TELEKOM AUSTRIA GROUP

more

Efficiency
Opportunities
Connectivity
Growth
Teamwork
Virtualisation
Insight
Innovation
Profitability
Diversity
Responsibility

+ + + EMPOWERING DIGITAL LIFE + + + EMPOWERING DIGITAL LIFE + + + EMPOWERING DIGITAL LIFE + + + EMPOWERING DIGITAL LIFE + + + EMPOWERING DIGITAL LIFE + + +

less

Restrictions
Hardware
Bureaucracy
Emissions
Stagnation
Wasting
Divides

Annual Report 2016

Key figures of the Telekom Austria Group

	2016	2015	Change in %
RGUs[1] (in '000)			
in Austria	3,495.5	3,534.4	–1.1
in Bulgaria	1,018.9	1,011.9	0.7
in Croatia	620.1	553.0	12.1
in Belarus	279.4	–	–
in Slovenia	172.0	147.6	16.5
in the Republic of Macedonia	314.3	304.5	3.2
Total	**5,900.2**	**5,551.4**	**6.3**
of which broadband RGUs in Austria	1,481.0	1,458.5	1.5
of which broadband RGUs in Bulgaria	429.3	413.8	3.7
of which broadband RGUs in Croatia	234.4	200.2	17.1
of which broadband RGUs in Belarus	132.0	–	–
of which broadband RGUs in Slovenia	70.2	65.3	7.6
of which broadband RGUs in the Republic of Macedonia	102.0	99.9	2.1
TV RGUs	1,284.3	1,085.3	18.3
Mobile Communication Customers (in '000)			
in Austria	5,971.5	5,803.7	2.9
in Bulgaria	4,108.1	4,235.7	–3.0
in Croatia	1,720.0	1,733.6	–0.8
in Belarus	4,944.9	4,956.8	–0.2
in Slovenia	714.3	708.5	0.8
in the Republic of Serbia	2,145.3	2,109.3	1.7
in the Republic of Macedonia	1,103.6	1,163.5	–5.1
Total	**20,707.8**	**20,711.0**	0.0
Employees (full-time equivalent, as of 31 Dec)	18,203	17,673	3.0
Key Financial Data (in EUR million)[2]			
Total revenues	4,211.5	4,125.3	2.1
of which generated abroad (in %)	39.6	38.1	–
EBITDA[3]	1,354.3	1,368.7	–1.1
of which generated abroad (in %)	34.9	37.0	–
EBITDA margin (in %)	32.2	33.2	–
Operating income	486.7	571.7	–14.9
Net result	413.2	392.8	5.2
Free cash flow[4]	232.0	352.2	–34.1
Net cash flow from operating activities	1,195.5	1,228.4	–2.7
Capital expenditures[5]	764.1	784.5	–2.6
Net debt	2,339.4	2,483.0	–5.8
Equity	2,770.7	2,426.0	14.2
Equity ratio (in %)	34.9	29.2	–
Net debt to EBITDA	1.7x	1.8x	–
Return on Invested Capital – ROIC[6] (in %)	9.9	9.7	–
Return on Equity – ROE[7] (in %)	15.9	16.9	–
Key Share Figures			
Earnings per share (in EUR)	0.58	0.55	5.5
Free cash flow per share (in EUR)	0.35	0.53	–34.1
Market capitalisation as of 31 Dec (in EUR billion)	3.7	3.4	11.2
Share price as of 31 Dec (in EUR)	5.61	5.04	11.2
Share price high (in EUR)	5.73	6.86	–16.4
Share price low (in EUR)	4.66	4.80	–3.0
Dividend per dividend-bearing share (in EUR)	0.20[8]	0.05	–

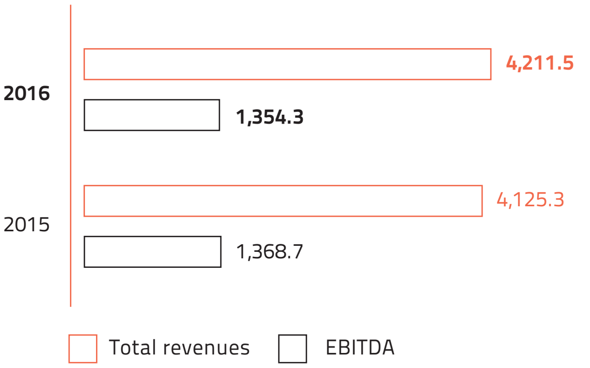
1) Revenue generating units 2) As of Q1 2016, the Telekom Austria Group changed its reporting structure to be fully aligned with América Móvil. The 2015 comparison period was adjusted accordingly. For details see: http://www.telekomaustria.com/en/ir/new-reporting-structure 3) EBITDA is defined as the net result excluding financial result, income tax, depreciation and amortisation and, if applicable, impairment losses or reversal of impairments. 4) Defined as net cash flow from operating activities plus proceeds from sale of plant, property and equipment minus capital expenditures paid and interest paid. 5) Excluding asset retirement obligations. 6) Total return on invested capital, calculated as the operating result after tax divided by the average capital invested. 7) Ratio of net result to the average equity employed; serves as an indicator which measures the yield on equity. 8) Proposal to the Annual General Meeting, which will take place on 9 June 2017.

TELEKOM AUSTRIA GROUP

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

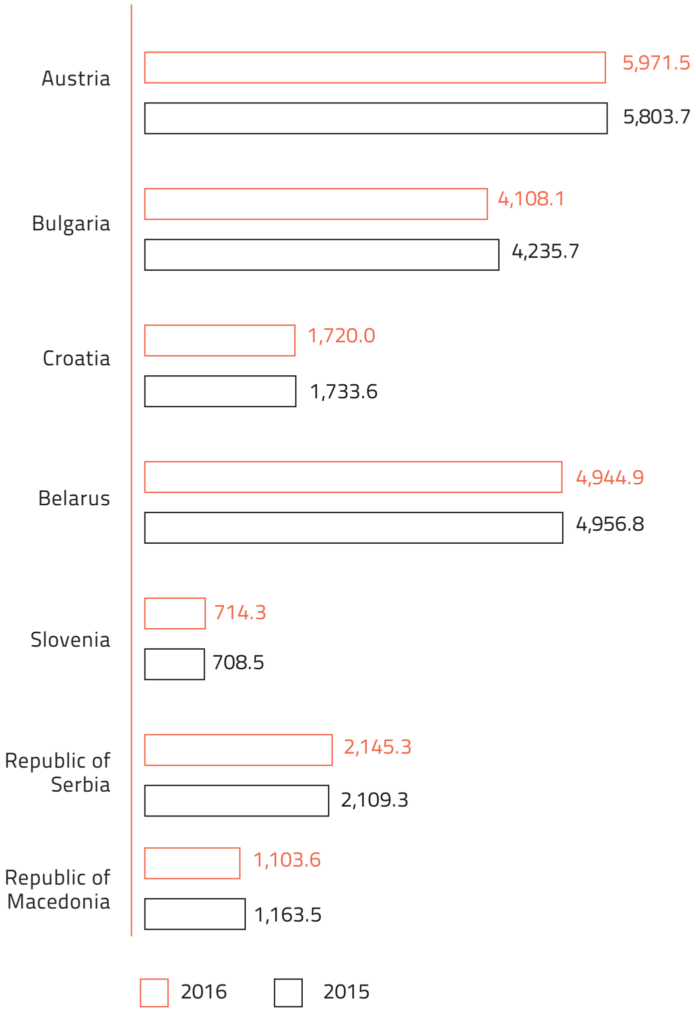
Total revenues and EBITDA

in EUR million



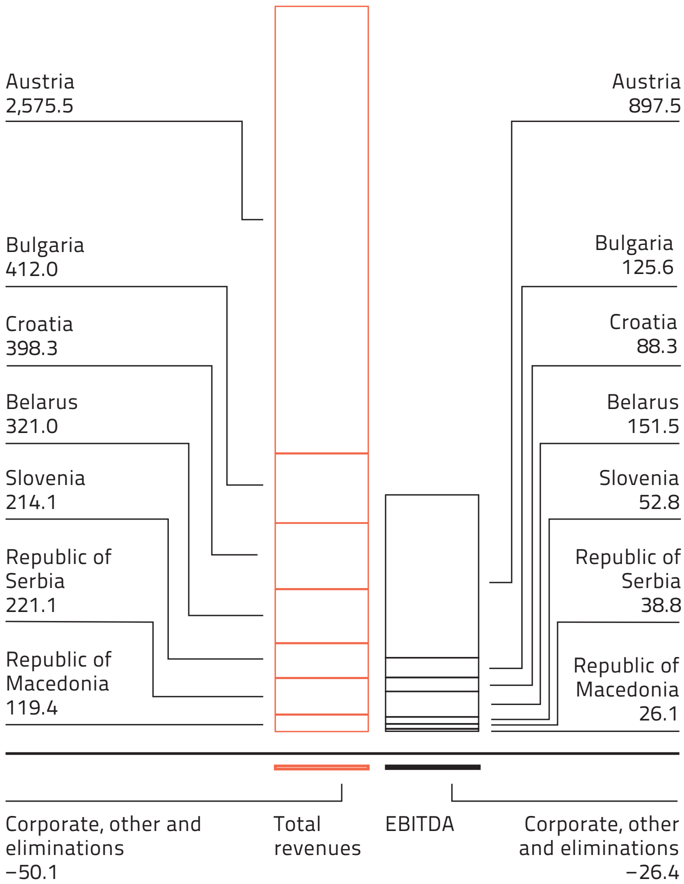
Mobile communication customers by segment

in ‘000 / as of 31 Dec



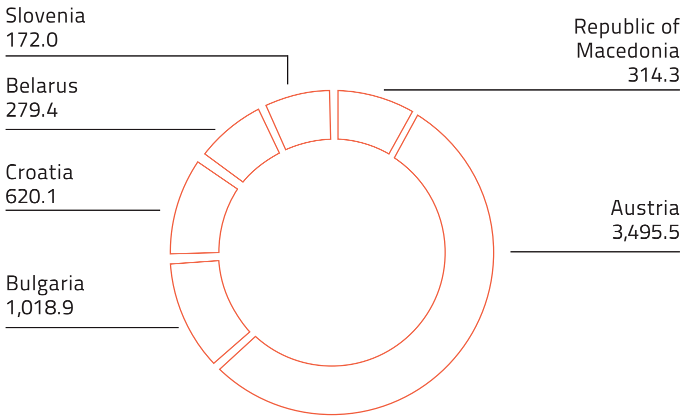
Total revenues and EBITDA by segment

in EUR million / in 2016



RGUs by segment

in ‘000 / as of 31 Dec 2016



MORE / LESS

Digitalisation is not a brand new or passing megatrend. It has come to stay. Huge opportunities for more economic growth and more social and individual development options go along with it. At the same time, digitalisation shows where less may in fact represent progress: It promotes a more efficient, resource-saving and therefore more sustainable way of working and living in the interests of people and the environment.

