yet paid	–149
Cash and cash equivalents acquired	–33
Net cash outflow	5,814

Assets and liabilities of these eight acquired cable operators in the Republic of Macedonia are presented in the segment Additional markets.

Factors contributing to goodwill are expectations of positive returns due to a favourable development of the market share in the Republic of Macedonia and cost synergies. The gain resulting from bargain purchase originated from the reduction of a contingent purchase price. Since the acquisition date the eight companies contributed revenues in the amount of TEUR 1,665 and net income in the amount of TEUR 713. Since the effect of the acquired entities on the Consolidated Financial Statements of Telekom Austria Group is not considered significant, no pro-forma information is presented. The fair value of the acquired receivables is reported in the table above. The gross contractual amounts of acquired receivables are TEUR 266. Management's best estimate at the acquisition date of the contractual cash flows not expected to be collected is TEUR 113. Acquisition-related costs of TEUR 94 are reported in other operating expense of which TEUR 56 were already expensed in 2014 in the consolidated statements of profit or loss.

On 1 September 2015, Telekom Austria Group acquired 100% of Amisco NV ('Amis'), the holding entity of Amis Slovenia and Amis Croatia. Amis operates as a fixed-line reseller in Slovenia and owns a fibre network in Croatia. The companies offer internet, IPTV and telephone services to approximately 66,000 customers in Slovenia and approximately 24,000 customers in Croatia as of year-end 2015.

The fair value of the assets acquired and liabilities assumed at the acquisition date were determined based on the allocation of consideration transferred and are shown in the following table:

Acquisition of Amis in TEUR	Fair values on acquisition date
Property, plant and equipment	12,918
Intangible assets	9,008
Deferred tax assets	1,514
Accounts receivable – trade	5,756
Other assets and receivables	3,045
Cash and cash equivalents	605
Short-term borrowings	–5,843
Deferred tax liabilities	–546
Accounts payable – trade	–6,707
Other liabilities	–3,575
Net assets acquired	**16,175**
Goodwill	17,464
Total purchase consideration	**33,639**
Cash and cash equivalents acquired	–605
Net cash outflow	33,034

Assets and liabilities of Amis Slovenia are presented in the segment Additional markets, those of Amis Croatia in the segment Croatia. Factors contributing to goodwill are expectations of positive returns due to a favourable development of the market share in Slovenia and Croatia as well as cost synergies. Since the acquisition date Amis contributed revenues in the amount of TEUR 12,764 and net loss in the amount of TEUR 1,263. Since the effect of the acquired entities on the Consolidated Financial Statements of Telekom Austria Group is not considered significant, no pro-forma information is presented. The fair value of the acquired receivables is reported in the table above. The gross contractual amounts of acquired receivables are TEUR 9,161. Management's best estimate at the acquisition date of the contractual cash flows not expected to be collected is TEUR 3,405. Acquisition-related costs of TEUR 339 are reported in other operating expenses in the consolidated statements of profit or loss.

On 28 September 2015, Telekom Austria Group acquired 100% of Bultel Cable Bulgaria EAD ('Blizoo Bulgaria'). Blizoo Bulgaria is the second largest fixed-line operator in Bulgaria and holds an 8% share in the fixed broadband market and an 11% share in the TV market. The company currently has approximately 378,000 subscribers, which obtain fixed voice, broadband and TV products via DOCSIS 3 technology. In total Blizoo Bulgaria has network coverage of 1.3 million households.

The fair values of the assets acquired and liabilities assumed at the acquisition date were determined based on the preliminary allocation of the consideration transferred and are shown in the following table:

Acquisition of Blizoo Bulgaria in TEUR	Fair values on acquisition date
Property, plant and equipment	90,156
Intangible assets	38,061
Deferred tax assets	1,137
Accounts receivable – trade	1,817
Other assets and receivables	1,537
Cash and cash equivalents	1,618
Loans and short-term borrowings	−84,585
Deferred tax liabilities	−33
Accounts payable – trade	−4,408
Other liabilities	−8,273
Net assets acquired	**37,027**
Non-controlling interests	−752
Gain resulting from bargain purchase	−845
Total purchase consideration	**35,430**
Debt paid on behalf of Blizoo	84,341
Cash and cash equivalents acquired	−1,618
Net cash outflow	118,153

The allocation of the consideration transferred will be finalised as soon as all necessary information is available (IFRS 3.45). The debt paid on behalf of Blizoo Bulgaria relates to receivables of ING Bank N.V., Sofia, Bulgaria and to receivables of the seller assumed by the acquirer. Assets and liabilities of Blizoo Bulgaria are presented in the segment Bulgaria. Factors contributing to goodwill are expectations of positive returns due to a favourable development of the market share in Bulgaria and of cost synergies. Since the acquisition date Blizoo Bulgaria has contributed revenues in the amount of TEUR 11,654 and net loss in the amount of TEUR 1,734. Since the effect of the acquired entity on the Consolidated Financial Statements of Telekom Austria Group is not considered significant, no pro-forma information is presented. The fair value of the acquired receivables is reported in the table above. The gross contractual amounts of acquired receivables are TEUR 2,131. Management's best estimate at the acquisition date of the contractual cash flows not expected to be collected is TEUR 314. Acquisition-related costs of TEUR 434 are reported in other operating expenses in the consolidated statements of profit or loss.

On 1 October 2015, Vip operator, a Macedonian subsidiary of Telekom Austria Group, was merged with Telekom Slovenije's subsidiary ONE, both operating in the Republic of Macedonia. Telekom Austria Group holds 55% and has sole control over the newly created entity one.Vip, whereas Telekom Slovenije Group holds 45%. The share purchase agreement includes call and put options for the exit of Telekom Slovenije Group within three years of the closing of the merger. The total acquisition price includes the fair value of the option. Based on the put options and the exclusion of Telekom Slovenije from dividend rights no non-controlling interest is recorded. ONE is the third largest mobile network operator in the Republic of Macedonia with a mobile market share of 25.4% as of Q4 2014 (Telekom Austria Group estimate) and a total customer base of about 715,000 customers as of 31 December 2014. In 2014, ONE generated revenue of TEUR 75,000 and EBITDA of TEUR 10,600. In accordance with IFRS 3.B 18 Vip operator was identified as the acquirer.

The fair values of the assets acquired and liabilities assumed at the acquisition date were determined based on the preliminary allocation of the consideration transferred and are shown in the following table:

Acquisition of ONE in TEUR	Fair values on acquisition date
Property, plant and equipment	45,919
Intangible assets	35,510
Accounts receivable – trade	8,862
Other assets and receivables	9,150
Cash and cash equivalents	1,262
Deferred tax liabilities	–2,262
Accounts payable – trade	–11,446
Other liabilities	–8,085
Net assets acquired	**78,910**
Goodwill	21,090
Consideration transferred	**100,000**
Purchase price not yet paid	–100,000
Cash and cash equivalents acquired	–1,262
Net cash inflow	–1,262

The allocation of the consideration transferred will be finalised as soon as all necessary information is available. Assets and liabilities of ONE are presented in the segment Additional markets. Factors contributing to goodwill are expectations of positive returns due to a favourable development of the market share in the Republic of Macedonia and cost synergies. Since the financial data of ONE after the merger are not available any more on a standalone basis, contributed revenues and net gain since the acquisition are not reported. Since the effect of the acquired entity on the Consolidated Financial Statements of Telekom Austria Group is not considered significant, no pro-forma information is presented. The fair value of the acquired receivables is reported in the table above. The gross contractual amounts of acquired receivables are TEUR 31,371. Management's best estimate at the acquisition date of the contractual cash flows not expected to be collected is TEUR 22,509. Acquisition-related costs of TEUR 765 are reported in other operating expense of which TEUR 683 were already expensed in 2014 in the consolidated statements of profit or loss.

In the first half of 2015, Telecom Austria Group sold its 90% interest in GPS Bulgaria. The gain of TEUR 471 is reported in other operating income.

(3) Operating Segments

Reporting on operating segments (see table 'Consolidated Operating Segments') has been prepared in accordance with IFRS 8. The accounting policies of the segments are the same as those described in Note (1).

Telekom Austria Group has aligned its management structure and the resulting segment reporting on geographical markets and as a result reports separately on its five operating segments: Austria, Bulgaria, Croatia, Belarus and Additional Markets. The personnel changes in the Management Board of Telekom Austria Group resulted in a reorganisation of the function of the chief operating decision maker. On 1 October 2015, the 'Extended Board', which consisted of the Management Board as well as the Group Officers of Telekom Austria AG who represent human resources and marketing and the corresponding 'Extended Board Meeting' was dissolved. Since then the responsible function of the chief operating decision maker has been the Management Board of Telekom Austria Group, that regularly meets in Management Board meetings. Members of the Management Board are the Group CEO and the Group CFO. Additionally a so-called 'Leadership Team Meeting' was installed. Members of the 'Leadership Team Meeting' are apart from the Management Board the CEOs of the respective main foreign subsidiaries. The 'Leadership Team Meeting' is the decision-making committee for strategic and group-relevant operating topics. The Management Board focuses on revenue, EBITDA comparable as well as EBITDA including effects from restructuring and impairment tests.

Operating segments are aggregated if the estimated long-term business performance in the different countries is expected to develop similarly and the economic characteristics of the subsidiaries are comparable.

The segment Austria comprises convergent products for voice telephony, internet access, data and IT solutions, value-added services, wholesale services, television broadcasting (A1 TV), mobile business and payment solutions in Austria.

The segment Bulgaria comprises voice telephony (mobile and fixed-line telephone service), access to emergency services, directory services, internet access, data and IT solutions, value-added services, wholesale services, the sale of end-user terminal equipment, IP television and other IP based services and payment solutions in Bulgaria.

The segment Croatia provides mobile and fixed-line telephony, cable and satellite television, value-added services as well as mobile and fixed-line internet access in Croatia.

The segment Belarus comprises mobile communication services in Belarus. From 2011 to 2014, hyperinflation accounting in accordance with IAS 29 was applied to the segment Belarus, which resulted during that period in a restatement of non-monetary assets, liabilities and all items of the statements of comprehensive income for the change in a general price index and the translation of these items applying the year-end exchange rate.

The segment Additional Markets comprises one mobile communication company in the Republic of Serbia. In Slovenia and the Republic of Macedonia mobile and fixed-line communication services are offered.

Segment revenues, segment expenses and segment results include transfers between operating segments. Such transfers are accounted for at transfer prices corresponding to competitive market prices charged to unaffiliated customers for similar products. These transfers are eliminated in consolidation.

The segments are reported on a consolidated basis. Segment assets and segment liabilities do not include deferred tax assets or liabilities, income tax receivables or income tax payables.

The column Corporate & Other comprises mainly holding companies as well as the group financing company and it is reported in addition to the column eliminations for improved transparency. Other financial income reported in the column Corporate & Other relates to dividend income from fully consolidated subsidiaries which is eliminated in consolidation, thus having no impact on the Consolidated Financial Statements.

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

In 2015 and 2014, other non-cash items mainly consist of restructuring expenses, pension and severance expense, interest expense on restructuring provisions and asset retirement obligations, bad debt expenses as well as accrued interest in Corporate & Other. Additionally in 2014, this item contains the gain on the merger of mobilkom liechtenstein in Corporate & Other (see Note (5)) as well as non-cash changes in provisions (see Note (22)), the one-time effect relating to the deferral of revenues (see Note (9)) in the segment Austria and the net monetary gain until 2014 in the segment Belarus resulting from the application of hyperinflation accounting.

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

For information on restructuring in the segment Austria, see Note (22).

The item other financial income includes other financial result as well as foreign exchange differences.

(4) Revenues

in TEUR	2015	2014
Services	3,656,856	3,673,851
Equipment	369,726	344,113
Operating revenues	**4,026,582**	**4,017,964**

For information on the change in accounting estimate of revenues in 2014 due to the implementation of a new billing system interface, see Note (9).

The following table sets out revenues from external customers for each product line:

in TEUR	2015	2014
Monthly fee and traffic	2,922,976	2,939,940
Data and ICT solutions	227,022	222,507
Wholesale (incl. Roaming)	172,292	168,567
Interconnection	295,481	315,253
Equipment	369,726	344,113
Other revenues	39,084	27,584
Total revenues	**4,026,582**	**4,017,964**

(5) Other Operating Income

in TEUR	2015	2014
Rental revenue	15,736	14,847
Own work capitalised	46,966	40,061
Other	63,574	64,127
Other operating income	**126,275**	**119,035**

Own work capitalised represents the work performed for own purposes consisting mainly of employee costs and direct overheads capitalised primarily as part of property, plant and equipment. For the capitalisation of internally developed software, see Note (18).

In 2015 and 2014, other operating income includes research and educational tax credits amounting to TEUR 1,762 and TEUR 1,896, respectively. In 2015, other operating income also includes the gain resulting from the bargain purchase of Blizoo Bulgaria of TEUR 845 as well as gain from the sale of GPS of TEUR 471 (see Note (2)) and in 2014 the gain on the merger of mobilkom liechtenstein amounting to TEUR 26,785. In 2015 and 2014, TEUR 4,415 and TEUR 3,250 were recorded relating to claims for compensation for damages and unjustified enrichment against former board members and managers.

In 2011, Si.mobil filed a lawsuit against Telekom Slovenije for alleged violation of competition laws. On 29 December 2014, an agreement was signed which was subject to conditions precedent and provided for continued business cooperation between Telekom Slovenije and Si.mobil. On 21 January 2015, a condition of the agreement subject to conditions precedent between Telekom Slovenije and Si.mobil was fulfilled. Thereupon, Si.mobil withdrew its lawsuit and received a first payment of TEUR 20,000. On 1 October 2015, the second condition precedent was fulfilled and the remaining amount of TEUR 10,000 was received and is reported, as the first payment, in other operating income in the segment Additional markets.

(6) Other Operating Expenses

in TEUR	2015	2014
Interconnection	292,486	314,890
Repairs and maintenance	161,547	165,936
Services received	170,474	169,983
Concession fees	62,414	51,107
Advertising and marketing	125,517	144,725
Other support services	134,665	149,405
Rental and lease expenses	169,743	166,287
Commissions	74,397	72,731
Bad debt expenses	40,740	48,645
Other consulting	5,281	10,468
Legal consulting	3,478	5,548
Travel expenses	13,675	15,761
Other taxes	14,160	13,357
Energy	68,289	64,254
Transportation	27,540	26,916
Training expenses	5,156	7,789
Net loss from retirement of fixed assets	3,051	1,041
Other	35,835	48,307
Other operating expenses	**1,408,447**	**1,477,149**

Impairment losses and reversal of impairment losses for trade and other receivables classified as loans and receivables are recognised in bad debt expenses.

Gains and losses from the retirement of fixed assets are offset. The resulting net gains are reported as other operating income, the resulting net losses are reported as other operating expense.

At the Annual General Meeting on 27 May 2015, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H ('EY') was appointed as group auditor for Telekom Austria AG. In 2014, Deloitte Audit Wirtschaftsprüfungs G.m.b.H ('Deloitte') was appointed as group auditor for Telekom Austria AG. Expenses related to the group auditors amount to:

in TEUR	2015	2014
Audit fees	850	698
Other reviews	0	1,965
Other services	19	0
Fees EY/Deloitte	**869**	**2,663**

In 2014, other reviews provided by Deloitte mainly relate to expenses for the capital increase (see Note (29)).

(7) Financial Result

in TEUR	2015	2014
Interest income on loans and receivables	12,747	12,371
Interest income on bank deposits	9,459	1,980
Interest income on available-for-sale investments	244	210
Interest income	**22,449**	**14,562**

The increase of interest income on bank deposits mainly results from deposits of available liquid funds from the capital increase in 2014 as well as from higher deposits of the subsidiary in Belarus in 2015.

in TEUR	2015	2014
Interest expense on financial liabilities	157,622	163,410
Interest expense on restructuring provision	11,136	19,081
Interest expense on employee benefit obligations	4,072	5,845
Interest expense on asset retirement obligations	5,160	6,209
Interest expense	**177,990**	**194,545**

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

The reduction of interest expenses from restructuring provisions and employee benefit obligations mainly results from the decrease of the interest rate in 2014 (see Notes (22) and (27)).

Foreign exchange differences

in TEUR	2015	2014
Foreign exchange gains	17,087	8,424
Foreign exchange losses	–19,344	–9,503
Net monetary gain	0	–841
Foreign exchange differences	**–2,257**	**–1,921**

The increase of foreign exchange gains and losses mainly results from currency fluctuations of the Belarusian Rouble towards the Euro and the US Dollar.

Other financial result

in TEUR	2015	2014
Dividends received	144	53
Gain on sale of investments measured at cost	15	67
Gain on disposal of available-for-sale securities transferred from other comprehensive income	29	42
Loss on disposal of available-for-sale securities transferred from other comprehensive income	–24	–56
Result from financial assets	**164**	**105**

The amounts previously recognised in other comprehensive income (OCI) and subsequently recognised in profit or loss are disclosed in the consolidated statements of comprehensive income.

(8) Short-term Investments

in TEUR, at 31 December	2015	2014
Marketable securities short-term – available-for-sale	2,367	1,050
Other short-term investments	0	13,383
Short-term investments	**2,367**	**14,433**

Available-for-sale securities are classified as short-term, based on Management's intention to sell these marketable securities within the next twelve months.

As of 31 December 2014, other short-term investments relate to fixed deposits in Belarus.

(9) Accounts Receivable – Trade

in TEUR, at 31 December	2015	2014
Accounts receivable – trade, gross	825,223	773,032
Allowances	–200,588	–172,963
Accounts receivable – trade, net	**624,635**	**600,068**

At 31 December 2015, accounts receivable – trade in an amount of TEUR 358 have a maturity of more than 12 months, while at 31 December 2014 all accounts receivable – trade had a maturity of less than twelve months. Accounts receivable – trade are non-interest bearing.

In the second quarter of 2014, a new billing system interface was implemented, which enables a largely automatic calculation of unbilled revenues in order to calculate deferred revenues. Additionally by applying a separate 'Revenue Assurance Software' an automatic control of these deferred revenues is being performed. Due to the development of the system, the component of estimation could be reduced and the data quality was improved. The new interface accesses directly the billing data, which no longer have to be transferred from multiple different systems and aggregated in several automated and manual interfaces anymore. In 2014, this change in accounting estimate resulted in a decrease in operating revenues and a decrease in accounts receivable – trade of TEUR 47,505 in the segment Austria. According to IAS 8 it does not have any effect on following periods.

The following is a roll-forward of the allowance for doubtful accounts receivable – trade:

in TEUR	2015	2014
At 1 January	**172,963**	180,929
Foreign currency adjustment	–783	–734
Change in reporting entities	25,491	1,060
Reversed	–5,603	–6,194
Charged to expenses	42,115	48,718
Amounts written-off	–33,364	–50,816
Reclassification	–231	0
At 31 December	**200,588**	172,963
Thereof		
Specific allowance	13,253	6,638
General allowance	187,335	166,325

The ageing of accounts receivable – trade is as follows:

in TEUR, at 31 December	Gross 2015	Allowance 2015	Gross 2014	Allowance 2014
Not yet due	568,698	7,204	523,516	6,949
Past due 0–90 days	60,408	11,188	75,178	13,493
Past due 91–180 days	19,506	11,399	19,537	12,797
Past due 181–360 days	27,538	23,084	25,026	19,910
More than one year	149,072	147,713	129,775	119,815
Total	**825,223**	**200,588**	773,032	172,963

in TEUR, at 31 December	2015	2014
Accounts receivable – trade past due, gross	256,524	249,516
Allowance accounts receivable – trade	–193,384	–166,014
Accounts receivable – trade past due, net	63,140	83,501

Telekom Austria Group has grouped accounts receivable – trade according to their exposure to different risks. Corresponding to the risk involved and based on historic experience, Telekom Austria Group determines a certain percentage of accounts receivable – trade of each category as doubtful. All accounts receivable – trade past due are therefore impaired by a certain percentage.

The accounts receivable not past due and not impaired mainly relate to deferred marketing expenses related to customer loyalty programmes, roaming credits, deferrals related to multiple deliverables and access fees invoiced in advance.

Bad debt expenses mainly relate to accounts receivable – trade due from business and private customers.

Telekom Austria Group has no insurance for its accounts receivable – trade because the credit risk is sufficiently diversified due to the large number of customers. However, based on the credit assessment of the retail and wholesale customers Telekom Austria Group requires bank guarantees, warranty und indemnity declarations on behalf of subsidiaries and cash deposits (see Note (33)).

(10) Related Party Transactions

The significant shareholders América Móvil and ÖBIB are considered related parties due to their stake in Telekom Austria AG allowing them to control and to exercise significant influence, respectively. Through América Móvil, Telekom Austria Group is also related to its subsidiaries. Through ÖBIB, Telekom Austria Group is related to the Republic of Austria and its subsidiaries, which are mainly ÖBB Group, ASFINAG Group and Post Group as well as Rundfunk und Telekom Regulierungs-GmbH ('RTR'), all of which qualify as related parties. Telekom Austria Group has determined the kind and amount of the transactions concluded with these related parties. In 2015 and 2014, none of the individual transactions associated with government agencies or government-owned entities are considered significant to Telekom Austria Group. In 2015 and 2014, services received from the related parties mentioned above mainly relate to postage fees, transportation, commissions, roaming and fees to RTR and amount to 7.2% and 4.7%, respectively, of the material expense and other operating expenses recognised in the segment Austria. In 2015 and 2014, revenues generated with these related parties were 3.1% and 3.2% of the total revenues in the segment Austria.

In the course of the capital increase in 2014, Amércia Móvil signed 132.2 million and ÖBIB 63.0 million new shares (see Note (29)).

Telekom Austria Group is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis. The contract with the government concluded in July 2011 specifies the reimbursement for customers having a valid official notice issued before 1 July 2011 of Euro 13.81 per customer per month. The reimbursement for customers having a valid official notice issued after 1 July 2011 amounts to Euro 10.00 per month. The total reimbursement recorded as revenue in the service period was TEUR 15,397 and TEUR 16,402 in 2015 and 2014, respectively.

Regarding the transfer of civil servants to the government and the related expenses, provisions and liabilities, see Note (22).

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

in TEUR	2015	2014
Revenues	402	244
Other operating income	1,459	505
Expenses	24,510	24,805

In 2015 and 2014, the expenses relate mainly to advertising and marketing services provided by media.at-Group.

At 31 December 2015 and 2014, accounts payable due to related parties relate primarily to media.at-Group and subsidiaries of Amércia Móvil, accounts receivable from related parties relate to Telecom Liechtenstein and to subsidiaries of América Móvil (see Note (15)).

All transactions with related parties are monitored and documented to support that pricing is carried out at arm's length.

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

in TEUR	2015	2014
Short-term employee benefits	11,559	11,501
Pensions	693	871
Other long-term benefits	156	218
Termination benefits	4,831	2,245
Share-based payments	752	446
Compensation of key management	**17,991**	**15,280**
Expenses for pensions and severance for other employees	23,022	22,038

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

(11) Inventories

in TEUR, at 31 December	2015	2014
Spare parts, cables and supplies	52,067	48,429
Merchandise	78,905	91,696
Inventories	**130,972**	**140,124**

As of 31 December 2015 and 2014, the carrying amount of merchandise measured at fair value less cost to sell amounted to TEUR 37,383 and TEUR 22,449, respectively. In 2015 and 2014, Telekom Austria Group recognised impairment charges related to inventories amounting to TEUR 19,278 and TEUR 13,583, respectively, as well as reversals of impairment charges amounting to TEUR 827 and TEUR 898, respectively.

(12) Prepaid Expenses

in TEUR, at 31 December	2015	2014
Advances to employees	17,394	16,906
Rent	8,774	30,855
Prepaid marketing expenses	41,138	39,845
Other	48,292	37,813
Prepaid expenses	**115,597**	**125,418**

Prepaid marketing expenses mainly consist of subsidies for mobile handsets, which are expensed over the minimum contractual term.

(13) Non-current Assets Held for Sale

in TEUR, at 31 December	2015	2014
Land and buildings	0	413
Non-current assets held for sale	**0**	**413**

At 31 December 2014, non-current assets held for sale relate to land and buildings in the segment Austria. In 2014, a gain of TEUR 2,846 was recognised from the sale of assets held for sale and is reported in the net result from retirement of fixed assets (see Note (6)). The land and building classified as assets held for sale at 31 December 2014 were reclassified in 2015 to property, plant and equipment, because the sale is no longer highly probable.

(14) Other Current Assets

in TEUR, at 31 December	2015	2014
Instalment sales	84,079	70,775
Finance lease receivables	161	6,805
Other financial assets	6,617	7,155
Financial assets	**90,857**	**84,734**
Other non-financial assets	**39,811**	**47,430**
Other current assets, gross	**130,668**	**132,164**
Less allowance for financial assets	–10,351	–9,061
Less allowance for non-financial assets	–3,189	–2,966
Other current assets	**117,129**	**120,137**

Instalment sales receivables relate to the instalment sales of mobile handsets and tablets and equal the present value of the revenue less already amortised amounts. As of 31 December 2015 and 2014, the instalment sales receivables relate to all segments. In 2015, the long-term instalment sales in the segment Belarus were discontinued (see Note (20)).

For information on finance lease receivables, see Note (26).

Other current non-financial assets mainly consist of deferrals related to customer loyalty programmes, value-added tax receivables, claims against the Republic of Austria (see Note (10)), advance payments, indemnification payments due from insurance companies and receivables due from employees. Additionally in 2015, a repayment claim for an unjustified value added tax claim by the tax authorities in an amount of TEUR 5.561 is included. Additionally in 2014, other current assets contain a receivable amounting to TEUR 16,187 related to investment grants for broadband expansion, which are deducted from acquisition cost (see Note (19)). At 31 December 2015, TEUR 1.097 of these investment grants are outstanding. The allowance for non-financial assets mainly relates to damage claims.

The following table sets forth the ageing of finance lease receivables, instalment sales receivables and other current financial assets:

in TEUR, at 31 December	Gross 2015	Allowance 2015	Gross 2014	Allowance 2014
Not yet due	79,904	3,668	76,099	3,840
Past due 0–90 days	3,045	496	1,435	213
Past due 91–180 days	2,261	873	2,655	1,137
Past due 181–360 days	2,007	1,780	2,505	1,835
More than one year	3,639	3,533	2,040	2,036
Total	**90,857**	**10,351**	84,734	9,061

The following is a roll-forward of the allowance for doubtful finance lease receivables, instalment sales receivables and other current financial assets:

in TEUR	2015	2014
At 1 January	**9,061**	**5,788**
Foreign currency adjustment	–2,256	–367
Change in reporting entities	0	–171
Reversed	0	–10
Charged to expenses	3,570	4,189
Amounts written-off	–257	–367
Reclassification	231	0
At 31 December	**10,351**	9,061

in TEUR, at 31 December	2015	2014
Other current financial assets past due, gross	10,953	8,635
Allowance other current financial assets	–6,683	–5,221
Other current financial assets – trade past due, net	4,270	3,413

(15) Investments in Associates

Investments in associates accounted for using the equity method as of 31 December 2015 and 2014 as well as their allocation to the segments are set forth in Note (38).

The following is a roll-forward of the investments in associates:

in TEUR	2015	2014
At 1 January	**38,253**	**4,979**
Dividends received	–715	–1,724
Recognised income	240	668
Changes in reporting entities	0	34,330
Translation adjustment	2,650	0
At 31 December	**40,428**	**38,253**

The investment in media.at-Group is included in the investments in associates with the proportionate total consolidated equity of the media.at-Group.

The changes in reporting entities in 2014 relate to the merger of the subsidiary mobilkom liechtenstein into Telecom Liechtenstein.

The following table provides a summary of aggregated financial information of the associated companies representing the total amounts and not Telekom Austria Group's proportionate share:

Statements of profit or loss (in TEUR)	2015	2014
Revenues	168,657	153,415
Operating income	6,491	7,592
Net income	6,282	7,264

The financial information of media.at-Group is based on its reporting period 1 July to 30 June.
The financial information of Telecom Liechtenstein AG relates to the full reporting period 2015 and 2014.
Net income equals total comprehensive income.

in TEUR	2015	2014
Total current assets	52,741	59,215
Total non-current assets	51,595	38,313
Total liabilities	39,342	41,109
Total stockholders' equity	64,994	56,419

Financial information of media.at-Group is included based on 30 June reporting.
As liabilities are substantially short-term, no split between short-term and long-term is provided.

The following table provides the difference between the investment in the associate and the proportionate equity associated companies as well as their allocation to the segments.

in TEUR, at 31 December	2015	2014
Proportional equity	15,606	13,468
Goodwills	14,043	14,043
Purchase price allocation	10,779	10,742
Investments in associates	**40,428**	**38,253**
Segment Austria	3,487	3,826
Corporate & Other	36,941	34,427

(16) Long-term Investments

in TEUR, at 31 December	2015	2014
Other investments carried at cost	1,701	554
Other long-term investments	1,757	600
Marketable securities – available-for-sale, long-term	4,768	6,246
Long-term investments	**8,226**	**7,400**

Other investments carried at cost include investments in unquoted equity instruments (investments). These relate mainly to CEESEG AG and in 2015 also to CATV-047 d.o.o Kabelska televizija. As the stake in CEESEG AG can only be disposed of at the initial indexed purchase price and due to the absence of an active market, this equity instrument is carried at acquisition cost. On 22 December 2015, Vipnet acquired 100% of CATV-047 d.o.o Kabelska televizija for a purchase price of TEUR 818, which is reported in long-term investments until the statement of financial position as of the acquisition date is available.

As of 31 December 2014, other long-term investments comprise a fixed deposit.

Marketable securities available-for-sale serve partially as coverage for the provision for pensions. Based on Management's intention not to sell these marketable securities within the next twelve months, they are classified as long-term financial assets.