CONTENTS

IMPRINT

Ownership and Publisher: Telekom Austria AG
Project Team: Susanne Reindl, Barbara Jeitler (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: Mensalia, Telekom Austria Group
Creative Concept and Design: Mensalia
Digital Publishing: Pagestrip, alice interactive GmbH
Editorial Deadline: 3 May 2017

MORE THAN AN ICT PROVIDER: 'EMPOWERING DIGITAL LIFE'

Another challenging year is now behind us. The Telekom Austria Group operates in a market characterised by intense competition, regulatory pressure as well as dynamically increasing demand for bandwidth and connectivity.

The consistent execution of our Group strategy (see chapter 'Vision and Strategy'), with a clear focus on value and strict cost management, allowed us to achieve solid results even in the face of tough competition and regulatory frameworks. As a result, despite the substantial losses in roaming revenues due to regulation, the Telekom Austria Group recorded revenue growth of 2.1% in the year under review, which was driven, amongst others, by M&A activities. The number of mobile customers remained stable at 20.71 million, while fixed-line revenue-generating units (RGUs) increased by 6.3%.

In Austria, the effects of the stepwise abolition of retail roaming and the intense competition were mitigated by successful market segmentation and a targeted increase in efficiency, which resulted in EBITDA growth. In the CEE countries, in addition to promoting sales activities, we also focused on cost efficiency and further crucial steps for the successful implementation of the convergence strategy. As a result, with the acquisition of the fixed-line operator Atlant Telecom in 2016, Belarus became the sixth convergent market. In Croatia, the acquisition of Metronet strengthened our fixed-line position, especially in the business segment.

Moreover, in 2016, the Telekom Austria Group also continued its intensified investments in the rollout of its fixed-line and mobile broadband infrastructure to ensure that it is well prepared for future requirements. The enormous growth rates in data volumes transmitted via the networks result not least from a current megatrend – often referred to as the fourth industrial revolution or Industry 4.0: Digitalisation is about to fundamentally change entire economic sectors and business models as well as social and personal conventions with enormous dynamism – in an evolutionarily disruptive way (see chapter 'Digitalisation'). It is clear that this change is accompanied by great opportunities and potential for telecommunications providers in particular, as cloud, Internet of Things (IoT) and artificial intelligence (AI) solutions, for example, are all based on their core business – connectivity. There are also considerable advantages to digitalisation from a social and ecological point of view. For example, the promotion of equal opportunities within the context of personal or social development and, in particular, because digitalisation preserves resources and the environment in general, it is conducive to more sustainable forms of business, living and consumption (see chapter 'Sustainability').

For all these reasons, the Telekom Austria Group has accordingly acknowledged its importance as part of the Group's business focus to ensure there is a concerted effort to exploit its potential across the Group. This is opening up promising possibilities to go beyond our traditional position as just an ICT provider because as a digitalisation pioneer and provider of expertise, we want to offer more than infrastructure and bandwidth. We are presenting ourselves as the ideal partner for business and society in the course of the digital transformation. Accordingly, we have also adapted the company culture (see chapter 'Employees'), which consequently follows our common purpose of 'Empowering digital life'.

Alejandro Plater, CEO & COO, Siegfried Mayrhofer, CFO

THE FOURTH INDUSTRIAL REVOLUTION IS DIGITAL

Digitalisation is a megatrend of our time. Comprehensive connectivity and data exchange speed up processes and make them more flexible. As a consequence, this facilitates cooperation between companies, customers and partners. The Telekom Austria Group aims to consistently benefit from the considerable opportunities offered by digitalisation.

At the end of the 1990s, the number of Internet users in the EU was around 15% of the population and only a fraction thereof used online shopping. Now, Internet penetration in this region has reached 85% and the number of online shoppers has increased to almost 60%[1)]. The fact that the picture has changed so dramatically only 20 years later is due to a number of factors, including the emergence of online retailers, such as Amazon and Zalando, a reduction in Internet usage costs and the availability of broadband connections, which means we can comfortably shop without leaving our own homes.

This remarkable development within a short period of time has caused some disruption in the form of a fundamental displacement of previous systems and circumstances; disruption which is capable of producing completely new possibilities and business models. Disruptive technologies are often not identified as such, then experience very strong growth and eventually replace established technology.

The disruption caused by digitalisation began a few decades ago and has since then altered the economy and society with increasing speed. Online shopping is only a small subarea of this megatrend. The term digitalisation is on everyone's lips. Nevertheless, it is a difficult concept to grasp and it is not entirely foreseeable where the resulting comprehensive connectivity and data creation and collection will lead.

DISRUPTION ON AN UNFORESEEN SCALE

It is not true that digitalisation is an entirely new phenomenon. It has already been around for some time and has left its mark. There have been countless digital transformations in the past – such as the widespread disappearance of the handwritten letter after the rise of personal computers, e-mail and the Internet. There was also the collapse of major companies, such as Kodak, because the trend toward digital photography was identified too late. Or the last printing of the Encyclopædia Britannica in 2010 because most reference knowledge is now being found online thanks to Wikipedia and other websites. We also order online now, such as from Amazon, instead of via post from traditional catalogue companies, and chat more and more via WhatsApp instead of in a café.

Digitalisation is also referred to as the fourth industrial revolution. The terms Internet of Things (IoT), Virtual Reality (VR), Artificial Intelligence (AI), big data, machine learning and industry 4.0 are all often used in this context. These terms make it possible to vividly portray how comprehensive connectivity and data exchange can be useful. For instance, when bridges or machines in industrial production are fitted with sensors that record vibrations as well as friction and are therefore able to determine and predict necessary maintenance work. Or when blinds and shutters in smart homes exchange data with weather services and therefore close or open at the right moment.

We are dealing with an all-encompassing phenomenon which affects both the private, professional and business spheres. At companies, the relevance of this phenomenon is by no means limited to IT. Controlling, human resources, marketing, strategy, sales – every imaginable area is affected

1) Source: Eurostat, http://ec.europa.eu/eurostat/web/products-datasets/-/tin00134; http://ec.europa.eu/eurostat/web/products-datasets/-/isoc_ec_ibuy; European Commission; http://ec.europa.eu/public_opinion/archives/eb/eb51/eb51_en.pdf (page 22)

by digitalisation. As a result, this revolution is not only accompanied by a profound change in the foundations of work and product portfolios, but also a fundamental change in working methods, which does not end with the question of how to interact within a company as well as with clients, suppliers and other stakeholders.

Although the potential and opportunities of digitalisation are not yet entirely foreseeable, economic researchers unanimously agree that the subject will fuel economic dynamics. For example, based on a 2016 study, the Austrian Institute of Economic Research (WIFO) believes that digitalisation will lead to further growth and boost employment. Specifically, the WIFO reached the conclusion that an increase in the employment share in the IT-intensive sector by one percentage point is accompanied by additional regional growth of between 0.3% and 0.4%.

However, digitalisation will not only create new jobs – in certain areas it will also replace them, particularly those jobs that can be carried out more cheaply and efficiently using algorithms or artificial intelligence. The elements of knowledge and competence are becoming increasingly important, which is why they need to be actively promoted using modern training and further education. Not least, digitalisation itself constantly provides innovative, simple, widely available and cost-effective educational opportunities in the form of e-learning and apps.

TELECOMMUNICATIONS ARE THE BACKBONE OF DIGITALISATION

For digitalisation to develop its full potential and to ensure the success of comprehensive connectivity of data flows, a number of requirements must be fulfilled. Above all, this means the availability of low-cost sensors with long-life batteries for connecting objects, high-performance and reliable networks, small and powerful computers and growing cloud capacities. As well as high bandwidths and optimal coverage in buildings, the particular key to success for communication networks, and especially the Internet of Things, is the lowest possible latency periods for data communication in real time – for driverless cars, for example. For computers, there seems to be no limit to processing power in the future. This extends to the quantum computer, which performs as many calculations as there are atoms in the universe in just one second. From today's perspective, the technical hurdles associated with the quantum computer, such as cooling to very low temperatures and extreme magnetic shielding, are very high. Nevertheless, the dynamics of the developments make them appear doable in the future.

These requirements and framework conditions are used to outline, so to speak, the digital growth areas of the coming decades and, in this context, it is becoming apparent that telecommunications are a key foundation of digitalisation. The requirement for this is efficient data exchange via high-performance networks. Here, operators are confronted with a dynamically increasing demand for bandwidth – not only from the business sector but also from the private sphere. Accordingly, companies in the telecommunications sector have been developing from telephony service providers into data companies for some time now.

More connectivity: The wider availability of affordable sensors, screens and more powerful small-sized computers is providing an abundance of digital applications and business models.

Furthermore, the industry has the opportunity to become more than the 'backbone' of digitalisation or the provider of infrastructure which enables connectivity and data exchange. Modern telecommunications companies are expanding their business fields and skills and becoming end-to-end service providers – also in cooperation with external partners.

Correspondingly, the Telekom Austria Group is focusing on broadening its service portfolio but, at the same time, it is taking its role as a 'digitalisation enabler' very seriously. Its convergent infrastructure is therefore of crucial importance, as the combination of mobile and modern fixed-network technologies, such as fibre, is essential for the efficient management of the enormous quantities of data. This is why the Telekom Austria Group is continuing to invest heavily in its broadband rollout. This represents a decisive opportunity for differentiation within an intensely competitive environment and enables a variety of bundled offers.

Another key aspect is providing or enabling the infrastructure and foundations for economic development within rural areas. This is because expanding the network also means closing the 'digital gap' between towns and the countryside, centres and peripheries as well as between social circumstances – for example, with a view to education and development opportunities. This is of the greatest relevance to both the social and economic development of a society.

DATA EXCHANGE BETWEEN MACHINES

Comprehensive, efficient connectivity with a view to data exchange between devices and machines (IoT or M2M) is an altogether ground-breaking field of application for digitalisation. Here, it is not the data volume per transaction that ignites the imagination, but the virtually limitless scenario of possible applications. Anything that can be connected will be connected. Fleet, building and project management only touch upon the imaginable potential. As a result, the 'Narrowband Internet of Things' (NB-IoT) has been established as a global industry standard – a mobile network developed especially for machines that optimises power consumption, coverage in buildings and latency periods (i.e. data transmission in real time as far as possible). In June 2016, NB-IoT was demonstrated in Austria for the first time.

Gartner forecasts that connected things will reach around 20.4 billion by 2020.[1)] In order to enable the accompanying connection requests, the Telekom Austria Group is laying the technological foundations in its sphere of influence by providing NB-IoT.

DIGITALISATION ALSO MEANS DIVERSIFICATION

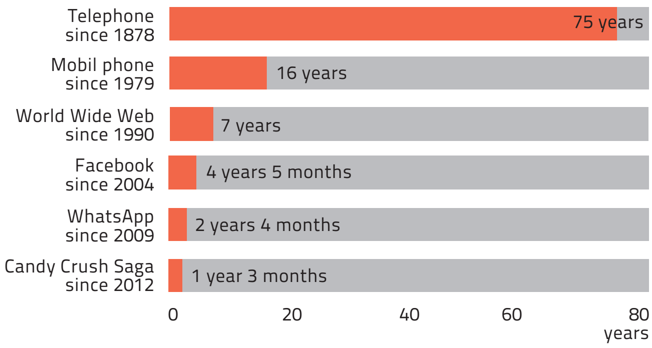
The fields of voice telephony, television and data form the core business of the Telekom Austria Group. In the light of current developments, new fields for expansion are becoming evident. One example is the provision of cloud solutions entailing both the required infrastructure involved and the services that can be obtained from the cloud. The Telekom Austria Group already operates a cloud brokerage platform, with which it offers back-up services, virtual storage capacity and software. The Group is also focussing on growth in the fields of data analysis, digital services and digital healthcare.