(17) Goodwill

The following table illustrates the changes in the carrying amounts of goodwill by segment:

in TEUR	Austria	Bulgaria	Croatia	Additional Markets	Total
At 1 January 2014	708,211	583,291	94,744	136,260	1,522,506
Acquisitions	0	0	135	12,952	13,088
Impairment	0	−340,600	0	−5,100	−345,700
Translation adjustment	0	0	– 406	– 7	– 413
At 31 December 2014	**708,211**	**242,691**	**94,473**	**144,106**	**1,189,481**
Acquisitions	0	0	6,093	33,940	40,033
Translation adjustment	0	0	180	19	198
At 31 December 2015	**708,211**	**242,691**	**100,745**	**178,065**	**1,229,712**

For details on the changes in reporting entities (acquisitions), see Note (2).

The acquisition cost of goodwill was as follows:

in TEUR, at 31 December	2015	2014
Segment Austria	712,231	712,230
Segment Bulgaria	642,691	642,691
Segment Croatia	105,637	99,352
Segment Belarus	516,588	729,258
Segment Additional Markets	211,091	177,141
Total cost	**2,188,238**	**2,360,673**

Accumulated impairment charges of goodwill amount to:

in TEUR, at 31 December	2015	2014
Segment Austria	4,020	4,020
Segment Bulgaria	400,000	400,000
Segment Croatia	4,892	4,879
Segment Belarus	516,588	729,258
Segment Additional Markets	33,026	33,036
Accumulated impairment	**958,526**	**1,171,192**

When the impairment test is performed a planning period of four years is used for calculating the value in use. The discount rate is based on peer group beta factors and peer group leverage factors.

In 2015 no impairment of goodwill was necessary while in 2014, an impairment of goodwill of Mobiltel amounting to TEUR 340,600 was recognised in impairment and reversal of impairment in the consolidated statements of profit or loss as the carrying amount (including goodwill) of the cash-generating unit Bulgaria exceeded its respective value in use.

Changed medium-term macroeconomic expectations and the weak operative performance of Mobiltel in 2014 led to a change in the assessment of the development of the Bulgarian subsidiary Mobiltel. Thus Management’s previous expectation of a medium-term recovery of the region was no longer sustainable. Due to a change in the weighted average cost of capital (WACC) of the Bulgarian segment as well as changed expectations of the development of the Bulgarian subsidiary Mobiltel an impairment test had to be carried out in June 2014. This resulted in a reduction of the value in use of the cash-generating unit Bulgaria and led to a corresponding impairment.

As of June 2014, WACC used to measure discounted cash flows increased by over 20% versus the last impairment test in the fourth quarter of 2013. This is the result of a rise in Telekom Austria Group's beta factor (measure of correlation between the performance of a security and the market) and an increase in the estimated Country Risk Premium for Bulgaria. On 13 June 2014, the rating agency Standard & Poor's cut its sovereign credit rating for Bulgaria from BBB to BBB–, and once more on 12 December 2014 from BBB– to BB+ due to risks related to growth, deflation and budget development.

Due to the decrease in the risk-free interest rate and the inflation spread, the WACC (before taxes) used for the calculation of the value in use for the segment Bulgaria decreased from 12.6%–9.1% in June 2014 to 10.9% in December 2014, the time of the last impairment test. This significant decrease in only six months arising from external factors is the main driver of the increase of the value in use by approximately TEUR 84,700 and shows the current volatility of WACC parameters.

Due to the change in weighted average cost of capital (WACC), an impairment of goodwill amounting to TEUR 5,100 relating to the cash-generating unit Vip operator in the Republic of Macedonia was recognised in the consolidated statements of profit or loss, in line item impairment and reversal of impairment in the segment Additional Markets in the fourth quarter of 2014.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the business combination.

in TEUR, at 31 December	2015	2014
A1 Telekom Austria – Segment Austria	708,211	708,211
Mobiltel – Segment Bulgaria	242,691	242,691
Vipnet – Segment Croatia	100,745	94,473
Si.mobil	147,632	136,260
Vip operator	30,433	7,846
Total Additional Markets	178,065	144,106
Total Goodwill	**1,229,712**	**1,189,481**

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

	Growth rates perpetual annuity		Pre-tax interest rates*	
	2015**	2014	2015	2014
Segment Austria	0%–0.5%	0.5%	7.2%	7.5%
Segment Bulgaria	0.8%	1.5%	9.0%	10.9%
Segment Croatia	1.0%	1.0%	9.5%	10.3%
Segment Belarus	12.6%	1.5%	25.6%	33.1%
Segment Additional Markets	0.5%–3.3%	0.5%–1.5%	8.9%–13.8%	10.5%–15.6%

* Based on a risk-free interest rate, adjusted for market, country and industry-specific risks. A standard discount rate is used for all planning periods.
** The growth rates applied to the perpetual annuity consider, compared to prior year, not only the general growth rates but also company-specific revenue growth rates of prior periods and those used in the detailed planning, respectively.

The growth rates applied to the perpetual annuity consider the general growth rates and the company-specific revenue growth rates of prior periods and those used in the detailed planning, respectively. In 2015, this results in an increase of the value in use of the segment Belarus.

The value in use is set forth in the following table:

in TEUR, at 31 December	2015	2014
Segment Austria	3,852,749	3,978,016
Segment Bulgaria	866,059	775,860
Segment Croatia	230,760	180,843
Segment Belarus	856,995	671,640
Segment Additional Markets	1,200,100	785,184

The value in use was compared with the carrying amount of the cash-generating units (including goodwill). Impairment charges are recognised if the carrying amount of the cash-generating units exceeds the value in use.

Sensitivity analysis

The use of the following pre-tax interest rates would lead to the carrying amount equalling the value in use at 31 December 2015 and 2014:

Pre-tax interest rates*	2015	2014
Segment Austria	10.4%	10.8%
Segment Bulgaria	10.0%	11.6%
Segment Croatia	10.4%	10.4%
Segment Belarus	54.3%	45.2%
Segment Additional Markets	15.3%–33.8%	12.2%–25.1%

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

With respect to the substantial markets, the following table sets forth the changes in revenues, cost drivers and capital expenditure which would lead to the carrying amounts equalling the value in use at 31 December 2015 and 2014:

2015	Revenues	Cost	Capital expenditures
Segment Austria	–4.0%	5.6%	20.3%
Segment Bulgaria	–1.9%	2.9%	11.5%
Segment Croatia	–1.1%	1.4%	7.9%
Segment Belarus	–16.3%	26.7%	122.1%
2014			
Segment Austria	–4.8%	6.8%	25.4%
Segment Bulgaria	–1.3%	1.9%	8.3%
Segment Croatia	0.0%	0.1%	0.4%
Segment Belarus	–7.5%	12.8%	57.8%

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

(18) Other Intangible Assets

The 'Table of Other Intangible Assets' provides the components and a reconciliation of the changes in other intangible assets.

At 31 December 2015 and 2014, the line item software comprises internally developed software with a carrying amount of TEUR 23,462 and TEUR 24,575, acquisition cost of TEUR 120,372 and TEUR 136,803 and the related accumulated amortisation of TEUR 96,910 and TEUR 112,228, respectively. Additions in 2015 and 2014 amounted to TEUR 1,823 and TEUR 1,890, respectively.

In 2015 and 2014, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

In 2015 and 2014, interest capitalised totalled TEUR 8,849 and TEUR 8,799, respectively. In the years reported, the calculation of capitalised borrowing cost for licenses was based on an interest rate of 3.125% which is derived from a specific financing facility. Borrowing cost capitalised on internally developed software are calculated using the borrowing which is also applied to qualifying assets of property, plant and equipment (see Note (19)).

As of 31 December 2015 and 2014, purchase commitments for intangible assets amounted to TEUR 21,193 and TEUR 15,163, respectively.

In 2015, Telekom Austria Group reduced the estimated useful lives of certain software programmes in the segment Bulgaria. The changes resulted in an increase in amortisation of TEUR 703.

Licenses are recorded at cost and amortised on a straight-line basis. The following table sets forth the terms and total cost incurred for each of the major license agreements:

	GSM licenses	UMTS licenses	LTE licenses
License cost	1,281,244	304,361	628,657
End of the term	2016–2034	2020–2027	2024–2033

Telekom Austria Group holds mobile telecommunication licenses provided by regulatory authorities in Austria, Croatia, Slovenia, the Republic of Serbia, Bulgaria, Belarus and the Republic of Macedonia.

On 17 November 2015, Vipnet located in Croatia acquired 2 x 3 MHz and 2 x 4.8 MHz in the 1.800 MHz spectrum for TEUR 18,513. With the newly acquired spectrum the 4G network of Vipnet is further strengthened. Vipnet already holds 2 x 29.4 MHz in the lower frequency band (below 1 GHz), 2 x 25.0 in the higher frequency band (above 1 GHz) as well as 5.0 MHz TDD spectrum.

On 19 November 2015, Vip mobile, the Serbian subsidiary of Telekom Austria Group, acquired 2 x 5 MHz of the 800 MHz spectrum for a total consideration of TEUR 35,509. The new spectrum will be used by VIP mobile for the LTE rollout and will enhance the high-speed data service in rural areas as well as data usage in connection with smartphones. Vip mobile already holds a 2 x 4.2 MHz in the lower frequency band (below 1 GHz) as well as 2 x 45.0 MHz in the higher frequency band (above 1 GHz). At 31 December 2015, this license is reported in advances/construction in progress. Additionally, on 19 February 2015, Vip mobile, acquired 2 x 5 MHz of the 1.800 MHz spectrum for a total consideration of TEUR 6,920.

On 3 April 2014, the Bulgarian subsidiary Mobiltel prolonged its existing license portfolio of 2 x 11.2 MHz in the 900 MHz spectrum band and 2 x 10 MHz in the 1800 MHz spectrum band for a total amount of TEUR 30,596. The allocated spectrum range remains the same. The spectrum has a maturity of 10 years, until 8 June 2024. The terms of the prolongation were set by the Communications Regulation Commission (CRC).

On 28 April 2014, Si.mobil acquired 2 x 90 MHz of FDD spectrum and 1 x 45 MHz of TDD spectrum at the combinatorial clock auction in Slovenia, equivalent to approximately 48% of the total auctioned spectrum, for a total consideration of TEUR 63,874. The new 800 MHz spectrum and the 2600 MHz spectrum licenses are valid from mid-2014 until mid-2029. The 2100 MHz TDD spectrum license, also valid from mid-2014, was granted until September 2021. The 900 MHz and 1800 MHz spectrum license will be valid from January 2016 until January 2031. Si.mobil has to cover 95% of the Slovenian population with LTE technology within three years to comply with regulatory coverage obligations as well as the objectives of the European digital agenda concerning the coverage of so-called ‘whitespots’. At 31 December 2015, 96% of the Slovenian population are covered with LTE technology.

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

2016	296,046
2017	230,526
2018	185,587
2019	152,861
2020	124,823
Thereafter	1,013,607

The following table presents the changes of the carrying values of brand names by segment:

in TEUR	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
At 1 January 2014	165,514	244,312	27,714	98,389	4,286	540,215
Acquisitions	0	0	0	0	772	772
Disposals	0	0	0	0	–1,158	–1,158
Impairment	0	0	0	0	0	0
Amortisation	–6,667	–608	–1,019	0	–107	–8,401
Translation adjustment	0	0	–111	0	20	–91
Hyperinflation adjustment	0	0	0	5,603	0	5,603
At 31 December 2014	**158,847**	**243,704**	**26,584**	**103,992**	**3,813**	**536,941**
Acquisitions	0	0	517	0	8,469	8,986
Disposals	0	0	0	0	0	0
Amortisation	0	0	–1,315	0	–906	–2,220
Translation adjustment	0	0	68	–30,327	9	–30,250
Hyperinflation adjustment	0	0	0	0	0	0
At 31 December 2015	**158,847**	**243,704**	**25,855**	**73,665**	**11,386**	**513,457**

Regarding the acquisitions and disposals of brand names see Note (2).

Brand names classified as intangible assets with indefinite useful lives are tested for impairment in the fourth quarter of each year in accordance with IAS 36, as described in Note (1). If an event or circumstance indicates that an asset may be impaired, impairment tests are carried out. Due to the fact that brand names do not generate cash inflows that are largely independent of those from other assets, the value in use can be determined only for the asset's cash-generating unit. The second step according to IAS 36.107 is to determine whether an impairment loss should be recognised based on the total cash-generating unit.

Brand names, which will be used for a limited period of time are amortised over the estimated useful life. These brand names are B.net and Amis Croatia in the segment Croatia and the brand names of Amis Slovenia, Blizoo and ONE in the segment Additional markets.

Brand names were allocated to the following cash-generating units:

in TEUR, at 31 December	2015	2014
A1 Telekom Austria	144,910	144,910
Cable Runner	491	491
Paybox Bank	496	496
YESSS!	12,950	12,950
Total Austria	**158,847**	**158,847**
Mobiltel	243,704	243,704
Total Bulgaria	**243,704**	**243,704**
Vipnet	25,042	24,976
B.net	594	1,608
Amis Croatia	219	0
Total Croatia	**25,855**	**26,584**
Velcom	73,665	103,992
Total Belarus	**73,665**	**103,992**
Si.mobil	3,148	3,148
Amis Slovenia	1,707	665
Blizoo	211	0
one.Vip	6,319	0
Total Additional Markets	**11,386**	**3,813**
Total Brand Names	**513,457**	**536,941**
Thereof with indefinite useful lives	504,407	534,668
Thereof with definite useful lives	9,051	2,273

(19) Property, Plant and Equipment

The 'Table of Property, Plant and Equipment' provides the components and a reconciliation of the changes in property, plant and equipment. At 31 December 2015, leased automobiles with a carrying value of TEUR 369 are included in communications network and other equipment.

In 2015 and 2014, borrowing cost capitalised totalled TEUR 2,132 and TEUR 1,595, respectively. Calculation of capitalised borrowing cost was based on an interest rate of 4.6% and 4.3% in the years 2015 and 2014.

As of 31 December 2015 and 2014, the carrying amount of land amounted to TEUR 56,261 and TEUR 54,750, respectively.

In 2015, Telekom Austria Group reduced the estimated useful lives of buildings and certain technical equipment in the segments Austria, Bulgaria and Belarus and in 2014, in the segments Austria and Additional markets due to the rapid technological progress. The changes resulted in an increase in depreciation of TEUR 8,655 and TEUR 2,515 in 2015 and 2014, respectively.

Government grants totalling TEUR 3,913 and TEUR 20,827 were deducted from acquisition cost in 2015 and 2014, respectively.

The transfers from advances/construction in progress relate to property, plant and equipment and intangible assets. Furthermore, assets held for sale were reclassified.

As of 31 December 2015 and 2014, purchase commitments for property, plant and equipment amount to TEUR 107,949 and TEUR 74,303, respectively.

Property, plant and equipment in the amount of TEUR 1,750 is pledged to secure tax obligations.