In any case, the significance of the subject area of digitalisation and the growing demand of corporate customers for comprehensive services in this area has been addressed in the corporate structure through the establishment of 'A1 Digital International GmbH'. This new subsidiary unites activities in the fields of cloud services and IoT. Put into context, the aim is to offer scalable services in the Software as a Service (SaaS) and Infrastructure as a Service (IaaS) segments and to expand the range of products. The markets for SaaS and IaaS are currently still very fragmented. Here, the Telekom Austria Group sees a good opportunity to position itself as a relevant regional player, particularly given its background of long-term cooperation with a range of corporate customers.

1) Source: Gartner, http://www.gartner.com/newsroom/id/3598917

The data security aspect must not be disregarded. An increase in connectivity and data exchange also increases vulnerability to cyberattacks. Any potential target which works on its defence alone will more easily become a victim of cybercrime. With its many years of expertise, the Telekom Austria Group is optimally prepared to protect its customers from such attacks, as continuously professionalising data security is of key importance to the Group. The Telekom Austria Group therefore operates highly secure data centres with a holistic IT security concept for the transfer of consumption data. These centres are certified in accordance with the information security standard ISO 27001. On this basis, the Telekom Austria Group has been providing customers in highly sensitive areas with hosting, housing and IT services for several years. It is therefore possible to benefit from the opportunities offered by digitalisation while applying optimal security standards.

Time to reach 100 million users



Source: OECD, https://www.oecd.org/g20/key-issues-for-digital-transformation-in-the-g20.pdf (page 136)

Another aspect that must be taken into consideration is legislation with regard to data security. As a regional player located in the EU, the Telekom Austria Group is subject to strict European legislation.

SUSTAINABLE IMPACT

Digitalisation is also showing positive effects in the context of sustainability. A study by the Massachusetts Institute of Technology (MIT) together with business consultancy CapGemini has revealed that digitalisation can contribute to uncoupling the growth of a company from its resource consumption. According to the study, sales at companies that established themselves as digital are 9% higher (measured according to employment of capital) and their profits are 26% higher. On the other hand, resource consumption has increased only minimally.

Digitalisation competency of the Telekom Austria Group: Smart metering showcase

In 2016, together with the power company Wüsterstrom, the Telekom Austria Group implemented the first smart meter rollout in Austria.[1)]

The smart meter allows consumption figures to be read remotely, making energy consumption behaviour more transparent and easier to plan for consumers and suppliers. Around 3,700 systems were installed as part of the project. The Telekom Austria Group contributed to this cost-efficient, tailor-made, technologically-neutral solution with a range of services – from providing the meter, to transferring the data and operating the metering system.

The smart meter rollout is also having a positive effect on the environment. Compared with the previous electromechanical meters, smart meters use 60% less power. Added to this is the fact that travel, for example to take meter readings, is eliminated.

1) According to Ordinance Determining the Requirements for Smart Meters (Intelligente Messgeräte-Anforderungsverordnung 2011; IMA-VO 2011)

Working digitally also means that some things might simply not be needed any more. This includes physical means such as business trips, hardware, energy consumption, paper and a number of other resources. Processes can also be optimised in terms of efficient use of resources using algorithms, for instance with regard to energy consumption or transport logistics. The proactive, connected controlling of home technology or traffic flows also has great resource-saving potential. The same applies to the digital monitoring of machines and devices within the meaning of 'industry 4.0', for which preventative checks are performed by sensors to assess whether maintenance or repairs are required. In the business world and also the private sphere – here, we need only think of the replacement of resource-intensive data carriers for films and music with cloud or streaming services – a wide range of opportunities are opening up for the harmonisation of efficient working and a sustainable way of life.

Less hardware: The use of software, ICT infrastructure and platforms via cloud solutions is preserving physical resources and reducing the costly acquisition and modernisation of hardware – providing optimised flexibility and scalability at the same time.

We are therefore on the road to an exciting and promising – yet challenging – future. From today's perspective, it is not ultimately foreseeable which achievements and upheavals will accompany digitalisation. In any case, the fact remains that the telecommunications sector is playing a central role in the fourth industrial revolution and this is something the Telekom Austria Group is optimally prepared for.

EQUITY STORY

Utilisation of solid position in Austria to benefit from rising demand for bandwidth and new technologies

Focus on high-value customers and convergence / Growth potential through increased cross- and upselling, e.g. via A1 hybrid modem / Growth in Internet of Things (IoT) and cloud-based ICT solutions for enterprises / Accelerated LTE and fibre rollout reinforces infrastructure leadership / Continuous efficiency improvement in terms of costs and investments

Exploit growth potential in CEE

Anticipated growth on the back of medium-term economic recovery / Consistent implementation of convergence strategy / Utilisation of ongoing strong demand for fixed-line products / M&A strengthening existing markets: convergence in Belarus; growth of fixed-line business segment in Croatia / Efficiency improvement i. a. through regional clusters

Strong balance sheet structure

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

Sustainable dividend policy

Dividend level of EURc 20 with the potential to grow on a sustainable basis in line with the operational and financial performance

Growth + Improved efficiency

Appropriate level of dividend +
Total shareholder return

VISION AND STRATEGY

Digitalisation is opening up huge opportunities for economic growth as well as social and individual development. At the same time, it is offering promising potential for a more sustainable lifestyle in the interests of humanity and the environment. For all of these reasons, it is a key element within the scope of the Group's strategic focus. The strategy is aiming at excelling in the core business, expanding the portfolio as well as targeted M&A. This is all based on an improvement in cost and investment efficiency.

EMPOWERING DIGITAL LIFE

The Telekom Austria Group's vision 'Empowering Digital Life' also shows that the Group has more to offer than just 'traditional' telecommunication services. Its self-perception goes far beyond the provision of infrastructure, connectivity and bandwidth. It sees itself as a pioneer and driver of digitalisation with the expertise to create and maintain digital business models and solutions from concept to operation.

However, digitalisation is not a brand new or a temporary megatrend. It is here to stay. The question here is not whether one wishes to participate in this or not because it is taking place in any case and will definitely shape living conditions and development possibilities. Rather, this is about getting the best out of the resulting opportunities. The disruptive effects of digitalisation cover a wide range of industries, business models, social conventions and also individual areas of life. This is why it is often referred to as the fourth industrial revolution or Industry 4.0. It is obvious that information and communication technologies play a significant role here. However, digitalisation, with its impact on business processes, is becoming an increasingly important topic in a wide range of business areas due to its high strategic significance for innovation, profitability and competitiveness. In the context of its transformation from a traditional telecommunications provider to an ideal digitalisation partner – and as a commitment to its customers – the Telekom Austria Group has also committed to increasing efficiency, flexibility, security and sustainability. Sustainability is anything but subordinate because the consumption of digital instead of physical experience or interactive offers can make a substantial contribution to saving resources and protecting the environment (for more details, see chapter 'Sustainability').

TELEKOM AUSTRIA GROUP'S STRATEGY

For these reasons, digitalisation plays a significant part in the Telekom Austria Group's strategic focus, which consists of three core elements: Excel in the core business, expand the portfolio, targeted M&A. Cost and CAPEX efficiency form the basis for all strategic decisions. In the context of its growth strategy, the Group is relying not only on its leading role in the CEE region, but also on the strength of one of the largest telecommunications providers in the world, as part of América Móvil, with around 280 million customers in the mobile segment alone.

EXCEL IN THE CORE BUSINESS

The Telekom Austria Group is focusing on intensifying sales and targeted cross- and upselling activities in order to optimise its core business. This involves the key objective of gaining households which are already covered as customers and thereby optimising the ratio of households

that are covered and those already connected. Convergence is another important starting point. In addition to Austria, Bulgaria, Croatia, Slovenia and the Republic of Macedonia, the Group is now offering fixed-line and mobile services in Belarus. Infrastructure leadership remains a key differentiation factor against competition.

EXPAND THE PORTFOLIO

Standing out from the competition is crucial. This requires the courage to be innovative and creative. This is why the Telekom Austria Group's objective is to become the first point of contact and key partner for the digital transformation of companies in order to unlock new potential in digital services, such as cloud and ICT solutions. Telecommunications solutions are encompassing an increasing number of areas of life, which is a trend that the Group is making use of in the residential business. It is increasingly focusing on solutions for entire households and covering all customer requirements with convergent product bundles that include, for instance, TV and music streaming services or cloud solutions.

TARGETED M&A

In addition to measures to generate organic growth, the Telekom Austria Group will also continue to grow via targeted and value-accretive acquisitions. The Group is focusing mainly on the existing markets as well as the pursuit of its convergence strategy and subsequently on tapping into new markets. In the year under review, the Belarusian subsidiary velcom became a convergent operator following the acquisition of the fixed-line operator Atlant Telecom and its subsidiary TeleSet. In Croatia, the acquisition of Metronet strengthened the fixed-line position, especially in the business segment (for more details, see chapter 'Market development and operating milestones').

EXCELLENCE IN EXECUTION – IMPROVED COST AND INVESTMENT EFFICIENCY

In order to have financial flexibility for investments, operating excellence is crucial when implementing the Group strategy. All structures, processes and investment decisions are therefore reviewed and called into question on an ongoing basis. Marginal improvements lead to an increase in efficiency. We regularly challenge our way of thinking and working. The Telekom Austria Group has set itself the goal of becoming more efficient every single day.

For example, in addition to a regional presence and call centres, services and advice are increasingly being provided on online platforms in order to assist customers efficiently.

The Telekom Austria Group's goal is not to redevelop products multiple times across its markets, but rather to roll out established products in other markets rapidly. For instance, this was successfully implemented with the over-the-top (OTT) TV solution 'TAG NOW'. After its launch in Austria in January 2016, TAG NOW is now available in four other markets of the Group.

All types of investment must either generate revenues or reduce costs. This is why investments are deliberately being made in technologies which allow an increase in efficiency. The Telekom Austria Group's focus on network function virtualisation (NFV) serves as a good example here. In Belarus, velcom was the first telecommunications company in the world to implement a fully virtualised core network. This led to a decrease in total costs of ownership of more than 50% (for more details, see chapter 'Innovation and Technology').

More opportunities: Beyond providing infrastructure, connectivity and bandwidth we are supplying the expertise for digital business models and solutions as a driver of digitalisation – from the design phase right through to operation.

GUIDING PRINCIPLES

The implementation of the Telekom Austria Group's strategy within the company is built on the guiding principles incorporated in the corporate culture. 'Team', 'Trust' and 'Agility' are key values that are ultimately aimed at providing a premium end-to-end experience for customers (for more details, see chapter 'Employees').