Sensitivity analysis

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

in TEUR	2015	2014
Decrease due to extension by one year	163,364	160,293
Increase due to reduction by one year	189,021	210,524

(20) Other Non-current Assets

in TEUR, at 31 December	2015	2014
Finance lease receivables	2,580	2,741
Instalment sales	32,830	33,026
Other financial assets	2,164	2,642
Financial assets	**37,574**	**38,409**
Other non-financial assets	**12,690**	**9,882**
Other non-current assets, gross	**50,264**	**48,291**
Less allowance for financial assets	–1,252	–1,431
Other non-current assets	**49,012**	**46,859**

For information on finance lease receivables and instalment sales receivables, see Notes (26) and (14). Instalment sales contracts in Belarus are only concluded with terms below twelve months. Other non-financial assets mainly include prepayments for maintenance agreements, license fees and rent.

The following table sets forth the ageing and the development of the allowance for long-term finance lease receivables, long-term instalment sales receivables and other non-current financial assets:

in TEUR, at 31 December	Gross 2015	Allowance 2015	Gross 2014	Allowance 2014
Not yet due	37,469	1,147	38,224	1,247
Past due 0–90 days	105	105	185	185
Total	**37,574**	**1,252**	38,409	1,431

in TEUR	2015	2014
At 1 January	**1,431**	**1,258**
Foreign currency adjustment	–51	–33
Reversed	57	–47
Charged to expenses	–58	649
Amounts written-off	–128	–397
At 31 December	**1,252**	**1,431**

(21) Short-term Borrowings

in TEUR, at 31 December	2015	2014
Current portion of long-term debt	805,236	247,326
Accrued interest	93,200	93,459
Short-term debt	5,087	28
Current portion of lease obligations	117	0
Short-term borrowings	**903,640**	**340,813**

For further information regarding the current portion of long-term debt and lease obligations, see Notes (25) and (26). The increase in the current portion of long-term debt results from the reclassification of a bond falling due in January 2016. Accrued interest includes interest on bonds and bank debt (see Note (25)). Further funding sources are listed in Note (33).

(22) Provisions and Accrued Liabilities

in TEUR	Restructuring	Employees	Customer allowances	Asset retirement obligation	Legal	Other	Total
At 31 December 2014	**790,631**	**127,241**	**28,533**	**188,388**	**20,258**	**49,763**	**1,204,815**
Additions	88,706	38,695	21,024	11,700	13,419	35,649	209,193
Changes in estimate	13,548	0	0	−31,149	0	0	−17,600
Used	−93,094	−39,475	−18,998	−1,073	−576	−35,155	−188,372
Released	−106,001	−11,271	−6,855	−2,675	−3,241	−13,435	−143,479
Accretion expense	11,136	17	0	5,160	0	0	16,314
Reclassifications*	−2,711	6,889	0	0	0	0	4,178
Translation adjustment	0	−268	0	−3,604	1	−240	−4,111
Changes in reporting entities	0	873	0	0	2,127	1,836	4,835
At 31 December 2015	**702,215**	**122,700**	**23,704**	**166,748**	**31,987**	**38,417**	**1,085,771**
Thereof long-term							
31 December 2015	**583,550**	**0**	**0**	**166,748**	**0**	**0**	**750,298**
31 December 2014	679,130	0	0	188,388	0	0	867,518

* Reclassification to current liabilities and short-term portion of employee benefit obligations.

In establishing provisions, Management assesses different scenarios of reasonably estimated outcomes to determine the amount that Telekom Austria Group is expected to pay upon the resolution of a contingency. Telekom Austria Group records provisions based on the best estimate of the expenditure required to settle the present obligation.

Telekom Austria Group expects that approximately 60% of the provisions and accrued liabilities, with the exception of the asset retirement obligation and the provision for restructuring, will be utilised during the following financial year. Even if Telekom Austria Group does not expect an outflow of funds in the following financial year, provisions and accrued liabilities are reported as short-term if the timing of such outflows cannot be controlled by Telekom Austria Group.

Restructuring

In 2008, a comprehensive restructuring programme was initiated in the segment Austria. The provision for restructuring includes future compensation of employees, who will no longer provide services for Telekom Austria Group but who cannot be laid off due to their status as civil servants. These employment contracts are onerous contracts under IAS 37, as the unavoidable cost related to the contractual obligation exceeds the future economic benefit. The restructuring programme also includes social plans for employees whose employments will be terminated in a socially responsible way. In 2009, 2011, 2012, 2013, 2014 and 2015, new social plans were initiated which provide for early retirement, special severance packages and golden handshake options. Due to their nature as termination benefits, these social plans are accounted for according to IAS 19. At 31 December 2015 and 2014, the corresponding liability amounts to TEUR 668,491 and TEUR 761,862 and includes 1,914 and 1,810 employees, respectively.

The expense recognised related to the increase in the provision is reported in the line item restructuring expenses, while the accretion expense is reported in the financial result. A part of the provision was released since a number of employees returned to regular operations, were transferred to the government or opted for schemes such as golden handshakes, special severance packages and early retirement to an extent not foreseeable at the time of the measurement of the provision in 2014. The changes in estimate are due to adjustments of the discount rate and the rate of compensation, the change of the contribution to the defined contribution pension plan from 2017 on (see Note (27)) as well as an adjustment of the employee turnover rate from 23.4% in 2014 to 22.9% in 2015. The employee turnover rate takes into consideration employees leaving in the future as well as temporary re-employment within Telekom Austria Group and is only applicable to the provision for employees permanently leaving the service process and not to provisions for social plans.

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

As of 31 December 2015 and 2014, the provision for the transfer of civil servants to the government amounts to TEUR 33,724 and TEUR 28,769 and comprises 205 and 242 employees, respectively. In addition, Telekom Austria Group recognised a liability for employees transferred to the government amounting to TEUR 4,692 and TEUR 3,833 (see Note (23)).

In 2015 and 2014, the estimated rate of compensation equals the rate used for the calculation of employee benefit obligations (see Note (27)). The following table sets forth the interest rates applied.

	2015	2014
Employees permanently leaving the service process	2.0%	2.0%
Social plans	1.0%	1.3%
Civil servants transferred to the government	1.0%	1.3%

EBITDA was adjusted for total restructuring expense consisting of restructuring income in an amount of TEUR 16,584 in 2015 compared to an expense in 2014 of TEUR 70,713 for the restructuring programme and of expenses of TEUR 16,978 and TEUR 18,852 resulting from the transfer of civil servants to the government.

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

in TEUR, at 31 December 2015	1 percentage point increase	1 percentage point decrease
Change in discount rate	−33,778	37,178
Change in rate of compensation	31,345	−29,142
in TEUR, at 31 December 2014		
Change in discount rate	−44,148	48,771
Change in rate of compensation	42,008	−38,899

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

In its judgement of 11 November 2014, the European Court of Justice (ECJ) decided that the Austrian law determining the reference date for salary increments for Austrian civil servants (this date determines the length of service and thus the date for being advanced into the next salary level) is not in conformity with European Union law. Thus, at 31 December 2014 and 2015, Telekom Austria Group recognised a provision for employees in its financial statements of TEUR 50.255 and TEUR 50.262.

Customer rebates
The provision for customer rebates contains rebates earned by customers but not paid as of the reporting date.

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

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

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

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

Based on an external expert opinion, the obligation related to the contamination of property upon retirement of a building was adjusted in 2014.

In 2015, the discount rate applied to the calculation of asset retirement obligations was adjusted to reflect current market conditions in the individual countries. The discount rate used for the calculation is based on the risk-free interest rate of Austrian government bonds with a maturity of 25 years and the comparable applicable interest rate in Belarus, which were adjusted in 2015. The change of these parameters and the adjustment of the estimated dismantling cost resulted in a decrease of the asset retirement obligation of TEUR 31,149. TEUR 30.168 were recorded as a reduction of the related item of property, plant and equipment and TEUR 981 were recorded in other operating income, as the facilities concerned are already fully depreciated.

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

	Austria	Other countries	Belarus
2015			
Discount rate	2.0%	2.0%	17.1%
Inflation rate	1.0%	1.0%	11.5%
2014			
Discount rate	2.0%	2.0%	21.0%
Inflation rate	2.0%	2.0%	15.0%

Sensitivity analysis

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

in TEUR at 31 December 2015	1 percentage point increase	1 percentage point decrease
Change in discount rate	–16,176	18,822
Change in inflation rate	19,251	–17,211
in TEUR at 31 December 2014		
Change in discount rate	–16,045	25,408
Change in inflation rate	25,773	–17,269

Legal

Provisions mainly relate to expenses incurred in respect of legal advice and litigation.

Other provisions

Other provisions mainly relate to audit and consulting fees, commissions, taxes (excluding income taxes), energy and penalties. The provision for pension contributions recorded at 31 December 2014 was, due to a change of the respective law in December 2015, reclassified in an amount of TEUR 5,475 to other current financial liabilities (see Note (23)) and in an amount of TEUR 9,461 to other non-current financial liabilities (see Note (28)). The remaining amount of TEUR 2,673 was released.

(23) Accounts Payable – Trade and Other Current Liabilities

At 31 December 2015 and 2014, accounts payable – trade amounting to TEUR 887 and TEUR 278, respectively, have a maturity of more than twelve months. These accounts payable relate mainly to financial retentions.

Other current liabilities consist of the following items:

in TEUR, at 31 December	2015	2014
Fiscal authorities	62,787	63,413
Social security	10,110	9,571
Employees	17,270	17,985
Long-term incentive programme	1,237	508
Employees – transferred to government	4,692	3,833
Prepayments from customers	6,595	7,897
Government	136	144
Other non-financial liabilities	9,167	4,158
Other current non-financial liabilities	**111,994**	**107,509**
Other current financial liabilities	126,310	25,194
Other current liabilities	**238,305**	**132,703**

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

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

Liabilities due to employees mainly relate to salaries payable (including overtime and travel allowances) and one-time termination benefits.

The liabilities regarding employees – transferred to government include compensation for reductions in salaries, lump sum payments for any shortfall in pension payments as well as one-off payments to civil servants of Telekom Austria Group (see Note (22)).

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

Other non-financial liabilities include liabilities for pension contributions (see Note (22))

In 2015 and 2014, other current financial liabilities include substantially cash deposits received and liabilities arising from customer deposits. At 31 December 2015, purchase price liabilities from business combinations from the eight Macedonian cable operators and from ONE of TEUR 100,149 are included (see Note (2)).

(24) Deferred Income

in TEUR, at 31 December	2015	2014
Unearned income	130,045	126,997
Customer loyalty programmes	31,473	36,880
Deferred income, current portion	**161,518**	**163,877**

Unearned income mainly relates to prepaid access fees, monthly base fees, leased lines to commercial customers, prepaid mobile fees and rental income from site sharing. These fees are recognised over the period the service is provided.

According to IFRIC 13 'Customer Loyalty Programmes', the award credits granted are recognised as deferred income until redeemed or forfeited.

(25) Long-term Debt

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

		At 31 December 2015				At 31 December 2014			
Currency	Maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds									
TEUR	2017	fixed	4.250%	500,000	499,312	fixed	4.250%	500,000	498,671
TEUR	2016	fixed	6.375%	750,000	749,910	fixed	6.375%	750,000	748,772
TEUR	2022	fixed	4.000%	750,000	742,764	fixed	4.000%	750,000	741,610
TEUR	2023	fixed	3.500%	300,000	298,093	fixed	3.500%	300,000	297,839
TEUR	2021	fixed	3.125%	750,000	743,828	fixed	3.125%	750,000	742,787
Total Bonds				**3,050,000**	**3,033,907**			**3,050,000**	**3,029,679**
Bank debt									
TEUR	2016–2019	fixed	4.88%	21,305	21,305	fixed	4.88%	26,632	26,632
TEUR	2017–2019	fixed	4.12%	84,000	84,000	fixed	4.32%	126,000	126,000
TEUR	2015			0	0	fixed	3.51%	200,000	200,000
TEUR	2016	fixed	5.41%	50,000	50,000	fixed	5.41%	50,000	50,000
TEUR	2018	fixed	3.22%	200,000	200,000	fixed	3.44%	200,000	200,000
Total bank debt				**355,305**	**355,305**			**602,632**	**602,632**
Leases (Note (26)				**263**	**263**			**0**	**0**
Financial debt				**3,405,568**	**3,389,475**			**3,652,632**	**3,632,311**
Current portion of long-term debt				–805,353	–805,353			–247,326	–247,326
Long-term debt				**2,600,215**	**2,584,122**			**3,405,305**	**3,384,984**

Bonds

In 2003, Telekom Austria Group initiated a Euro Medium Term Note ('EMTN') Programme. In January 2005, a Eurobond with a face value of TEUR 500,000, a maturity of twelve years and a coupon of 4.25% was issued. The discount of TEUR 7,693 was amortised over the related terms. The EMTN Programme ended on 31 December 2008, and was not extended.

On 29 January 2009, Telekom Austria Group issued a Eurobond with a face value of TEUR 750,000, a maturity of seven years and a coupon of 6.375%. The discount and the issue costs of TEUR 7,965 are amortised over the related term.

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

On 4 July 2013, Telekom Austria Group issued a bond under the EMTN Programme with a face value of TEUR 300,000, a maturity of ten years and a coupon of 3.5%. Discount and issue costs of TEUR 2,574 are amortised over the related term.

On 3 December 2013, Telekom Austria Group issued a bond under the EMTN Programme with a face value of TEUR 750,000, a maturity of eight years and a coupon of 3.125%. Discount and issue costs of TEUR 8,336 are amortised over the related term.

Bank debt

On 27 June 2014, the shareholders' agreement between ÖBIB, América Móvil and Carso Telecom became effective (see Note (29)). For debt outstanding as of 31 December 2014, an agreement was reached with the creditors that no premature repayment due to the 'change of control' clause was demanded.

In 2014, bank debt amounting to TEUR 119,777 was redeemed prematurely. In 2015, no bank debt was redeemed prematurely.

(26) Leases

Lessee

Telekom Austria Group leases equipment used in its operations. The leases are classified as operating leases. The operating lease contracts will expire on various dates through 2028 and mainly comprise leases of property and vehicles.

Future minimum lease payments for non-cancellable operating lease contracts as of 31 December 2015 are:

in TEUR	Other finance leases	Operating leases
2016	117	60,154
2017	83	29,548
2018	52	17,879
2019	16	11,693
2020	0	7,976
After 2020	0	18,874
Total minimum lease payments	268	146,125
Less amount representing interest	–5	0
Present value of lease payments	263	0
Less current portion	–117	0
Non-current lease obligations	**146**	**0**

Lessor

Telekom Austria Group receives minimum lease payments for non-cancellable operating lease contracts that mainly relate to indefeasible right of use contracts, which are reported in other intangible assets, private automatic branch exchange equipment (PABX) and set-top boxes, which are reported in communications network and other equipment in property, plant and equipment.

These payments are recognised as revenue on a straight-line basis over the terms of the contracts. As of 31 December 2015 and 2014, the cost of this equipment amounted to TEUR 36,969 and TEUR 40,230, and the carrying amount to TEUR 12,063 and TEUR 13,176, respectively. The future minimum lease payments as of 31 December 2015 are as follows:

in TEUR	Operating leases
2016	8,871
2017	6,245
2018	2,048
2019	1,312
2020	981
After 2020	5,430
Total minimum lease payments	**24,887**

Telekom Austria Group leases indefeasible rights of use in dark fibre under finance lease contracts, which have a term until 2033. Starting 1 January 2014, mobile handsets are also sold on an instalment plan (see Notes (14) and (20)). As of 31 December 2015, the future minimum lease payments for these transactions amount to:

in TEUR	Finance lease
2016	397
2017	311
2018	302
2019	292
2020	282
After 2020	2,639
Total minimum lease payments	**4,223**
Less amount representing interest	–1,482
Present value of finance lease receivables	**2,741**
Less current portion	–161
Non-current finance lease receivables	**2,580**

The allowance for doubtful finance lease receivables (see Notes (14) and (20)) is as follows:

in TEUR, at 31 December	2015	2014
Allowance finance lease receivables, short-term	0	323
Allowance at the end of the year	**0**	323

(27) Employee Benefit Obligations

in TEUR, at 31 December	2015	2014
Service awards	70,408	71,893
Severance	119,316	121,588
Pensions	6,825	6,812
Other	0	622
Long-term employee benefit obligations	**196,550**	200,916

Actuarial assumptions

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

	2015	2014
Discount rate service awards	1.25%	2.00%
Discount rate severance	2.25%	2.00%
Discount rate pensions	1.25%	2.00%
Rate of compensation increase – civil servants	4.90%	5.50%
Rate of compensation increase – other employees	3.00%	3.10%
Rate of compensation increase – civil servants released from work	4.50%	4.50%
Rate of increase of pensions	1.60%	1.60%
Employee turnover rate*	0.0%–2.06%	0.0%–2.01%

* Depending on years of service.

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

Life expectancy in Austria is based on 'AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler'. The obligation relating to the international subsidiaries was measured by the same actuarial basis due to their insignificant amount.

Service awards

Civil servants and certain employees (together 'employees') are eligible to receive service awards. Under these plans, eligible employees receive a cash bonus of two months' salary after 25 years of service and four months' salary after 40 years of service. Employees with at least 35 years of service when retiring (at the age of 65) or who are retiring based on a specific legal regulation are eligible to receive four monthly salaries. The compensation is accrued as earned over the period of service, taking into account the employee turnover rate. The risk, Telekom Austria Group is exposed to, is mainly the risk of development of salary increases and inflation.

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

in TEUR	2015	2014
At 1 January	**77,491**	70,652
Service cost	2,162	2,328
Interest cost	1,501	2,379
Actuarial gain/loss based on experience adjustment	–1,496	635
Actuarial gain/loss from changes in demographic assumptions	0	–5
Actuarial gain/loss from changes in financial assumptions	1,621	7,444
Recognised in profit or loss	**3,789**	12,780
Benefits paid	–5,188	–5,940
Change in reporting entities	83	0
Foreign currency adjustments	2	–1
Other	**–5,104**	–5,941
Obligation at 31 December	**76,176**	77,491
Less short-term portion	–5,768	–5,598
Non-current obligation	**70,408**	71,893

Of the defined benefit obligations for service awards, less than 1% relate to foreign subsidiaries as of 31 December 2015 and 2014, respectively.

As of 31 December 2015 and 2014, the weighted average duration of the obligation for service awards amounted to 7.0 and 7.3 years, respectively.

Severance

Employees starting to work for Telekom Austria Group in Austria on or after 1 January 2003 are covered by a defined contribution plan. Telekom Austria Group paid TEUR 1,976 and TEUR 1,917 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2015 and 2014, respectively.

Severance benefit obligations for employees hired before 1 January 2003 are covered by defined benefit plans. Upon termination by Telekom Austria Group or retirement, eligible employees receive severance payments equal to a multiple of their monthly compensation which comprises fixed compensation plus variable elements such as overtime or bonuses. Maximum severance is equal to a multiple of twelve times the eligible monthly compensation. Up to three months of benefits are paid upon termination, with any benefit in excess of that amount being paid in monthly instalments over a period not exceeding ten months. In case of death, the heirs of eligible employees receive 50% of the severance benefits. Telekom Austria Group is exposed to the risk of development of salary increases and inflation.

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

in TEUR	2015	2014
At 1 January	**123,091**	**94,170**
Service cost	5,736	4,864
Interest cost	2,438	3,240
Recognised in profit or loss	**8,174**	**8,104**
Actuarial gain/loss based on experience adjustment	−295	129
Actuarial gain/loss from changes in demographic assumptions	−387	−1,807
Actuarial gain/loss from changes in financial assumptions	−6,868	26,688
Recognised in other comprehensive income	**−7,550**	**25,011**
Benefits paid	−4,122	−4,175
Change in reporting entities	295	0
Foreign currency adjustments	−2	−18
Other	**−3,829**	**−4,193**
Obligation at 31 December	**119,886**	**123,091**
Less short-term portion	−570	−1,503
Non-current obligation	**119,316**	**121,588**

Approximately 3% of the defined benefit obligations for severance relate to foreign subsidiaries as of 31 December 2015 and 2014.

As of 31 December 2015 and 2014, the weighted average duration of the severance benefit obligations was 16.7 years.

Pensions

Defined contribution pension plans

In Austria, pension benefits generally are provided by the social security system for employees and by the government for civil servants. Telekom Austria Group is required to assist in funding the Austrian government's pension and health care obligations to Telekom Austria Group's current and former civil servants and their surviving dependents. In 2015 and 2014, the rate of contribution for active civil servants amounted to a maximum of 28.3% depending on the age of the civil servant. 15.75% are borne by Telekom Austria Group and the remaining portion is contributed by the civil servants. Contributions to the government, net of the share contributed by civil servants, amounted to TEUR 38,481 and TEUR 42,281 in 2015 and 2014, respectively. From 1 January 2017, the rate of contribution will be reduced to a maximum of 25.1% depending on the age of the civil servant. 12.55% are borne by Telekom Austria Group and the remaining portion is contributed by the civil servants.

Additionally, Telekom Austria Group sponsors a defined contribution plan for employees of some of its Austrian subsidiaries. Telekom Austria Group's contributions to this plan are based on a percentage of the compensation not exceeding 5%. The annual expenses for this plan amounted to TEUR 13,508 and TEUR 13,283 in 2015 and 2014, respectively.

Defined benefit pension plans

Telekom Austria Group provides defined benefits for certain former employees in Austria. All such employees are retired and were employed prior to 1 January 1975. This unfunded plan provides benefits based on a percentage of salary and years employed, not exceeding 80% of the salary before retirement, and taking into consideration the pension provided by the social security system. Telekom Austria Group is exposed to the risk of development of life expectancy and inflation because the benefits from pension plans are lifetime benefits.

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

in TEUR	2015	2014
At 1 January	**7,494**	6,836
Interest cost	143	227
Recognised in profit or loss	**143**	227
Actuarial gain/loss based on experience adjustment	16	205
Actuarial gain/loss from changes in financial assumptions	490	909
Recognised in other comprehensive income	**506**	1,114
Benefits paid	–660	–683
Obligation at 31 December	**7,483**	7,494
Less short-term portion	–658	–681
Non-current obligation	**6,825**	6,812

As of 31 December 2015 and 2014, the weighted average duration of the pension benefit obligations was 9.8 and 9.6 years, respectively.

Other

At 31 December 2014, other employee benefit obligations related substantially to a retention loyalty programme for key employees in Bulgaria.

Sensitivity analysis

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

in TEUR, at 31 December	2015	2014
Service awards	76,176	77,491
Severance	119,886	123,091
Pensions	7,483	7,494

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

in TEUR, at 31 December 2015	0.5 percentage points decrease	0.5 percentage points increase
Service awards	2,677	–2,543
Severance	10,053	–9,115
Pensions	364	–334
in TEUR, at 31 December 2014		
Service awards	2,878	–2,727
Severance	10,888	–9,817
Pensions	357	–328

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

in TEUR, at 31 December 2015	1 percentage point decrease	1 percentage point increase
Service awards	–4,832	5,236
Severance	–17,399	20,761
Pensions	–645	750
in TEUR, at 31 December 2014		
Service awards	–5,174	5,635
Severance	–18,647	22,448
Pensions	–638	742

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

in TEUR, at 31 December 2015	0.5 percentage points decrease	0.5 percentage points increase
Service awards	60	–2,638
Severance	2,863	–5,122
in TEUR, at 31 December 2014		
Service awards	74	–2,846
Severance	3,547	–5,704

No employee turnover rate is applied to the calculation of the provision for pensions as all eligible employees are already retired.

(28) Other Non-current Liabilities and Deferred Income

in TEUR, at 31 December	2015	2014
Other non-current financial liabilities	**839**	969
Long-term incentive programme	1,166	1,317
Other liabilities	9,461	0
Deferred income, other	11,338	14,309
Other non-current non-financial liabilities	**21,965**	15,626
Other non-current liabilities and deferred income	**22,804**	16,595

As of 31 December 2015 and 2014, other non-current financial liabilities consist mainly of cash deposits received.

Other non-current non-financial liabilities include liabilities for pension contributions (see Note (22)).

Regarding the long-term incentive programme see Note (31). Other deferred income mainly relates to rental revenue.

(29) Stockholders' Equity

Capital management

The capital structure of Telekom Austria Group consists of financial liabilities and equity attributable to the equity holders of the parent company, comprising common stock, treasury shares, additional paid-in capital, hybrid capital, retained earnings, available-for-sale reserve, hedging reserve and translation reserve.

Telekom Austria Group manages its capital structure to ensure going concern of all its subsidiaries while maximising the return to shareholders through the optimisation of the equity and liability structures of its entities.

Maintaining its investment grade rating of Baa2 by Moody's and BBB by Standard & Poor's is the number one priority of Telekom Austria Group's finance strategy. This will allow Telekom Austria Group to obtain the financial flexibility required for strategically important projects. A transparent dividend policy ensures the balance between shareholder remuneration and the utilisation of cash to redeem outstanding debt.

Safeguarding its strong capital base is key to Telekom Austria Group in order to maintain investor, creditor and market confidence as well as to provide sustainable support to the future operational development of the business.

Share capital

As of 31 December 2015 and 2014, the common stock of Telekom Austria AG amounts to TEUR 1,449,275, and is divided into 664.5 million bearer shares with no par value. As of 31 December 2015 and 2014, América Móvil directly and indirectly holds 59.70%, ÖBIB holds a stake of 28.42%, and the free floated shares including treasury shares amount to 11.88%.

With resolution of the Extraordinary General Meeting of Telekom Austria AG on 14 August 2014 pursuant to section 169 of the Austrian Stock Corporation Act, the Management Board is authorised within five years of registration of the relevant amendment to the Articles of Association in the commercial register, with the consent by the Supervisory Board, to increase Telekom Austria AG's share capital by a nominal maximum amount of up to TEUR 483,092 by issuing up to 221.5 million bearer shares against cash contribution. The net issue proceeds (the total proceeds from the issue less any external costs resulting from the issue which are to be borne by Telekom Austria AG) for Telekom Austria AG must not exceed TEUR 1,000,000. On 27 November 2014, the capital increase was completed to the full extent of 221.5 million shares at a price of Euro 4.57 per new share, which resulted in proceeds of the transaction of TEUR 1,012,778. The share capital was increased by TEUR 483,092 and the additional paid-in capital by TEUR 529,686. Transaction cost, accounted for as a deduction from additional paid-in capital, amount to TEUR 16,208, the respective tax benefit of TEUR 4,052 was recorded in additional paid-in capital as well.

On 23 April 2014, ÖBIB entered into a shareholders' agreement, effective since 27 June 2014, with Carso Telecom B.V., Netherlands ('Carso Telecom') and América Móvil, by which the parties have contractually undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria Group, by exercising voting rights on a concerted basis ('Syndicate Agreement'). Furthermore, the Syndicate Agreement contains rules on the uniform exercise of voting rights in the corporate bodies of Telekom Austria, nomination rights for members of the Supervisory and Management Boards and share transfer restrictions. The Supervisory Board of Telekom Austria will consist of ten shareholder representatives, eight of which will be nominated by Carso Telecom and two will be nominated by ÖBIB. ÖBIB will have the right to nominate the chairman of the Supervisory Board. Carso Telecom will nominate the deputy chairman. Based on the regulations of the syndicate agreement the Management Board will consist of three members, two of which will be nominated by Carso Telecom while one Management Board member, namely the Chief Executive Officer (CEO) will be nominated by ÖBIB. On 24 July 2015, the function of the Chief Executive Officer of Telekom Austria AG was transferred to a management board member nominated by Carso Telecom, namely Alejandro Plater, based on the proposal of the parties of the syndicate contract. Since 1 August 2015, the Management Board of Telekom Austria Group therefore consists of two members. In the extraordinary shareholders' meeting of 14 August 2014 the Articles of Association of Telekom Austria were amended: As long as the Republic of Austria directly or indirectly holds at least 25% plus one share in the registered share capital, resolutions on capital increases and on the issuance of instruments which contain a conversion right or a conversion obligation into shares of Telekom Austria Group as well as changes to this provision of the Articles of Association shall require a majority of at least three quarters of the share capital present at the vote.

On 15 May 2014, Carso Telecom, which is controlled by América Móvil, published a voluntary public takeover offer for all shares of Telekom Austria AG ('Offer'). On 17 July 2014, at the end of the Offer period, América Móvil held in total 50.81% of the share capital of Telekom Austria Group, while ÖBIB continued to hold 28.42%. The Syndicate Agreement currently covers 351.0 million shares of Telekom Austria, which equates to a shareholding of 79.23%. During the three months' additional acceptance ('sell-out') period, which ended on 16 October 2014, shareholders were able to tender their shares to Carso Telecom under the Offer conditions. During this extended period, Carso Telecom acquired another 38.4 million shares of Telekom Austria AG, which equates to a shareholding of approximately 8.68%.

One subsidiary, the paybox Bank AG located in Vienna, has to fulfil certain regulatory minimum equity requirements regarding credit risk and the operational risks as well as liquidity coverage requirements. On 31 December 2015 and 2014, these requirements were fulfilled.

The numbers of authorised, issued and outstanding shares and shares in treasury are presented below:

At 31 December	2015	2014
Shares authorised	664,500,000	664,500,000
Shares issued	664,500,000	664,500,000
Shares in treasury	–415,159	–415,159
Shares outstanding	664,084,841	664,084,841

The shares issued are fully paid.