NEW SUBSIDIARY: A1 DIGITAL

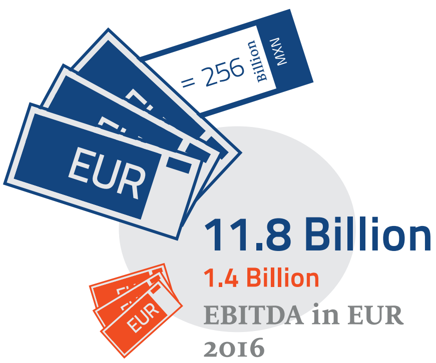
Through the establishment of 'A1 Digital International GmbH' as an independent subsidiary, the Group is highlighting its self-perception as a driver of digitalisation. This new company operates mainly in the B2B area and offers comprehensive services while accompanying and supporting companies in the process of digitalisation in order to successfully make use of this potential in their area of business. A1 digital focuses on two areas in particular: Solutions for the Internet of Things (IoT), which are being developed on an ongoing basis, and cloud-based ICT solutions.

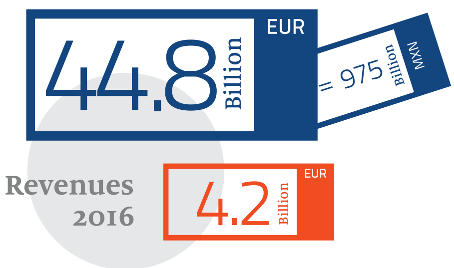
In the first case, increasingly cost-efficient and thus more widely available sensors, screens and more powerful processors that are increasingly smaller provide an abundance of applications and business models – for instance, in the areas of asset tracking or predictive maintenance. In the second case, software solutions via cloud-based marketplaces are also being made available to small and medium-sized enterprises (software as a service; SaaS). Infrastructure as a service (IaaS) is reducing the complex and costly acquisition and modernisation of hardware, such as servers. IaaS also allows customers to achieve optimal flexibility and scalability – also in terms of costs.

In all of these areas, the Telekom Austria Group is increasing its current data centre capacity in Austria and other countries in its operating region while ensuring the best practice data protection standards at European level. In this way, the Group is positioning itself as the first and most reliable choice for its customers as a competent partner for digital transformation.

TELEKOM AUSTRIA GROUP: PART OF AMÉRICA MÓVIL

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 six of these markets. With América Móvil as its majority shareholder, the Group forms part of a world-leading multinational telecommunications group. América Móvil has 281 million mobile customers, 83 million fixed-line RGUs, 27 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, the Telekom Austria Group also benefits from economies of scale and the strength of a global corporation, giving it advantages and synergies in areas including product development, technology and procurement.





América Móvil (including Telekom Austria Group)

Telekom Austria Group

Exchange Rate EUR/MXN (Mexican Peso) 30.12.2016: 21.719

281 Million
21 Million
Mobile Subscribers

83 Million
6 Million
Fixed Net / Broadband / TV Customers

América Móvil (including Telekom Austria Group)
Telekom Austria Group

TELEKOM AUSTRIA GROUP OVERVIEW

Segment Austria	2016	Change 2015
Mobile communication subscribers (in '000)	5,971.5	2,9%
Market share (in %)	39.4	-
RGUs (in '000)	3,495.5	–1.1%
Employees	8,352	–1.9%

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

Segment Slovenia	2016	Change 2015
Mobile communication subscribers (in '000)	714.3	0.8%
Market share (in %)	30.1	-
RGUs (in '000)	172.0	16.5%
Employees	532	4.7%

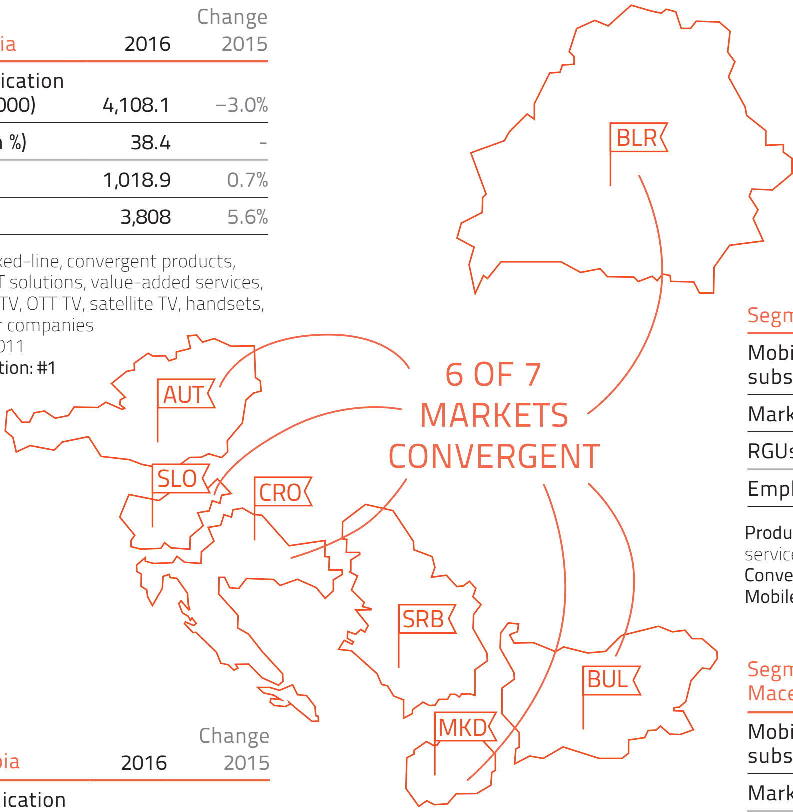
Products: Mobile, fixed-line, convergent products, internet, value-added services, wholesale offers, IPTV, handsets
Convergent since 2015
Mobile market position: #2

Segment Croatia	2016	Change 2015
Mobile communication subscribers (in '000)	1,720.0	–0.8%
Market share (in %)	36.1	-
RGUs (in '000)	620.1	12.1%
Employees	1,288	4.0%

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

Segment Bulgaria	2016	Change 2015
Mobile communication subscribers (in '000)	4,108.1	–3.0%
Market share (in %)	38.4	-
RGUs (in '000)	1,018.9	0.7%
Employees	3,808	5.6%

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



Segment Belarus	2016	Change 2015
Mobile communication subscribers (in '000)	4,944.9	–0.2%
Market share (in %)	43.2	-
RGUs (in '000)	279.4	-
Employees	2,248	26.5%

Products: Mobile, fixed-line, internet, value-added services, wholesale offers, IPTV, handsets
Convergent since 2016
Mobile market position: #2

Segment Republic of Serbia	2016	Change 2015
Mobile communication subscribers (in '000)	2,145.3	1.7%
Market share (in %)	22.4	-
Employees	917	4.3%

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

Segment Republic of Macedonia	2016	Change 2015
Mobile communication subscribers (in '000)	1,103.6	–5.1%
Market share (in %)	49.5	-
RGUs (in '000)	314.3	3.2%
Employees	822	–12.8%

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

MARKET DEVELOPMENT AND OPERATING MILESTONES

In the 2016 financial year, the Telekom Austria Group consistently undertook important steps in successfully executing its corporate strategy. The Group managed to achieve substantial progress with regard to its operational performance despite ongoing fierce competition and partly challenging macroeconomic conditions as well as the stepwise abolition of retail roaming in the EU.

In the year under review, the Telekom Austria Group posted revenue growth of 2.1%, which, inter alia, was driven by M&A transactions, despite retail roaming revenue losses of around EUR 38 mn. In the mobile business, the number of customers remained stable, with a shift from prepaid to contract offers. Revenue-generating units (RGUs) grew by 6.3% thanks to continued strong demand for fixed-line products in international markets.

Increased sales activities and handset subsidies as part of the ongoing implementation of the Group strategy led to a rise in costs. However, these were offset to a large extent thanks to a focus on cost efficiency. In addition, the acquisition of the fixed-line operator Atlant Telecom and its subsidiary TeleSet in Belarus as well as Metronet in Croatia strengthened the convergent footprint. The switch to a single radio access network vendor (RAN) in Austria, Belarus and the Republic of Macedonia increased efficiency in terms of ongoing costs and capital expenditures. Overall, EBITDA fell by 1.1%, driven by the negative roaming impact.

AUSTRIA: STRONG DEMAND FOR 30 MBPS PRODUCTS

In 2016, the competitive situation in Austria remained driven by mobile no-frills offers. In addition, mobile WiFi routers with unlimited data offers became an increasingly relevant element of the Austrian broadband market. A1 Telekom Austria AG countered these challenges, on the one hand, through its successful multi-brand strategy. On the other hand, A1 introduced a hybrid modem in July 2016 which combines the fixed-line and mobile networks and thereby enables A1 to offer fixed-line products with higher bandwidth to a larger number of households. In 2016, already 40% of the fixed-line products sold used this hybrid modem (for more details, see chapter 'Innovation and Technology').

Less limits: The smart combination of fixed-line and mobile networks – such as with the A1 hybrid modem – allows for increasingly wider coverage with increasingly higher bandwidths.

In 2016, the Telekom Austria Group successfully continued its accelerated broadband rollout in Austria. 70% of all Austrian private and commercial addresses should be covered with the 30 Mbps product by the end of 2018. At the end of 2016, the coverage of the 30 Mbps product, which saw the strongest demand in the year under review, amounted to 50% on the pure fixed-line network (excluding Hybrid solution).

BULGARIA: FOCUS ON VALUE-ORIENTED MANAGEMENT TO COUNTER PRICE PRESSURE

As in previous years, the Bulgarian market was also shaped by a fiercely competitive environment in the 2016 financial year, especially in the business segment. In order to counter price pressure, Mobiltel's management intensified its focus on value-oriented management and retaining high-value customers. At the same time, revenue pressure was mitigated by strict cost management. In the fourth quarter of 2016, Mobiltel achieved moderate growth year-on-year in service revenues for the first time, after several years of consistent decline, thanks to successful up- and cross-selling activities in the residential business.

The Bulgarian mobile market saw a significant shift from prepaid to postpaid offers. In addition, the ongoing rise in the use of mobile data led to a considerable increase in the number of mobile broadband customers. The fixed-line business benefited from the growing popularity of bundled products with TV and increased demand for broadband products. After Austria, Croatia, Slovenia, the Republic of Serbia and the Republic of Macedonia, the Group also began offering LTE in Bulgaria in 2016.

CROATIA: STRONG GROWTH DESPITE HIGH REGULATORY COSTS

The Croatian segment continued to exhibit positive results in the year under review thanks to ongoing fixed-line growth and stronger mobile trends. The new tariff portfolio introduced by Vipnet in 2015 played a significant role here. However, regulatory pressure remained in the form of high frequency usage fees, despite which Croatia still saw a solid rise in revenues and EBITDA.

The acquisition of Metronet strengthened its fixed-line position, especially in the business segment. Metronet is a leading alternative fixed solutions provider in Croatia and delivers a diverse product offering, focussed on delivering services to the business segment. Metronet offers data, voice, managed IT and cloud services to its approximately 4,300 corporate customers, who generated approximately 90% of total revenues in 2015. The company is present in 66 cities, thereby reaching approximately 85% of all corporate customers in Croatia, and operates on a fibre network. In 2015, Metronet generated revenues and EBITDA of approximately EUR 28 mn and EUR 12 mn respectively.

BELARUS: POSITIVE OPERATIONAL DEVELOPMENT OVERSHADOWED BY CURRENCY EFFECTS

In Belarus, strong operational development continued to face macroeconomic and regulatory headwinds. While inflation slowed to 10.6% in 2016, value added tax on mobile services was increased from 20% to 25%. The decline of the economic output in Belarus by 3.0% also led to a decrease in purchasing power. In addition, the depreciation of the currency at the beginning of the year overshadowed velcom's positive operational development. However, the exchange rate recovered during the year thanks to the improved development of the oil price and the Russian Rouble. In order to reduce the company's vulnerability to FX and energy prices volatility, a solar power plant was commissioned in 2016. velcom is also the first telecommunications company in the world to switch to a fully virtualised commercial core network, reducing total costs of ownership by more than 50% (for more details, see 'Innovation and Technology').

Through the acquisition of Atlant Telecom and its subsidiary TeleSet, velcom developed from a pure mobile provider to a fully integrated operator. Atlant Telecom and TeleSet are the leading privately-owned fixed-line operators in Belarus offering fixed-line broadband, IPTV and cable TV, as well as a video and audio library. As of year-end 2015, Atlant Telecom and TeleSet had approximately 125,700 fixed broadband and 46,000 cable TV customers. In 2015, Atlant Telecom and TeleSet generated revenues and EBITDA of approximately EUR 16 mn and EUR 4 mn respectively.

FIERCE COMPETITION IN SLOVENIA, THE REPUBLIC OF SERBIA AND THE REPUBLIC OF MACEDONIA

In 2016, the Slovenian telecommunications market was again characterised by intense competition in the area of convergent products. Demand for fixed-line products was continuously strong. The Republic of Serbia focused on a stronger competitive position. Also, competition remained intense on the Macedonian market.

INNOVATION AND TECHNOLOGY

Thanks to its innovative drive and infrastructure leadership, the Telekom Austria Group is ensuring its leading position in a dynamic environment.

Two interconnected developments are shaping current challenges in the telecommunications industry: The ongoing increase in demand for additional bandwidth and the growing number of connection requests related to the rise in connectivity in day-to-day life.

The Telekom Austria Group is accounting for the dynamic increase in data volumes transported via its networks through extensive development activities. To prepare for future requirements, the Group is focusing both on the development of its network infrastructure as well as new products and services.

NETWORK FUNCTION VIRTUALISATION

Digital transformation remains one of the Telekom Austria Group's top priorities. This also includes the virtualisation of its network infrastructure, which was also continued successfully in 2016. The first virtualised network systems have already been transformed into state-of-the-art IT environments and gone into commercial operation at the Austrian, Bulgarian and Belarusian subsidiaries A1, Mobiltel and velcom. At all of the Group's other subsidiaries, there are already specific implementation plans for system virtualisation.

The concept of network function virtualisation (NFV) represents a paradigm shift within the telecommunications industry. As one of the first operators in Europe, the Telekom Austria Group had already successfully tested the NFV technology in a series of field trials in several countries in the 2014 financial year. In 2015, a virtual modem solution was successfully tested as part of an comprehensive strategy to virtualise key components in the Group's communication network. In this concept, the modem's key functionalities are centrally controlled from the IT data centre. As a result, customers have a more flexible, secure and efficient internet connection. Necessary changes are also managed centrally, updates are made automatically and the modem's vulnerability is reduced.

In addition to a complete architecture of mobile network functionalities, services are also embedded in a virtualised and cloud-based infrastructure (multi-tier architecture). This allows for significantly more efficient operating processes at lower costs and quicker launches of new services. As a result, this technology gives the Telekom Austria Group an ideal platform for competitive innovations.

At the beginning of 2017, the Belarusian subsidiary velcom implemented the first fully virtualised commercial core network in the world as part of its 'virtual one core' flagship project. As a result, velcom has one of the most innovative virtual telecommunication core network architectures based on OpenStack – an open-source software – and serial standard hardware. For velcom, this resulted in a decrease in total costs of ownership of more than 50%. The new technology provides more flexibility and newer functions for voice telephony and internet customers.

More virtualisation: The Group is focusing its innovation efforts particularly on developing its infrastructure concentrating on network function virtualisation (NFV) and on creating new cloud-based products and services.

LTE AND 5G

In 2016, the accelerated rollout of LTE (long-term evolution) led to a significant improvement in the supply of high-speed mobile internet. After the launch in Bulgaria in 2016, the Group now already offers LTE in Austria, Bulgaria, Croatia, Slovenia, the Republic of Serbia and the Republic of Macedonia.

In order to achieve even faster mobile internet, the Telekom Austria Group is using LTE carrier aggregation at selected locations in Austria, Bulgaria, Croatia and the Republic of Serbia, enabling data rates of up to 300 Mbps. 2016 also saw a major innovation in mobile technology with data rates in excess of 500 Mbps in the A1 live network thanks to LTE triple carrier aggregation in conjunction with a new method.

In which, frequency bands of 2.6 GHz, 1,800 MHz and 800 MHz are bundled and combined with 256 QAM, a complex modulation technique. As a result, a significant increase in bandwidths can be achieved compared to the currently widespread LTE standard. During a field test, a transfer rate of 513 Mbps was achieved on a mobile router, while a transfer rate of 463 Mbps was achieved on a smartphone via the A1 live network. This is a key step in the development of the fifth generation of mobile telecommunications (5G).

Carrier aggregation, complex modulation techniques and massive MIMO (multiple-input multiple-output) will also play a key role in 5G since these serve as a technological basis for high bandwidths and the particularly efficient use of available frequency bands. Technically, 5G is based on LTE, but a number of evolutionary steps need to be made until this new generation of mobile communications can be used. An increasing number of new services are being introduced, for instance, in the Internet of Things or for smart cities. The 5G standard is expected for 2019, although technical requirements and applications still need to be defined. Its implementation is currently expected to begin in 2020.

BROADBAND ROLLOUT IN AUSTRIA

The Telekom Austria Group is also consistently pursuing its accelerated rollout of broadband in the fixed-line business, which began in 2015. At the end of 2016, 50% of all Austrian private and commercial addresses were already covered by A1 products with speeds of at least 30 Mbps or more on the fixed-line network. Coverage should reach 70% by the end of 2018.

In 2015, A1 showcased the new broadband technology VDSL2 35b, which allows for data speeds of more than 100 Mbps when combined with vectoring. On short distances, data speeds of 200 Mbps can even be achieved. While G.fast provides data rates of up to 500 Mbps on line lengths in the region of 200 metres, VDSL2 35b achieves significantly enhanced performance compared with conventional DSL technologies, particularly on line lengths of up to approximately 500 metres. This technology is therefore also suitable for less densely populated areas.

Since July 2016, A1 has also been offering its customers a hybrid modem that combines mobile and fixed-line infrastructures in order to provide fixed-line products with higher bandwidths. The modem's smart technology allows the bandwidths of both technologies to be combined. If necessary, A1's hybrid modem can supplement the performance of DSL fixed-line connections with LTE. As a result, data speeds of up to 150 Mbps can be achieved and more households can be reached with higher bandwidths.

Once again, A1's hybrid modem highlights network convergence as one of the key pillars of the Telekom Austria Group's strategy. This is because the significant and ongoing rise in data volumes and future applications will be manageable only by means of highly efficient fixed-line and mobile networks.

MACHINE-TO-MACHINE COMMUNICATION

In addition to the growing data traffic, machine-to-machine (M2M) solutions and the accompanying connection requests are the reasons for the dynamic increase in requirements in terms of the network infrastructure.

M2M involves the automated transfer of data between machines, devices, sensors or central servers used for remote controlling and monitoring with or without human interaction. Due to the wider availability of affordable technology – for instance, sensors, screens and processors with significantly higher processing power while the size of devices decreases – the possible applications of these connected services seem almost unlimited. As a result, billions of devices will be connected via the internet within the next decade. This is why M2M has significant growth potential and M2M applications are expected to increase by more than 20% each year until 2020.[1] By connecting machines smartly, positive effects on energy and traffic efficiency as well as traffic safety and security, climate protection and the reduction of the CO_2 footprint can also be achieved.

The Telekom Austria Group provides holistic M2M solutions from a single source, including cost and resource-efficient fleet management, extensive smart metering services, meter data management and rollout services, as well as modular solutions for industrial automation or remote maintenance. Smart M2M technologies are accounted among the basics for the implementation of future-oriented concepts of Industry 4.0 or the Internet of Things (IoT) in the course of digitalisation. In order to bundle the competencies in the areas of cloud, Internet of Things (IoT) and artificial intelligence (AI), the subsidiary 'A1 Digital International GmbH' was established to exploit its potential across the Group in a concerted effort.

1) Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft;
https://www2.deloitte.com/content/dam/Deloitte/de/Documents/technology/TEC-Whitepaper-M2M-communication.pdf

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

PARTNER FOR DIGITALISATION

In this context, the Telekom Austria Group not only sees itself as a provider of the connectivity required based on its infrastructure, but also as a holistic digitalisation partner in the area of business and industry. Solutions are provided from a single source – from the concept to ongoing operations (for more details, see 'Digitalisation').

The smart meter rollout in Graz serves as a good example here – around 187,000 electricity meters will be replaced with smart meters within the next four years. In addition to the replacement of electricity meters, overall planning for technician assignments, part of material logistics and A1's customer project management, is also being organised.

Overall, the Telekom Austria Group has gained significant expertise in the area of smart metering in recent years. In Austria alone, 95% of electricity meters are to be equipped with intelligently connected smart meters by the end of 2019. At the moment, this figure is approximately 10%. Related activities and investments in meter systems, data transmission, installation, operations and central IT infrastructure need to be as future-proof, cost-efficient and as low-risk as possible and take place fast. With its highly secure networks and M2M expertise, the Telekom Austria Group presents itself as an ideal partner here.

R&D AS A FOUNDATION FOR THE FUTURE

To assert its leadership in the field of technology and infrastructure, the Telekom Austria Group focuses on many areas of research and development (R&D). Research partnerships with scientific and industrial partners and joint projects with national and international institutions provide a key basis for the development and launch of technologies of the future for market and customer-oriented communications solutions.

In 2016, the Telekom Austria Group had research partnerships with the Vienna University of Technology, the Christian Doppler Laboratory for Wireless Technologies for Sustainable Mobility, the Christian Doppler Laboratory for Dependable Wireless Connectivity for the Society in Motion, and the Josef Ressel Centre for User-friendly Secure Mobile Environments. A1 Telekom Austria AG also promotes innovation by new companies with a start-up initiative that provides expertise and infrastructure to help make innovations a reality.

In addition, the Telekom Austria Group is a partner of the Industry 4.0 platform and is addressing the interoperability of Internet of Things (IoT) platforms within the pan-European H2020 project symbIoTe which is supported by the European Union and is also expected to bolster research in the IoT until the end of 2018.

INVESTOR RELATIONS

Main focus of Investor Relations' transparent and timely communication in the financial year 2016: Consistent implementation of the Group's strategy and its solid company results, higher dividend proposal, increase in free float and the successful placement of its ninth benchmark bond.