The following table provides the development of shares outstanding:

	2015	2014
Outstanding as of 1 January	**664,084,841**	**442,584,841**
Capital increase	0	221,500,000
Outstanding as of 31 December	**664,084,841**	**664,084,841**

Dividend payment

The following dividends were approved by the shareholders at the Annual General Meeting and paid by Telekom Austria AG. Regarding the coupon payments on the hybrid capital see 'Hybrid Capital':

	2015	2014
Date of Annual General Meeting	27 May 2015	28 May 2014
Dividend per share in Euro	0.05	0.05
Total dividend paid in TEUR	33,204	22,129
Date of payment	3 June 2015	6 June 2014

In 2015, the net income of Telekom Austria AG according to Austrian GAAP amounts to TEUR 384,941, while in 2014, the net loss of Telekom Austria AG according to Austrian GAAP amounted to TEUR 1,147,123. In 2015, an amount of TEUR 351,700 was allocated to reserves reported in retained earnings for the year ended 31 December 2015, and in 2014, an amount of TEUR 1,180,210 was released to reserves reported in retained earnings. These transfers resulted in unappropriated retained earnings of TEUR 33,242 and TEUR 33,205 as of 31 December 2015 and 2014, respectively. The Management Board plans after approval from the Supervisory Board to propose to the shareholders at the Annual General Meeting to distribute a dividend of Euro 0.05 per share from unappropriated retained earnings.

Treasury shares

At the Annual General Meeting of Telekom Austria AG held on 29 May 2013, the Management Board was authorised to acquire treasury shares for a period of 18 months until November 2014 up to the maximum of 5% of the share capital at a minimum price of Euro 5 and at a maximum price of Euro 15 per share. Additionally, the Management Board was empowered to:
(a) use these treasury shares to settle obligations under the share-based compensation plans described in Note (31) and/or to transfer them for or without a consideration to employees, managers and members of the Management Board/management of Telekom Austria AG and of its affiliated companies;
(b) use them as consideration for acquisitions, or
(c) sell treasury shares at any time via the stock exchange or by public offer for a period of five years from the day of the resolution in any manner permitted by law, also other than via the stock exchange, whereby the Management Board is entitled to exclude the general purchase opportunity.

Shares held in treasury as of 31 December	2015	2014
Number of treasury shares	415,159	415,159
Average price per share in Euro	18.80	18.80
Deduction in equity in TEUR	7,803	7,803

Additional paid-in capital

The additional paid-in capital results from the incorporation of Telekom Austria Group as well as subsequent reorganisation of the group. Furthermore, effects relating to the employee participation plan and the retirement of treasury shares are reported in additional paid-in capital. In 2014, the increase of TEUR 517,530 is due to the capital increase described above.

Hybrid capital

On 24 January 2013, Telekom Austria Group issued a hybrid bond with a volume of TEUR 600,000. The hybrid bond is a subordinated bond with indefinite maturity which is, based on its conditions, classified as stockholders' equity according to IFRS. Accordingly, related discount and issue cost in the amount of TEUR 11,752 were recorded net of a tax benefit of TEUR 2,938 in stockholders' equity. Therefore stockholders' equity was increased by TEUR 591,186. The bond can be redeemed at par at the earliest after a period of five years. Additionally, Telekom Austria AG has an early termination right subject to certain conditions. The annual coupon amounts to 5.625% until the first reset date, 1 February 2018. Subsequently there will be a reset date every five years. The coupon is established two days prior to the respective reset dates. Coupon payments of TEUR 33,750 affected in February 2015 and 2014 are recognised as distribution of dividends in stockholders' equity.

In the local financial statements, coupon payments are recognised as interest expense in profit or loss according to Austrian GAAP. While the tax benefit resulting from the accrued interest is recognised in profit or loss according to local GAAP, it is recognised in stockholders' equity as 'distribution of dividend' in the Consolidated Financial Statements according to IAS 12. The net result attributable to hybrid capital holders is presented in the consolidated statements of profit or loss in the allocation of the net result and equals interest recognised in profit or loss according to local GAAP in both years reported amounting to TEUR 33,750, net of the relating tax benefit of TEUR 8,438, which is recognised in stockholders' equity in 2015 and 2014.

Earnings per share

Basic and diluted earnings per share for the years ended 31 December 2015 and 2014 are calculated as follows:

	2015	2014
Net result attributable to owners of the parent in TEUR	367,286	–210,900
Weighted average number of common shares outstanding	664,084,841	461,296,913
Basic and diluted earnings per share in Euro	**0.55**	**–0.46**

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

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred as of 31 December 2015 and 2014.

Reserve for available-for-sale marketable securities, hedging reserve and translation adjustment

The development of the reserve for available-for-sale marketable securities and the hedging reserve as well as the translation adjustment are presented in the consolidated statements of comprehensive income and consolidated statements of changes in stockholders' equity. The foreign currency translation adjustment mainly relates to the consolidation of velcom in Belarus and Vip mobile in the Republic of Serbia. The translation adjustment as of 31 December 2015 and 2014 relating to the consolidation of Vip mobile amounts to TEUR 149,233 and TEUR 147,821, respectively. The change of the translation adjustment in 2015 mainly results from devaluation of the Belarusian Rouble, because on 1 January 2015 hyperinflation accounting was ceased. Due to the application of hyperinflation accounting in accordance with IAS 29 to the subsidiary in Belarus until 31 December 2014 the relating translation adjustment of TEUR 302,062 remained unchanged from 2011 until 31 December 2014. At 31 December 2015, the translation adjustment amounts to TEUR 439,834.

(30) Income Taxes

Income tax expense (benefit) attributable to income before income taxes consists of the following:

in TEUR	2015	2014
Current income tax	62,615	43,107
Deferred income tax	–38,787	–41,826
Income taxes	**23,829**	**1,281**

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

in TEUR	2015	2014
Continuing operations	23,829	1,281
Other comprehensive income	3,211	–4,974
Tax benefit relating to hybrid capital*	–8,438	–8,438
Tax benefit relating to capital increase*	0	–4,052
Total income taxes	**18,602**	**–16,183**

* See Note (29).

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

in TEUR	2015	2014
Income tax expense (benefit) at statutory rate	104,151	–46,029
Foreign tax rate differential	–17,019	33,091
Tax-non-deductible expenses	7,165	9,876
Tax incentives and tax-exempted income	–7,644	–10,428
Tax-free income (loss) from investments	–95	–180
Tax expense previous years	28	6,854
Changes in deferred tax assets not recognised	–164,261	184,739
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	101,456	–201,109
Impairment of goodwill	0	30,821
Result from changes in reporting entities	–118	–6,870
Other	166	517
Income taxes	**23,829**	**1,282**
Effective income tax rate	5.72%	–0.70%

In 2015 and 2014, non-deductible expenses mainly consist of withholding taxes on dividends and representation expenses as well as non-deductible remuneration of managers in Austria. Tax incentives and tax-exempted income relate mainly to investment incentives in Slovenia and to tax incentives within the group taxation regime in Austria. Additionally, they relate mainly to a tax incentive in Belarus, which allows for the tax-neutral revaluation of carrying amounts of property, plant and equipment for tax purposes in order to increase the future basis of depreciation as well as research, education and investment incentives and other government grants are included.

The tax expense for prior periods recognised in 2014 results mainly from the application of financial reporting in hyperinflationary economies in accordance with IAS 29 in Belarus.

In 2014, the impairment of goodwill mainly relates to the effect of the impairment in the segment Bulgaria amounting to TEUR 34,060 as well as the relating deferred tax gain of TEUR 3,749 from the release of a deferred tax liability on goodwill which was tax deductible in Bulgaria until 2006.

The result from changes in reporting entities in 2014 relates to the gain resulting from the sale of GPS Bulgaria (see Note (2)) and in 2014 to the gain of the merger of mobilkom liechtenstein.

Impairments (reversals of impairments) of investments relate to write-downs and reversals of write-downs of investments in affiliated companies in Austria, which are recognised over a period of seven years for tax purposes and for which deferred tax is calculated (according to the respective guidance in 'Effects of tax write-downs according to section 12 (3) No 2 of the Austrian Corporate Tax Act on the accounting of income taxes according to IAS 12 in consolidated or single IFRS financial statements' issued by the Austrian Financial Reporting and Auditing Committee).

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are set out below:

in TEUR, at 31 December	2015	2014
Deferred tax assets		
Deferred deduction for impairments of investments in subsidiaries	128,612	149,355
Loss carry-forwards	71,972	8,517
Accounts receivable – trade	6,855	6,463
Deferred income and other liabilities	677	715
Other current assets and prepaid expenses	821	849
Provisions, long-term	60,306	66,721
Employee benefit obligations	26,484	28,179
Property, plant and equipment	2,654	1,463
Other	8,702	9,765
Deferred tax assets	**307,082**	**272,026**
Deferred tax liabilities		
Property, plant and equipment	–23,259	–30,375
Other intangible assets	–140,563	–154,741
Provisions	–5,769	–3,915
Write down of treasury shares for tax purposes	–1,427	–1,380
Other	–772	–1,525
Deferred tax liabilities	**–171,791**	**–191,935**

in TEUR, at 31 December	2015	2014
Deferred tax assets	206,719	170,895
Deferred tax liabilities	–71,427	–90,804
Deferred taxes, net	**135,292**	**80,091**

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

Impairments of investments in subsidiaries according to section 9 (7) of the Austrian Corporate Tax Act are treated as temporary differences related for tax purposes. According to IAS 12.39, no deferred tax liabilities are recorded in that case. Impairments of investments in subsidiaries relate to impairments for which the recognition of expense is deferred over seven years according to Austrian tax law.

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

in TEUR, at 31 December	2015	2014
Net operating loss carry-forwards	483,584	576,323
Temporary differences related to impairments of investments in consolidated subsidiaries	166,885	341,371
Deferred tax assets not recognised	**650,469**	**917,695**

In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all deferred tax assets will be realised. The realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. Management considers the scheduled release of deferred tax liabilities and projected future taxable income when making this assessment.

Based on long-term positive operative results and projections for future taxable income over the periods in which deferred tax assets become deductible Management believes that in spite of taxable losses in the past it is probable that Telekom Austria Group will realise the benefits of the deferred tax assets recognised in the statements of financial position.

At 31 December 2015, Telekom Austria Group had TEUR 2,518,660 of operating loss carry-forwards. The following loss carry-forwards mainly relating to the Republic of Serbia will expire in the following years:

Year	in TEUR
2016	227
2017	88,681
2018	104,245
2019	118,697
2020	106
2022	1,109
Total	**313,065**

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

As of 31 December 2015 and 2014, Telekom Austria Group did not recognise a deferred tax liability for temporary differences related to investments in associates in the amount of TEUR 30,178 and TEUR 28,003, respectively.

Income tax receivables relate to fiscal years not yet assessed. As of 31 December 2015 and 2014, income tax receivable mainly relates to Austrian and Croatian subsidiaries. As of 31 December 2015 and 2014, income tax payable mainly relates to foreign subsidiaries.

(31) Share-based Compensation

Long-term incentive (LTI) programme

Telekom Austria Group introduced a long-term incentive programme (LTI) in 2010. Participants are required to invest an amount depending on the annual gross basic salaries and the management level of the entitled employee in Telekom Austria shares and to hold these shares until the end of the holding period (at least three years). For each tranche, the number of shares granted is calculated based on the average Telekom Austria stock price for a defined period. The performance period for meeting the performance targets was determined to be three years.

On 1 June 2011 the second tranche (LTI 2011) and on 1 August 2012 the third tranche (LTI 2012) were granted. Free cash flow, total shareholder return and EBITDA were defined as key performance indicators. The target values for these key indicators were determined by the Supervisory Board at the beginning of each tranche. At the vesting date (at the earliest three years after the grant date), bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, bonus shares equal to the personal investment will be allocated to the participants. If the targets are exceeded, additional shares will be allocated up to a maximum of 175% of the shares on a pro rata basis. In case of a significant underperformance, no shares will be allocated. For LTI 2011, the actual performance and the bonus shares allocated are summarised in the subsequent table.

On 1 September 2013, the fourth tranche (LTI 2013) and on 1 July 2014, the fifth tranche (LTI 2014) were granted. Net income, relative total shareholder return and EBITDA were defined as key performance indicators. The relative total shareholder return is determined based on a balanced peer group of nine European telecommunications providers. The target values for these key indicators were determined by the Supervisory Board. At the vesting date (at the earliest three years after the grant date), bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, additional shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no shares will be allocated.

On 1 September 2015, the sixth tranche (LTI 2015) was granted. EBITDA comparable, free cash flow and a revenue-based key figure were defined as key performance indicators. The target values for these key indicators were determined by the Supervisory Board. At the vesting date (at the earliest three years after the grant date), bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, proportionally additional shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no shares will be allocated.

The following table summarises the significant terms and conditions for each tranche not yet settled:

	LTI 2015	LTI 2014	LTI 2013	LTI 2012
Start of the programme	1 January 2015	1 January 2014	1 January 2013	1 January 2012
Grant date	1 September 2015	1 July 2014	1 September 2013	1 August 2012
End of vesting period	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Vesting date	1 September 2018	1 July 2017	1 September 2016	1 August 2015
Personal investment at grant date	240,835	299,239	343,738	510,986
Thereof Management Board****	57,771	51,974	53,705	42,174
Personal investment at reporting date*	171,259	220,000	247,960	426,658
Expected performance**	93.30%	50.20%	45.00%	18.00%
Expected bonus shares***	284,743	202,969	223,164	0
Maximum bonus shares***	599,408	770,001	867,860	0
Fair value of programme in TEUR	1,413	1,037	1,167	0
Allocated bonus shares	0	0	0	71,531
Average stock price at end of vesting period in Euro	0	0	0	5.73
Share-based compensation in TEUR	0	0	0	410

* For LTI 2012 personal investment at the end of the vesting period.
** For LTI 2012 actual performance at the end of the vesting period.
*** Taking into account the allocation of bonus shares equal to the double personal investment for LTI2013–2015.
**** LTI 2013–2015 including the personal investment of Siegfried Mayrhofer, Hannes Ametsreiter and Günther Ottendorfer. LTI 2015 including the personal investment of Alejandro Plater, LTI 2012 including the personal investment of Siegfried Maryhofer and Hannes Ametsreiter (see Note (35)).

As of the reporting date, a liability measured at fair value for the portion of the expected future expense of the LTI programme, which has already vested, is recognised. The fair value of the liability is measured based on the expected target achievement and the expected share price, as determined by applying a binomial calculation model generally used for share price analysis, taking into account expected dividends. The liability is recognised over the vesting period (see Notes (23) and (28)). The following personnel expense is recognised in the consolidated statement of profit or loss (negative values indicate income):

in TEUR	2015	2014
LTI 2011	–5	–20
LTI 2012	–76	149
LTI 2013	386	7
LTI 2014	176	526
LTI 2015	474	0
Expense	955	662

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

in TEUR, at 31 December	1 Euro increase	1 Euro decrease
Fair value of LTI 2013	232	–232
Fair value of LTI 2014	216	–216
Fair value of LTI 2015	285	–285

A change of five percentage points in the EBITDA applied would result in the following changes of fair values (negative values indicate a reduction):

in TEUR, at 31 December	5 percentage points increase	5 percentage points decrease
Fair value of LTI 2013	262	–173
Fair value of LTI 2014	198	–139
Fair value of LTI 2015	109	–95

(32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

in TEUR	2015	2014
Cash paid for		
Interest	157,285	162,783
Income taxes	39,551	50,540
Cash received for		
Interest	19,716	12,326
Income taxes	7,430	0

Cash flows relating to interest and income taxes are reported in the cash flow from operating activities. The dividends received in 2015 and 2014 (see Note (7)) had already been settled in cash as of 31 December. In 2015 and 2014, dividends paid include dividends paid to the non-controlling interests of subsidiaries in the amount of TEUR 163 and TEUR 84, respectively (see Note (38)).