SHARE PRICE PERFORMANCE AND SECTOR COMPARISON

The Telekom Austria shares had a weak start to the reporting year, as well as the ATX and the sector, and reached its low for the year of EUR 4.66 on 9 February 2016. Following the publication of full year 2015 results, Telekom Austria's share price increased, reaching its high for the year of EUR 5.73 on 15 March 2016. In April and May, the Telekom Austria share traded mostly sideways with a slight upward trend. In the run-up to the British referendum on leaving the European Union, the stock came under selling pressure in June and lost further ground when voters unexpectedly decided in favour of 'Brexit' in the middle of the year.

Shareholder Structure

as of 31 Dec 2016

Shareholders	Ordinary shares	Holdings in %
América Móvil[1]	338,895,000	51.00
ÖBIB[2] (Republic of Austria)	188,876,602	28.42
Free float incl. employee stocks and treasury shares	136,728,398	20.58
Total number of shares	**664,500,000**	**100.00**

1) According to announcement according to §§ 91ff Austrian Stock Exchange Act per 29 July 2016 as well as the press release of América Móvil on 22 August 2016.

2) As filed for the Annual General Meeting held on 25 May 2016.

After an extended period of sideways movement, Telekom Austria's share price marked a significant increase towards the end of the year and finally closed on 31 December at EUR 5.61, up 11.2% on the start of the year.

The Stoxx Telecom industry index and the ATX, the benchmark index of the Vienna Stock Exchange, declined during the first quarter of 2016 due to concerns about macroeconomic market conditions and the weakness of the oil price. In early Q2, both indices started to rise again as the oil price recovered, but declined again at the end of June due to the British referendum. After the abolition of retail customer roaming, the sector subsequently continued its downward trend. Meanwhile, the ATX rose on the back of strong company results, posting a year-on-year increase of 9.2%. The Stoxx Telecom, by contrast, fell by 15.7% in 2016.

Holding notifications in 2016

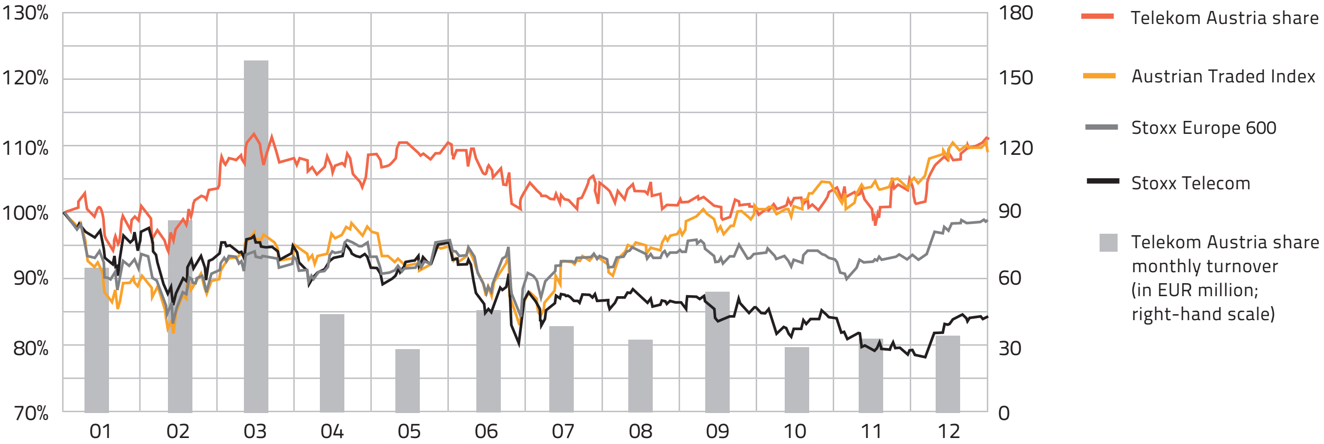
28 July 2016		
América Móvil, S.A.B. de C.V.	7.81%	Sale of Telekom Austria shares
	7.81%	Issue of a put option (cash-settled)
1 August 2016		
Citigroup Global Markets Limited	3.90%	Telekom Austria shares held directly
	3.90%	Swap
Citigroup Global Markets Funding Luxembourg	7.81%	Intercompany call option with Citigroup Global Markets Limited
22 August 2016		
América Móvil, S.A.B. de C.V.	0.89%	Sale of Telekom Austria shares
10 October 2016		
Deutsche Bank Aktiengesellschaft	3.99%	Telekom Austria shares held directly
	2.56%	Financial/other instruments[1]

1) Right to recall 0.07%; convertible bond 0.14%; cash-settled put option 2.30%; cash-settled swaps 0.05%

Detailed information on shareholder notifications in the year under review can be found at http://www.telekomaustria.com/en/ir/shareholder-structure

Development of Telekom Austria share price in 2016

indexed from 1 January 2016



Key figures about the Telekom Austria share

	2016	2015
Share price low (in EUR)	4.66	4.80
Share price high (in EUR)	5.73	6.86
Share price as of 31 Dec (in EUR)	5.61	5.04
Market capitalisation as of 31 Dec (in EUR billion)	3.7	3.4
Average daily stock market turnover (in EUR million)	2.6	2.9
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 %)	1.9	2.0

DIVIDEND

On 22 July 2016, Telekom Austria Group announced that América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) agreed that day on a new expected dividend level starting with the financial year 2016. This decision is based on the improved operational and financial performance of the Group. This new dividend expectation entails the payment of EUR 0.20 per share to be maintained or increased on a sustainable basis in line with the operational and financial developments of the Group.

Basic information about the Telekom Austria share

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

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.

More insight: Investor Relations informs in a timely and transparent manner about the company development and future chances in the telecommunications sector that are being opened up by trends like digitalisation.

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

Telekom Austria Group outstanding bonds

as of 31 Dec 2016 (Issuer: Telekom Finanzmanagement GmbH; hybrid bond issued by Telekom Austria AG)

ISIN	Issue Date	Maturity	Volume (in EUR million)	Coupon
XS0210629522	13.01.2005	27.01.2017[1]	500	4.250%
XS0767278301	26.03.2012	04.04.2022	750	4.000%
XS0877720986	25.01.2013	perpetual[2]	600	5.625%
XS0950055359	27.06.2013	04.07.2023	300	3.500%
XS0999667263	26.11.2013	03.12.2021	750	3.125%
XS1405762805	30.11.2016	07.12.2026	500	1.500%

1) Repaid in due time
2) Subordinated hybrid bond with a non-call period until 1 February 2018

A bond that matured in January 2016 was repaid as scheduled from existing liquidity. On 30 November 2016, Telekom Finanzmanagement GmbH successfully placed a bond with a face value of EUR 500 million, a maturity of ten years and a coupon of 1.5%. The issue proceeds from the placement were mainly be used to refinance the EUR 500 million bond which matured in January 2017 and was paid back in due time, as well as for general company purposes.

Credit Ratings

Telekom Austria AG is regularly rated by Moody's Investors Service and Standard & Poor's Ratings Services. On 17 August 2016, 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 6 November 2016.

External ratings and outlook

	Rating	Company 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 (CDS) are not affected by this liquidity reduction, it is standard international practice to use five-year CDS when analysing spread development.

Telekom Austria AG's five-year CDS spread rose to around 96 bps in early 2016 in the wake of concerns about the condition of European banks and falling oil prices. At the same time, the Markit iTraxx Europe Index reached its high for the year of around 112 bps. The spread for both the company and the index then declined until early March. The subsequent sideways movement was followed by a moderate increase following the result of the Brexit referendum. However, the Telekom Austria spread and the Markit iTraxx Europe Index then fell to their lows for the year of around 52 bps and 42 bps respectively. Both spreads remained at a low level until the end of the year.

Financial calendar

24 April 2017	Results for the First Quarter 2017
30 May 2017	Record Date
9 June 2017	Annual General Meeting
16 June 2017	Dividend Ex Date
19 June 2017	Dividend Record Date
20 June 2017	Dividend Payment Date
Week of 17 July 2017	Results for the First Half 2017
Week of 23 October 2017	Results for the First Nine Months 2017

Contact

Telekom Austria Group Investor Relations
Tel.: +43 (0)50 664 47500
investor.relations@telekomaustria.com
https://www.telekomaustria.com/en/investor-relations
Susanne Reindl, Head of Investor Relations
susanne.reindl@telekomaustria.com

EMPLOYEES

Telekom Austria Group promotes diversity, drives motivation and fosters an international and modern working environment.

EMPOWERING DIGITAL LIFE

The world is subject to dynamic changes. The rapid evolution of technology and digitalisation will have a lasting impact on economic systems, business models as well as social and personal habits. No one can predict what the world will look like in 2050. However, Telekom Austria Group and its employees are ready for current and future challenges.

Telekom Austria Group's common purpose, strategy and corporate culture are aligned to its 'Reason Why': Empowering digital life. Even beyond providing high-performing and future-proof networks, the company is paving the way for digitalisation by means of targeted initiatives and measures.

GUIDING PRINCIPLES

No customers means no business! It is as simple as that. We are not driven by internal processes but by focusing on customer needs and on our business strategy. Our customers' trust is very valuable to us.

Implemented in 2016, Telekom Austria Group's Guiding Principles 'Team', 'Trust' and 'Agility' form a framework for new working methods and will impact the steps the company takes regarding its own development in the near future.

OUR GUIDING PRINCIPLES

Team

We work together by using shared assets and strengths to fulfil our customers' expectations. It is important for us to be open and transparent as a team in what we say and do. Everyone's opinion counts, everyone is empowered to act.

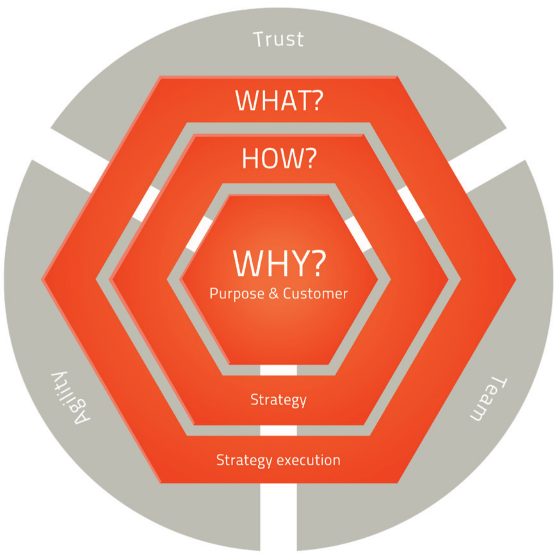
Trust

Trust creates an environment in which curiosity, openness and collaboration are key. We truly stand behind what we say and we keep our promises. We trust in the knowledge and empowerment of all employees. We act with integrity in our interactions with each other as well as with customers, suppliers and partners. This helps us to become better every day.

Agility

The digital world is not waiting for us to adapt. We take decisions and execute them quickly. We learn in our daily work, when talking to colleagues and in our social networks. We learn from our failures and always try again.

OUR REASON WHY: EMPOWERING DIGITAL LIFE



TALENT DEVELOPMENT

Expertise and talent management is valuable only if new skills, knowledge and insights are put into action. The Telekom Austria Group follows the model of 70:20:10, which divides employee development into 70% on-the-job training, 20% learning from peers and 10% formal training. This means learning is brought back into the workplace, where employees continuously develop along with their colleagues, peers, in teams, online and in real life.

More teamwork: The launch of a Group-wide social media platform is encouraging cross-divisional cooperation within international project groups and virtual teams as well as the transfer of expertise.

Young potentials across the Group can apply to take part in a company development programme at the Telekom Austria Group Business School. Employees are expected to be open to new ideas and to think in new dimensions – including actively breaking from old routines, showing entrepreneurship and taking personal responsibility for their professional growth and career opportunities.

Employee figures of the Telekom Austria Group

	2016	2015	Change in %
Full-time employees	18,203	17,673	3.0%
in Austria	8,352	8,512	−1.9%
International	9,613	8,952	7.4%
Trainings (Business School)	34	45	n.m.
Spending on further education per employee (in EUR)	275	294	−6.6%
Personnel expenses (in EUR million)[1]	787	800	−1.6%

1) Own work capitalized, which was previously reported in other operating income, is reported on a net basis in personnel costs. The comparative period 2015 was adjusted.

The Telekom Austria Group supports cross-divisional and cross-country collaboration. Employees are encouraged to work within international project groups across the company.

LEADERSHIP AND PERFORMANCE MANAGEMENT

Taking on a leading role in the digital age is associated with a lot of challenges that require a new management style and corporate culture. When it comes to the pursuit and achievement of business objectives, managers bear a great deal of responsibility for enabling their teams to perform well. At Telekom Austria Group, a Group-wide model for performance management standards ensures a focus not only on quantitative results but also on individual strengths and development options for each employee. Peer feedback is crucial.

An organisation that adapts to feedback from its employees is non-bureaucratic and offers a value-added working environment, where daily life is fun and flows effectively and smoothly. This is exactly how the employee journey at Telekom Austria Group is supposed to be experienced.

Telekom Austria Group aims to be an attractive employer by focusing on employee experience as well as the simplicity of processes and structures. Employees' commitment, enthusiasm and experience play a decisive role when it comes to achieving customer satisfaction. They contribute substantially to the common purpose of empowering digital life.

SUSTAINABILITY

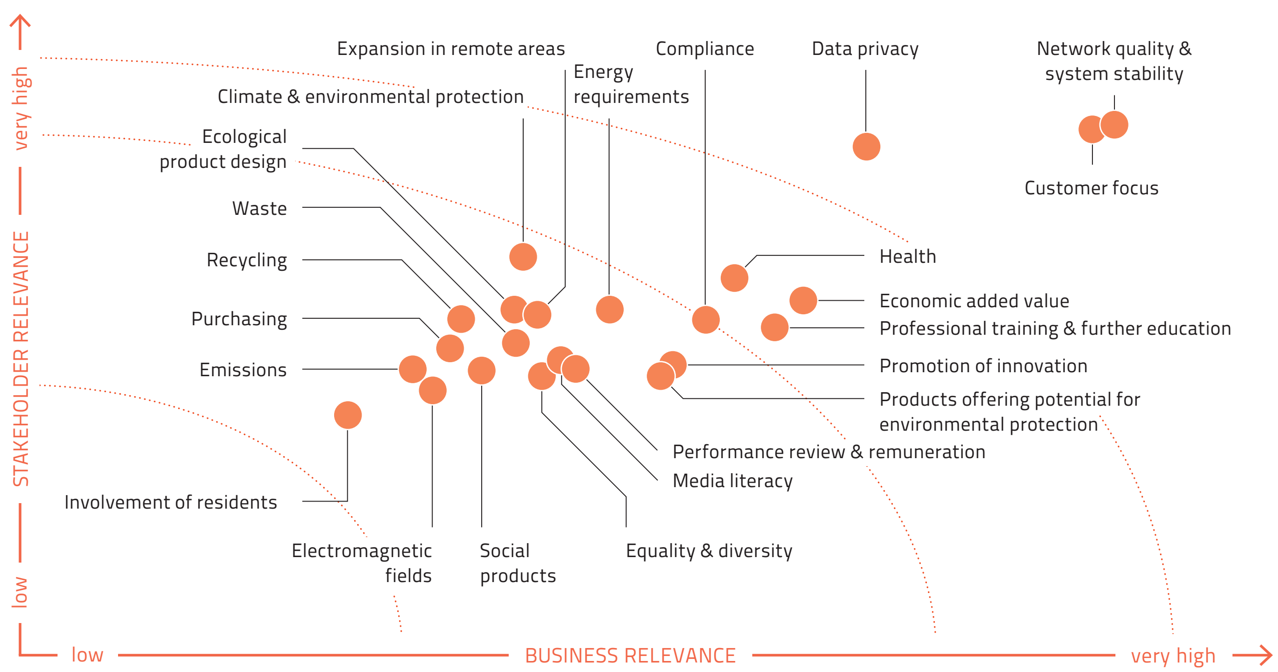
The Telekom Austria Group's sustainability strategy is based on an extensive analysis and evaluation of social and ecological aspects along the value chain of its core business. This focuses in particular on the issues of 'customer focus', 'data privacy' and 'network quality and system stability'.

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 characterised by a focus on the material aspects 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.

More resource-efficiency:
By preserving resources and the environment in general, digitalisation is promoting more sustainable ways of doing business, living and consuming.

Derived from this materiality matrix, the sustainability strategy is aimed at four strategic action areas. Each action area is associated with clear targets and specific performance indicators. After the expiry of the set of targets for the period from 2012 to 2015 and the evaluation of target achievement, new targets were set for the action areas for the period from 2016 to 2018.

MATERIALITY MATRIX



THE FOUR ACTION AREAS OF THE SUSTAINABILITY STRATEGY

NETWORK AND CUSTOMERS

With a high-performance and secure infrastructure as well as a product range providing real added value to its customers, society and the environment, Telekom Austria Group is positioned as a responsible partner in its markets.

Targets for 2012 – 2015[1)]

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

Targets for 2016 – 2018[3)]

- / LTE coverage of 80% in Telekom Austria Group
- / Fibre coverage in Austria exceeding 70% with at least 30 Mbps
- / Identification and promotion of marketable innovations, for example via start-up initiatives

ENVIRONMENT

In order to continuously reduce its ecological footprint, the Telekom Austria Group focusses on energy efficiency, increased use of renewable energy, preservation of resources and the promotion of climate-friendly mobility.

Targets for 2012 – 2020[1)]

- / Reducing CO_2 emissions by 25% (as at the end of 2015: -7%)

Targets for 2012 – 2015[1)]

- ✓ Increasing energy efficiency by 20% (+72%)
- ✓ Expanding renewable energy projects
- ✓ Improving the recycling rate by 10% (+16%)
- ✗ Reducing in-house paper consumption by 10% (-3%[4)])
- ✓ Increasing the Group's e-billing rate to 50% (69%)

Targets for 2016 – 2018[3)]

- / Reducing power consumption by 30% per terabyte of transferred data volume
- / Reaching a constant recycling rate of 70%
- / Reducing in-house paper consumption by 10%

✓ achieved

/ in implementation

✗ not achieved

CDP DRIVING SUSTAINABLE ECONOMIES

Increase in the Carbon Disclosure Project (CDP) rating to 'A-'

According to the CDP rating, the Telekom Austria Group ranks among the best-rated companies in the telecommunications sector: Thanks to targeted measures, the Telekom Austria Group improved its rating from B to A- in 2016. This makes the Telekom Austria Group one of the top three telecommunication companies in the DACH region.

EMPLOYEES

The Telekom Austria Group taps its employees' valuable potential by means of continuous further development in an international, modern working environment. The corporate culture is characterised by trust, team spirit and agility. Diversity and flexibility are the key to our success.

Targets for 2012–2015[1)]

- ✓ 35% women in the Group and in management positions (Group: 38%, management positions: 35%)
- ✓ Promoting internal replacement, maintaining a high engagement index
- ✓ Increasing international exchange

Targets for 2016–2018[3)]

- 38% women in management positions
- Anchoring of flexible work arrangements
- Create a general framework to promote constant learning

SOCIETY

Digital media open up equal opportunities for all people in our knowledge-based society. In addition to other social projects, the Telekom Austria Group therefore specifically promotes the competent and safe use of media.

Targets for 2012–2016[1)]

- ✓ 100,000 participants in media literacy trainings (119,577)

Targets for 2012–2015[1)]

- ✓ Increasing the number of partnerships to promote media literacy skills within the Telekom Austria Group
- ✓ Implementation of social projects according to local needs
- ✓ Implementing and further developing of cost control tools

Targets for 2016–2018[3)]

- 150,000 participants in media literacy trainings
- Implementation of social projects according to local needs

1) The baseline for the targets is the year 2012. Figures shown in brackets represent the degree of achievement as at the end of 2015.
2) Target achieved on a Groupwide basis in all countries except for Belarus, Slovenia and the Republic of Serbia.
3) The baseline for the targets is the year 2015.
4) The target of reducing internal paper consumption by 10% was not achieved to the planned extent, partly due to customer growth as well as mergers and acquisitions.

The extent to which the individual targets for the period from 2012 to 2015 were achieved is described in the Sustainability Report 2015/2016: http://csr2015-16.telekomaustria.com/en/ (download PDF)

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 to ensure 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.

Compliance management system of the Telekom Austria Group

Key issues

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

Tools

- Code of Conduct
- Group guidelines
- Annual compliance risk assessment
- Training
- Integration of compliance in business processes
- Helpdesk 'ask.me'
- Whistleblowing platform 'tell.me'

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 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.

More self-responsibility:
Acting with honesty, fairness and transparency is securing economic success and reputation in the long term. The compliance management system gives a framework for self-reliable acting in key issues like data protection and corruption prevention. This goes beyond the simple execution of established rules and guidelines.

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. Furthermore, the essential elements of the compliance management system were successfully reviewed for effectiveness amongst the whole company through Group Internal Audit and Group Compliance.

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, indications of violations, 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 day-to-day business practice.