In 2014, the item 'Other', which is part of the reconciliation of net result to gross cash flow, amounts to TEUR 39,649 and consists mainly of the non-cash gain on the merger of mobilkom liechtenstein amounting to TEUR 26,785, the decrease in revenues due to the change in estimate amounting to TEUR 47,505 (see Note (9)), interest expense on the reversal of the hedging reserve (see Note (33)) as well as non-cash changes in provisions (see Note (22)).

In 2015 and 2014, cash and cash equivalents acquired totalled TEUR 3,518 and TEUR 325, respectively, and cash and cash equivalents of TEUR 129 and TEUR 4,458, respectively, were disposed of due to the sale of subsidiaries (see Note (2)).

At 31 December 2015 and 2014, TEUR 187,025 and TEUR 136,196, respectively, of the additions to intangible assets and property, plant and equipment are unpaid (see 'Table of Other Intangible Assets' and 'Table of Property, Plant and Equipment').

(33) Financial Instruments

Financial risk management

Overview

Telekom Austria Group is exposed to market risks, including liquidity risk, interest rate and foreign currency exchange rate risk and credit risk associated with underlying financial assets, liabilities and anticipated transactions. Potential risks relating to interest rate and foreign exchange rate fluctuations can be limited by entering into derivative financial instruments. These policies are laid down in the Treasury Guidelines.

Telekom Austria Group neither holds nor issues derivative financial instruments for trading or speculative purposes.

This Note presents information about Telekom Austria Group's exposure to each of the above risks, as well as the objectives, policies and the processes for limiting and measuring these risks.

The Chief Financial Officer (CFO) of the holding company has overall responsibility for the implementation and oversight of Telekom Austria Group's risk management and is responsible for monitoring Telekom Austria Group's risk management process.

Telekom Austria Group's risk management policies are established in order to identify and analyse the risks faced by Telekom Austria Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and Telekom Austria Group's activities. Telekom Austria Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Liquidity risk

Liquidity risk is the risk that Telekom Austria Group will not be able to meet its financial obligations as they fall due. Telekom Austria Group's approach to managing liquidity is to ensure that Telekom Austria Group will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. Furthermore, all measures required to assure sufficient liquidity for the needs according to the liquidity plan shall be taken. The liquidity risk expresses itself in the monthly and yearly cumulated difference between incoming and outgoing payments (dynamic liquidity risk) as well as in the structure of the statements of financial position (structural liquidity risk).

The analysis of the dynamic liquidity risk is conducted by means of liquidity planning. The given monthly liquidity requirement based on the forecasted liquidity planning is compared against the existing financing or available lines of credit and liquid financial assets. The difference between the two will result in either a liquidity gap, which will be financed, or excess liquidity, which, if necessary, will be invested. On the basis of the existing business plan, a rolling monthly liquidity plan is drawn up for Telekom Austria Group. In the liquidity plan, all known incoming and outgoing payments are processed and a worst-case scenario is calculated.

An analysis of the structural liquidity risk takes place upon determining the net working capital and the redemption structure of the financing portfolio (risk of concentration of maturities). Individual investment financing is structured in such a way that a balanced redemption schedule can be adhered to in the aggregate portfolio and any concentration of maturities in a single year is avoided.

Telekom Austria Group invests excess liquidity in instruments with counterparties and within limits approved by the CFO. All long-term instruments and derivatives, if used, are contracted with counterparties having an investment grade rating from Standard & Poor's or an equivalent rating from another globally recognised rating agency. If no such external rating is available, an internal rating based on quantitative ratios is carried out.

The exposure to liquidity risk, the set targets, the principles and processes to monitor the risk on an ongoing basis as well as the methods used to assess liquidity risk remained unchanged to prior years.

Funding sources

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

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

Other funding sources

In order to diversify its short-term funding sources, Telekom Austria Group implemented a multi-currency short-term treasury notes programme (multi-currency notes) with a maximum volume of TEUR 300,000 in 2007. The programme was concluded for an indefinite period. As of 31 December 2015 and 2014, no multi-currency notes were issued.

As of 31 December 2015 and 2014, Telekom Austria Group had total credit lines of TEUR 1,000,000 and TEUR 1,000,000, respectively. These credit lines were not utilised. The credit line commitments have a term until November 2019.

Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of financial liabilities. At 31 December 2015 and 2014, no variable interest-rate liabilities existed. Foreign currencies were translated at the rates valid on the reporting date.

	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
At 31 December 2015						
Financial liabilities						
Bonds	3,574,938	849,063	33,938	585,188	191,813	1,914,938
Bank debt	387,844	8,193	58,359	57,580	263,711	0
Accounts payable – trade	573,650	572,272	489	641	151	97
Other financial liabilities	50,702	34,450	11,545	2,807	927	973
At 31 December 2014						
Financial liabilities						
Bonds	3,707,938	99,063	33,938	883,000	713,063	1,978,875
Bank debt	660,255	12,940	257,803	66,985	322,528	0
Accounts payable – trade	523,977	521,492	2,102	171	155	56
Other financial liabilities	54,867	34,950	12,059	3,541	3,273	1,044

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

Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect Telekom Austria Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. All financial transactions are carried out within the Treasury Guideline. At 31 December 2015 and 2014, Telekom Austria Group held not derivative financial instruments.

The calculation of fair values (mark-to-market) is based on contractually agreed future cash flows related to such transactions. For the purpose of determining the fair value of the existing financial instruments, Telekom Austria Group considers the interest rate curve applicable to calculate discount factors of matching maturities.

The exposure to market risk, its origin and the objectives, policies and processes for managing market risk (interest rate risk and exchange rate risk) and the methods used to measure credit risk remained unchanged to prior years.

Interest rate risk

Telekom Austria Group considers changing interest rates as its major market risk exposure. Telekom Austria Group's risk management strategy strives to balance the related exposure to fair value and cash flow risks.

Since all of Telekom Austria Group's long-term debt have fixed interest rates, no cash flow exposure due to fluctuating interest rates exists. However, the fair value of fixed rate debt increases when market rates are below the rates fixed on these loans.

Exposure to interest rate risk

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

For details on the risks related to long-term financial liabilities, see Note (25).

Fair value sensitivity analysis for financial instruments

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

in TEUR, at 31 December	Capital amounts	Change in financial portfolio Increase	Decrease
2015			
Fixed rate financial liabilities	3,405,305		
Sensitivity at 4.044%		–137,711	137,711
2014			
Fixed rate financial liabilities	3,626,000		
Sensitivity at 4.913%		–178,131	178,131

Cash flow sensitivity analysis for variable-rate financial instruments

Since all of Telekom Austria Group's long-term debt have fixed interest rates at 31 December 2015 and 2014 no sensitivity analysis is provided.

Information with respect to hedging reserve

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

Exchange rate risk

As of 31 December 2015 and 2014, of all accounts receivable – trade and accounts payable – trade, only the following are denominated in a currency other than the functional currency of the reporting entities (for foreign exchange rates, see Note (1)):

in TEUR, at 31 December		2015			2014	
Denominated in	EUR	USD	Other	EUR	USD	Other
Accounts receivable – trade	13,822	973	13,553	15,597	2,246	18,673
Accounts payable – trade	54,414	7,665	15,568	57,880	6,057	13,003

A change of 5% in the exchange rate of EUR to HRK would have increased (decreased) foreign exchange rate differences by TEUR 153 and TEUR 883 in 2015 and 2014, respectively. A change of 10% in the exchange rate of EUR to RSD would have increased (decreased) foreign exchange rate differences by TEUR 1,191 and TEUR 1,267 in 2015 and 2014, respectively. In 2015, a change of 10% of EUR to BYR would have increased (decreased) foreign exchange rate differences by TEUR 367. In 2014, a sensitivity analysis for a change of the BYR was not performed due to the application of accounting in hyperinflationary economies. No sensitivity analysis was performed for other accounts receivable or for accounts payable – trade, denominated in foreign currencies, as there is no significant risk due to diversification.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from accounts receivable – trade, investment activities and, if used, derivative financial instruments.

The exposure to credit risk, its origin and the objectives, policies and processes for managing credit risk as well as the methods used to measure credit risk remained unchanged to prior years.

Telekom Austria Group does not have significant exposure to any individual customer or counterparty, nor does it have any major concentration or credit risk related to any financial instrument other than noted under the section concentration of risk in 'Significant Accounting Policies' (Note (1)). Due to internal guidelines and the setting of counterparty limits, Telekom Austria Group does not have significant exposure to credit risk in respect to individual financial instruments.

Accounts receivable – trade and other receivables

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

The Credit Management Department has established a credit policy that requires, within the framework of the applicable legal regulations, each new customer to be analysed individually for creditworthiness.

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

Telekom Austria Group requires from both retail and wholesale customers collateral for accounts receivable – trade and for other receivables depending on the outcome of the analysis of the creditworthiness. These collaterals consist of bank guarantees, warranty und indemnity declarations on behalf of subsidiaries and cash deposits.

Financial investments

Telekom Austria Group limits its exposure to credit risk by only investing in fungible financial instruments and by placing deposits only with counterparties that have an appropriate external or internal rating based on quantitative and qualitative parameters. As Telekom Austria Group's investments are generally of a short-term nature, it does not expect any counterparties to fail to meet their obligations. Therefore, the exposure to any significant credit risk is low.

Exposure to credit risk

The carrying amount of financial assets and accounts receivable – trade represents the maximum credit risk exposure. The maximum exposure to credit risk related to financial assets was:

in TEUR, at 31 December	2015	2014
Available-for-sale investments	8,884	21,279
Financial investments valued at cost	1,710	554
Loans and receivables	117,707	113,905
Cash and cash equivalents	909,176	1,018,065
Carrying amount of financial assets	**1,037,476**	1,153,803

At 31 December 2015 and 2014, Telekom Austria Group holds cash deposits of TEUR 7,362 and TEUR 7,214 (see Notes (23) and (28)) and bank guarantees, warranty und indemnity declarations on behalf of subsidiaries of TEUR 13,235 and TEUR 13,421, respectively.

The following table sets forth the maximum exposure to credit risk for accounts receivable – trade, which equals the carrying amount, by geographic region:

in TEUR, at 31 December	2015	2014
Domestic	736,786	689,556
Foreign	88,436	83,475
Allowances	–200,588	–172,963
Accounts receivable – trade	**624,635**	600,068

Accounts receivable – trade from Telekom Austria Group's most significant customer amount to TEUR 10,781 and TEUR 8,744 as of 31 December 2015 and 2014, respectively. Thus, no major concentration of credit risk exists. With respect to the ageing of accounts receivable – trade and the allowance for doubtful accounts, see Note (9).

Fair value of financial instruments

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

in TEUR, at 31 December	Carrying amount	Fair value 2015	Carrying amount	Fair value 2014
Financial assets				
Cash and cash equivalents	**909,176**	**909,176**	**1,018,065**	**1,018,065**
Accounts receivable – trade	624,635	624,635	600,068	600,068
Receivables due from related parties	878	878	1,255	1,255
Other current financial assets	80,507	80,507	75,672	75,672
Other non-current financial assets	36,322	36,322	36,978	36,978
Loans and receivables	**742,342**	**742,342**	**713,973**	**713,973**
Long-term investments	6,525	6,525	6,846	6,846
Short-term investments	2,367	2,367	14,433	14,433
Available-for-sale investments	**8,893**	**8,893**	**21,279**	**21,279**
Investments at cost	**1,701**	**1,701**	**554**	**554**

Cash and cash equivalents, accounts receivable – trade and other current financial assets have maturities lower than one year. As their carrying amounts reported approximate their fair values, no further information on the classification in the fair value hierarchy is provided.

The fair values of other non-current financial assets with a maturity of more than one year correspond to the present values of the payments related to the assets, taking into account the current interest rates that reflect market and partner-based changes to terms, conditions and expectations and are thus classified as Level 2 of the fair value hierarchy.

The fair values of available-for-sale investments are based on market prices.

Telekom Austria Group estimates the fair values of investments in equity instruments and investments in unconsolidated subsidiaries that do not have a quoted market price in an active market based on the audited financial statements, if available. For information on the stake in CEESEG AG and CATV-047 d.o.o. Kabelska televizija, see Note (16).

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

in TEUR, at 31 December	Carrying amount	Fair value 2015	Carrying amount	Fair value 2014
Financial liabilities				
Liabilities to financial institutions	5,087	5,087	0	0
Bonds	3,033,907	3,297,392	3,029,679	3,430,116
Other current financial liabilities	150,014	150,014	53,755	53,755
Non-current liabilities to financial institutions	355,305	391,617	602,632	655,521
Other non-current liabilities	839	839	969	969
Accounts payable – trade	573,650	573,650	522,344	522,344
Payables due to related parties	1,829	1,829	7,058	7,058
Accrued interest	93,200	93,200	93,459	93,459
Financial liabilities at amortised cost	**4,214,094**	**4,508,804**	**4,309,895**	**4,763,222**

Non-current liabilities to financial institutions include their short-term portion.

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

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

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

Fair value hierarchy of financial instruments
The following table shows the fair value hierarchy (per class of financial instrument) of financial instruments measured at fair value that reflects the significance of the inputs in such fair value measurements:

in TEUR	Level 1	Level 2	Level 3	Total
At 31 December 2015				
Available-for-sale & other investments	7,136	1,757	0	8,893
Financial assets measured at fair value	**7,136**	**1,757**	**0**	**8,893**
At 31 December 2014				
Available-for-sale & other investments	7,296	13,983	0	21,279
Financial assets measured at fair value	7,296	13,983	0	21,279

(34) Commitments and Contingent Assets and Liabilities

A tax audit of the years 2003 to 2007 performed in an Austrian subsidiary resulted in a potential additional payment of TEUR 17,000 for prior periods. Based on the circumstances and the rules to be applied, Telekom Austria Group estimates an actual payment to be improbable.

In June 2014, Mobiltel EAD ('Mobiltel') received the tax assessment act related to the taxation treatment of amortisation of brand name and customer base in 2007. Mobiltel appealed to the highest tax authority in Sofia. In December 2014 this appeal was rejected. Mobiltel appealed to the administrative court in Sofia. At 31 December 2015, the total amount of the tax claim including accrued interest amounts to TEUR 21,397.

On 26 October 2015, the administrative court decided in favour of Mobiltel. On 13 November 2015, the tax authorities appealed to the highest administrative court. The tax case is therefore assigned to the highest administrative court as final instance. Mobiltel has issued a bank guarantee covering up to TEUR 22,200 to secure the possible tax claim.

On 24 September 2015, the tax authorities issued a second tax assessment act regarding the tax treatment of the brand name and the customer base. The assessment relates to the financial year 2008 and amounts to TEUR 19,738 including interest up to 31 December 2015. Mobiltel appealed to the highest Bulgarian tax authority. At the same time it requested suspension of the administrative appealing procedure until the highest administrative court has reached a final decision relating to the financial year 2007. The request for suspension was answered positively. Mobiltel has issued three further bank guarantees covering up to TEUR 20,500 to secure the possible tax claim for 2008.

Moreover, a subsequent tax audit covering the years 2009 to 2012 is currently ongoing, the results of which are hard to estimate because the outcome is depending on the decision of the highest administrative court.

In case of an unfavourable outcome of the court proceedings, Mobiltel might face a further potential additional claim for the years 2009 to 2012 of up to TEUR 59,008 including penalty interest.

Mobiltel expects the court decision to be in favour of Mobiltel due to the fact that Mobiltel followed the approach confirmed by the Minister of Finance and two consecutive tax audits in the past. Mobiltel assesses an additional claim including interest to be improbable. Mobiltel has already issued a bank guarantee covering up to TEUR 42,700 to secure the possible tax claim.

For interest on debt in the amount of TEUR 16,821, which is non-deductible based on section 12 (1) No 9 of the Austrian Corporate Tax Act, no addition has been made, since there are justified doubts regarding the legality of the tax regulation. A provision was not necessary because substantive loss carry-forwards are available.

In the normal course of business, Telekom Austria Group is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to network access. Such matters are subject to many uncertainties, and the outcomes are not predictable with certainty. Consequently, Management is unable to ascertain the ultimate aggregate amount of the monetary liability or the impact on the financial position of Telekom Austria Group with respect to these matters at 31 December 2015. These matters could materially affect the operating results or cash flows of any quarter when resolved in future periods. However, Management believes that after final settlement, any monetary liability or financial impact on Telekom Austria Group, beyond such provided for at year-end, would not be material to its Consolidated Financial Statements.

(35) Remuneration Paid to the Management and Supervisory Board

As of 31 December 2015, the Management Board of Telekom Austria Group is composed of Alejandro Plater as Chief Executive Officer (CEO), and Siegfried Mayrhofer as Chief Financial Officer (CFO). Since 6 March 2015, Alejandro Plater is a member of the Management Board and since 1 August 2015 he is CEO. On 1 June 2014, Siegfried Mayrhofer succeeded Hans Tschuden as Chief Financial Officer. Hannes Ametsreiter prematurely left Telekom Austria Group as CEO on 31 July 2015 and Günther Ottendorfer as CTO on 5 March 2015.

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

in TEUR	2015	2014
Basic remuneration (fixed salary incl. remuneration in kind)	1,489	1,484
Variable remuneration	1,695	1,374
Share-based compensation (long-term incentive programme)*	29	87
Total	**3,213**	2,945
Severance and termination expenses	3,472	1,800
Compensation Supervisory Board	235	212

*See Note (31).

Severance and termination expenses include benefits to Hannes Ametsreiter, Günther Ottendorfer and Hans Tschuden in 2015 and to Hans Tschuden only in 2014.

Hannes Ametsreiter resigned from his function as CEO as per 31 July 2015 and his employment relationship was terminated at the same date. In the table above termination expenses of TEUR 290 and severance expenses of TEUR 1,114 are included.

Günther Ottendorfer's contract with a term until 31 August 2016 was prematurely terminated as per 5 March 2015. In the table above termination expenses of TEUR 1,757 are included.

Hans Tschuden's contract with a term until 31 March 2015 was prematurely terminated as per 31 March 2014. In the table above termination expenses of TEUR 311 are included (2014: TEUR 1,800).

(36) Employees

The average number of employees during the years 2015 and 2014 was 16,471 and 16,155, respectively. As of 31 December 2015 and 2014, Telekom Austria Group employed 17,673 and 16,240 employees (full-time equivalents).

(37) Subsequent Events

Since 31 December 2015 no reportable subsequent events have occurred.

(38) Affiliated Companies

Name and company domicile	Share in capital as of 31 December 2015 in %	Method of consolidation*	Share in capital as of 31 December 2014 in %	Method of consolidation*
Segment Austria				
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00	FC	100.00	FC
Telekom Austria Personalmanagement GmbH, Vienna	100.00	FC	100.00	FC
Telekom Austria Beteiligungen GmbH, Vienna	100.00	FC	100.00	FC
CableRunner GmbH, Vienna	76.00	FC	76.00	FC
CableRunner Austria GmbH & Co. KG, Vienna	76.00	FC	76.00	FC
World-Direct eBusiness solutions Gesellschaft m.b.H., Vienna	100.00	FC	100.00	FC
ÖFEG GmbH, Vienna	100.00	FC	100.00	FC
paybox Bank AG, Vienna	100.00	FC	100.00	FC
paybox Service GmbH, Vienna	100.00	FC	100.00	FC
3G Mobile Telecommunications GmbH, Vienna	100.00	FC	100.00	FC
mk Logistik GmbH, Vienna	100.00	FC	100.00	FC
JetStream Hungary Kft., Budapest	100.00	FC	100.00	FC
JetStream Slovakia s.r.o., Bratislava	100.00	FC	100.00	FC
JetStream RO s.r.l., Bucharest	100.00	FC	100.00	FC
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00	FC	100.00	FC
JetStream Switzerland GmbH, Zurich	100.00	FC	100.00	FC
JetStream Poland Spolka Z Ograniczona Odpowiedzialnoscia, Warsaw	100.00	FC	100.00	FC
JetStream Germany GmbH, Frankfurt on the Main	100.00	FC	100.00	FC
JetStream Italy S.r.l., Milan	100.00	FC	100.00	FC
TA CZ sítě s.r.o., Prague	100.00	FC	100.00	FC
JetStream BH d.o.o. drustvo za telekomunikacije, Sarajevo	100.00	FC	100.00	FC
JetStream England Limited, London	100.00	FC	100.00	FC
media.at GmbH, Vienna	25.3228	EQ	25.3228	EQ
Segment Bulgaria				
Mobiltel EAD, Sofia	100.00	FC	100.00	FC
Bultel Cable EAD, Sofia	100.00	FC	–	–
Blizoo Media and Broadband EAD, Sofia	100.00	FC	–	–
Cabletel-Prima AD, Nessebar	51.00	FC	–	–
Citynet TV OOD, Aytos	51.00	FC	–	–
Globo EOOD, Sofia	100.00	NC	–	–
Cable Information System AD, Russe	87.55	NC	–	–
Evrocom Sofia Cable EOOD, Sofia	100.00	NC	–	–
Vereia Cable AD, Sofia	100.00	NC	–	–
M repair and service EAD, Sofia	LIQ	–	100.00	FC
M Support Services EOOD, Sofia	ME	–	100.00	FC
GPS Bulgaria AD, Sofia	SO	–	90.00	FC
Segment Croatia				
Vipnet d.o.o., Zagreb	100.00	FC	100.00	FC
Vipnet usluge d.o.o., Zagreb	100.00	FC	100.00	FC
CATV–047 d.o.o. Kabelska televizija, Karlovac	100.00	NC	–	–
Segment Belarus				
Unitary enterprise velcom, Minsk	100.00	FC	100.00	FC
Unitary enterprise TA-Engineering, Minsk	100.00	FC	100.00	FC
Unitary enterprise TA-Installation, Minsk	ME	–	100.00	FC
Adelfina Ltd., Minsk	100.00	FC	100.00	FC
Segment Additional Markets				
Telekom Austria Group M2M GmbH, Vienna	100.00	FC	100.00	FC
Amis d.o.o., Maribor	100.00	FC	–	–
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00	FC	100.00	FC
TA Mreža d.o.o., Ljubljana	100.00	FC	100.00	FC

Name and company domicile	Share in capital as of 31 December 2015 in %	Method of consolidation*	Share in capital as of 31 December 2014 in %	Method of consolidation*
Vip mobile d.o.o., Belgrade	100.00	FC	100.00	FC
Amis Telekomunikacije d.o.o., Belgrade	100.00	FC	–	–
one.Vip DOO, Skopje-Zentar	55.00	FC	100.00	FC
Vip operator uslugi DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
Vip operator prodazba DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
Astra Plus DOOEL, Kocani	100.00	FC	–	–
Kabel Riz DOOEL, Kocani	100.00	FC	–	–
Filadelfija -2002 Dooel, Kocani	100.00	FC	–	–
Studio Andes DOOEL, Radovish	100.00	FC	–	–
BLIZOO DOOEL, Skopje	100.00	FC	100.00	FC
Digi plus Multimedia DOOEL, Skopje	100.00	FC	–	–
Corporate & Other				
Telekom Projektentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
Telekom Finanzmanagement GmbH, Vienna	100.00	FC	100.00	FC
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00	FC	100.00	FC
mobilkom Bulgarien BeteiligungsverwaltungsgmbH, Vienna	100.00	FC	100.00	FC
mobilkom Bulgarien Geschäftsentwicklungsgmbh, Vienna	100.00	FC	100.00	FC
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
SB Telecom Ltd., Limassol	100.00	FC	100.00	FC
Amisco N.V., Grimbergen	100.00	FC	–	–
Telecom Liechtenstein AG, Vaduz	24.90	EQ	24.90	EQ

* FC – full consolidation, EQ – equity method, LIQ – liquidation, ME – merged, NC – not consolidated because not material, SO – sold

All affiliated companies have 31 December as their reporting date except for media.at-Group which has 30 June as its reporting date.

(39) Release for Publication

On 25 January 2016, the Management Board approved the Consolidated Financial Statements for submission to the Supervisory Board. The Supervisory Board will review the Consolidated Financial Statements and report its decision on approval.

Vienna, 25 January 2016

CEO and COO Alejandro Plater

CFO Siegfried Mayrhofer

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Telekom Austria Aktiengesellschaft, Vienna, for the financial year from January 1, 2015 to December 31, 2015. These consolidated financial statements comprise the consolidated statements of financial position as of December 31, 2015, the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of cash flows and the consolidated statements of changes in stockholders equity for the financial year ended December 31, 2015, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 245a UGB. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2015 and of its financial performance and its cash flows for the financial year from January 1, 2015 to December 31, 2015 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

Comments on the consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the consolidated management report is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, January 26, 2016

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Erich Lehner mp	Mag. (FH) Severin Eisl mp
Wirtschaftsprüfer /	Wirtschaftsprüfer /
Certified Auditor	Certified Auditor

This report is a translation of the original report in German, which is solely valid. Publication of the consolidated financial statements together with our auditor's opinion may only be made if the consolidated financial statements and the consolidated management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

Glossary

Information and Communication Technology Terms

ARPL (Average Revenue per Line)
Average revenue generated per fixed access line.

ARPU (Average Revenue per User)
Average revenue generated per mobile user.

Carrier Aggregation
Next expansion stage for LTE.

Convergence
Consolidation of telecommunications, informatics and media and their combination via an interactive multimedia platform.

G.fast
A technology for ultra high-bandwidth transmission, based on existing copper lines.

IPTV (Internet Protocol Television)
Transmission of television programmes and films via the internet.

LTE (Long Term Evolution)
LTE refers to the fourth-generation mobile communications standard and enables tranfer rates of up to 150 Mbps.

Machine-to-Machine (M2M)
Connection services for automated data transfer between machines, devices, sensors or servers for remote controlling and monitoring with or without human interaction.

Mobile penetration
Measures customers of a mobile communication provider as a proportion of total population.

No frills
Cost benefit for customers gained by foregoing supplementary services.

Roaming
Allows users to make telephone calls using a third-party (foreign) network. This is subject to a roaming agreement between network operator and at least one partner in the respective foreign country.

Termination charges
The operator of a subscriber network connects a call originating from a third-party telecommunication network to a subscriber of its own network and charges a fee to the network operator from which the call originates.

Unbundling
The local loop is made available to alternative network operators and internet service providers in order to give them access to end users.

Vectoring
Vectoring helps to reduce interference between parallel lines.

Stock Exchange and Financial Terms

Capital expenditure
Additions to property, plant and equipment as well as intangible assets, excluding additions to asset retirement obligations.

Capital market compliance guideline
Group-wide guideline setting out organisational measures to prevent stock trading using share price-relevant information not yet publicly available (insider information) and to ensure the confidential treatment of such insider information.

Code of Conduct
The Code of Conduct of the Telekom Austria Group is a Group-wide internal directive which prescribes how to deal fairly with customers, suppliers and employees, protect confidential company and business information, protect assets and deal with conflicts of interest. It also sets out rules for accepting gifts and provisions on capital market compliance.

Compliance management
Area of responsibility dealing with a company's compliance with statutory provisions and directives as well as voluntary codes.

Corporate governance
The Austrian Corporate Governance Code sets out guidelines for responsible company management and controlling.

Directors and officers (D&O) insurance
Pecuniary damage liability insurance concluded by a company for its executive bodies and senior employees.

Directors' dealings
Describes transactions by the management of listed stocks in securities of the same company.

EBITDA (earnings before interest, taxes, depreciation and amortisation)
EBITDA is defined as net income excluding the financial result, income taxes and depreciation and amortisation expense.

EBITDA comparable
Defined as EBITDA adjusted for restructuring and impairment effects.

EBITDA margin
Ratio of EBITDA to revenue in percent.

Free cash flow
Defined as cash flow from operating activities less capital expenditure in existing business areas.

IFRS (International Financial Reporting Standards)
Accounting standards developed by the International Accounting Standards Board (IASB; formerly International Accounting Standards Committee, IASC). In addition to the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) published by the IASB, this includes the interpretations published by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

Market capitalisation
Number of shares outstanding multiplied by the share price.

Net debt
Financial liabilities less cash and cash equivalents, investments, finance lease receivables and derivative financial instruments for hedging activities.

Net debt to EBITDA comparable
Ratio of net debt to EBITDA comparable; indicates the debt repayment period on the basis of net debt and EBITDA comparable.

ÖBIB
Österreichische Bundes- und Industriebeteiligungen GmbH is the investment and privatisation agency of the Republic of Austria.

ROE (return on equity)
Ratio of net income to the average equity employed; serves as an indicator which measures the yield on equity.

ROIC (return on invested capital)
Total return on invested capital, calculated as the operating result after tax divided by the average capital invested.

Legend for tables

n. a.
not applicable.

n. m.
not meaningful; used for changes >300% and for percentage changes which are not meaningful.

Forward-looking statements

Disclaimer for forward-looking statements: This document contains forward-looking statements. These forward-looking statements are usually accompanied by words such as 'believe', 'intend', 'anticipate', 'plan', 'expect' and similar expressions. Actual events may differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. Neither Telekom Austria Group nor any other person accepts any liability for any such forward-looking statements. Telekom Austria Group will not update these forward-looking statements, whether due to changed factual circumstances, changes in assumptions or expectations. This report does not constitute a recommendation or invitation to purchase or sell securities of Telekom Austria Group.

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