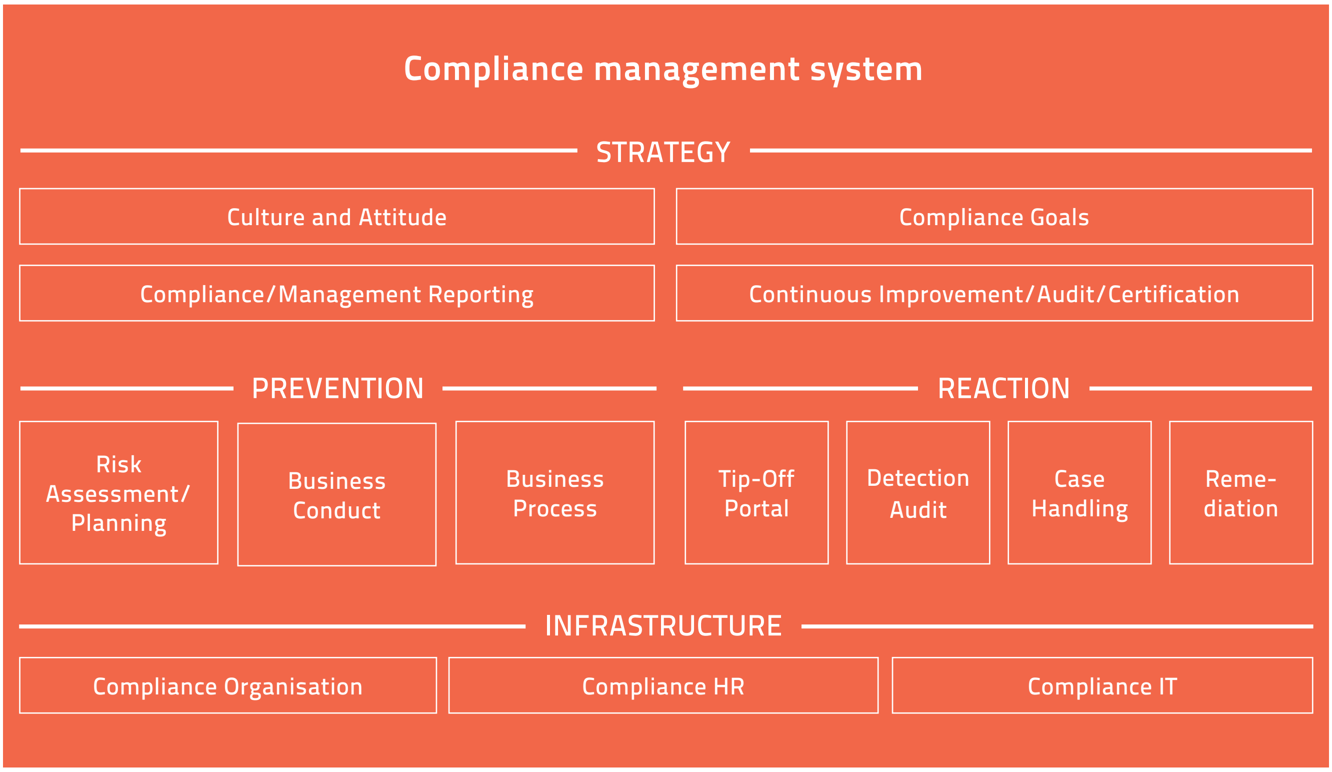
This is supplemented by Group-wide guidelines providing detailed assistance on concrete topics, such as anti-corruption and conflicts of interest, gifts and invitations, management consulting and lobbying, sponsorship, donations and advertising, capital market compliance and antitrust law.

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 2016, approximately 4,200 employees and managers were trained in compliance classroom training sessions and approximately 2,600 employees and managers received the compliance training via eLearning. To clarify any questions they may have, Telekom Austria Group employees can also contact the 'ask.me' compliance helpdesk, which dealt with around 300 questions in 2016.

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 to anonymously report information on potential misconduct in order to sustainably prevent and identify potential risks within the Telekom Austria Group. In 2016, approximately 30 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.



REPORT BY THE SUPERVISORY BOARD

LADIES AND GENTLEMEN,

In the 2016 financial year, the Telekom Austria Group continued to successfully implement the Group's strategy and took key steps in order to drive and support digitalisation. Despite numerous challenges, such as ongoing fierce competition and greater regulatory pressure due to the stepwise abolition of retail roaming in the EU, the Group managed to increase its revenues by 2.1% on a reported basis. Additionally, the company also managed to further strengthen its profitability through increased efficiency in terms of costs and investments and achieved significant improvements in expanding its infrastructure, on which it focused again in particular in 2016.

Despite a highly competitive market environment and the negative roaming impact, the company managed to achieve EBITDA growth in Austria thanks to successful market segmentation and a targeted increase in efficiency. In the CEE countries, the Group successfully handled the partly challenging regulatory and macroeconomic environment by consistently implementing its convergence strategy and continuously optimising operating efficiency. Through the acquisition of Atlant Telecom and its subsidiary TeleSet, Belarus is now the sixth convergent market of the Telekom Austria Group. In Croatia, the acquisition of Metronet also significantly strengthened the fixed-line position, especially in the business segment. In order to reinforce its leading position with regard to the quality of its infrastructure, the Telekom Austria Group also increased investments to expand its fixed-line and mobile networks in 2016. Together with high cost efficiency, excellent network quality is ensured for customers in this way.

In the 2016 financial year, the Supervisory Board dealt in detail with the strategic orientation, investment and financing decisions as well as the business performance of the Telekom Austria Group and its subsidiaries at five Supervisory Board meetings and numerous committee meetings. After an extensive discussion on strategic opportunities and challenges as well as potential courses of action to optimise business performance, the budget for 2017 was approved in November 2016.

The Annual General Meeting on 25 May 2016 saw a change in the Supervisory Board: Elisabetta Castiglioni resigned from the Supervisory Board with effect from 25 May 2016. Peter Hagen was elected as a member of the Supervisory Board at the Annual General Meeting on 25 May 2016, while the Supervisory Board mandates of Alejandro Cantú Jiménez, Stefan Pinter and Reinhard Kraxner were extended. I would like to take this opportunity to thank Ms Castiglioni, who has stepped down from the Supervisory Board, for her extraordinary commitment and good cooperation. In addition, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was reappointed as the auditor at the Annual General Meeting. The Supervisory Board and the Audit Committee discussed the selection of the auditor in detail and correspondingly recommended to the Annual General Meeting to appoint Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

The Supervisory Board of Telekom Austria AG is committed to compliance with the Austrian Corporate Governance Code (ACGC) and to responsible corporate management and control aimed at generating sustainable enterprise value. All ten shareholder representatives have declared their independence within the meaning of Rule 53 of the ACGC. In accordance with Rule 36 of the ACGC, the Supervisory Board also dealt with the efficiency of its activities, organisation and working methods in 2016. 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 assessed externally every three years. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. is to perform the next evaluation in the first half of 2017.

In 2016, the Audit Committee of the Supervisory Board dealt with financial reporting as part of the preparation of the Annual Financial Statements and quarterly reports at four meetings and also performed its supervisory duties to monitor the effectiveness of the internal control system, the risk management system and internal auditing. As part of its reporting, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. credibly demonstrated its impartiality to the Audit Committee in accordance with Section 270 (1a) of the Austrian Business Enterprise Code (UGB). The findings of the Audit Committee meetings were reported to the Supervisory Board on an ongoing basis.

The Annual Financial Statements of Telekom Austria AG and the Consolidated Financial Statements for the year ending 31 December 2016 were issued with unqualified audit opinions by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. The Management Report and the Group Management Report are consistent with the Annual Financial Statements and the Consolidated Financial Statements respectively. After prior consultation with the Audit Committee and following an extensive discussion and review, the Supervisory Board approved the Annual Financial Statements for 2016, which have therefore been adopted in accordance with Section 96 (4) of the Austrian Stock Corporation Act. After prior consultation with the Audit Committee and following an extensive discussion and review, it also approved the Consolidated Financial Statements prepared in accordance with the IFRS as prescribed by Section 245a UGB, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approves the Management Board's proposal for the distribution of profit, namely the distribution of a dividend of 20 euro cents per eligible share for the 2016 financial year, with the remaining amount being carried forward to new account.

I would like to conclude by thanking the Telekom Austria Group's management and all its employees for their dedicated work in the 2016 financial year. I would also like to assure the shareholders of Telekom Austria AG that the Supervisory Board will continue to actively support and press ahead with the strategic development of the Telekom Austria Group.

Vienna, February 2017

Wolfgang Ruttenstorfer
Chairman of the Supervisory Board
Telekom Austria Group

CONSOLIDATED CORPORATE GOVERNANCE REPORT 2016

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 Rule 36 and Rule 54 of the ACGC:

- 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. The most recent self-evaluation was performed in the 2016 financial year.
- Ad C Rule 54: Since 22 August 2016, the free float of the company has been 20.58%[1]. The shareholder representatives on the Supervisory Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and ÖBIB (formerly ÖIAG).

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 next evaluation, carried out by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., is planned for the first half year 2017.

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 2016 were Alejandro Plater, Chief Executive Officer (CEO) and Chief Operating Officer (COO), and Siegfried Mayrhofer, Chief Financial Officer (CFO).

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 holds Supervisory Board mandates at the following subsidiaries: A1 Telekom Austria AG (Austria), Mobiltel EAD (Bulgaria), Vipnet d.o.o. (Croatia), Unitary enterprise velcom (Belarus), Si.mobil d.d.[2] (Slovenia), Vip mobile d.o.o. (Republic of Serbia), one.Vip DOO (Republic of Macedonia). Alejandro Plater does not hold any supervisory board mandates outside the Telekom Austria Group.

1) Including the notification by América Móvil on 22 August 2016.
2) The renaming of Si.mobil d.d. in A1 Slovenija, d.d. in the course of the rebranding became effective in April 2017.

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 in 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 and acquisitions in various industries.

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

Siegfried Mayrhofer holds Supervisory Board mandates at the following subsidiaries: A1 Telekom Austria AG (Austria), Mobiltel EAD (Bulgaria), Vipnet d.o.o. (Croatia), Unitary enterprise velcom (Belarus), Si.mobil d.d. (Slovenia), Vip mobile d.o.o. (Republic of Serbia), one.Vip DOO (Republic of Macedonia). Siegfried Mayrhofer does not hold any supervisory board mandates outside the Telekom Austria Group.

REPORT ON MANAGEMENT BOARD REMUNERATION

The Remuneration Committee of the Supervisory Board is responsible for structuring Management Board remuneration. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component was agreed with the Management Board members Alejandro Plater and Siegfried Mayrhofer. 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 70% financial figures (revenue (weighting 35%) and EBITDA (weighting 35%)) and 30% 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 an advance in the amount of 60% of the fixed salary is paid in 14 instalments in the current financial year.

Members of the Management Board also participate in the long-term incentive program (LTI). The multi-year share-based incentive program introduced in 2010 continued in the 2016 reporting year with the issue of the 2016 tranche. The fourth tranche of the LTI program (LTI 2013) was paid out in 2016, 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 2013 was 54.9%. 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 2016 amounted to EUR 1.026 mn (2015: EUR 1.489 mn), and variable remuneration amounted to EUR 1.214 mn (2015: EUR 1.695 mn). EUR 0.263 mn was spent on LTI 2013 for Management Board members in the 2016 reporting year (amount spent on LTI 2012 in 2015: EUR 0.029 mn). Termination benefits in connection with the dissolution of the employment contracts of 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% target achievement, the members of the Management Board were provisionally allocated the following numbers of notional bonus shares in the context of the new LTI 2016 tranche issued in September 2016: 67,276 shares for Alejandro Plater, 49,500 shares for Siegfried Mayrhofer, and 12,575 shares for the former Management Board member Günther Ottendorfer. Any actual cash settlement will occur after the end of the three-year performance period, i.e. not before 1 September 2019, commensurate with the level of achievement of objectives as determined by the Remuneration Committee.

In terms of old-age provisions, the Management Board members Alejandro Plater and Siegfried Mayrhofer receive a contribution to their voluntary pension plans, which is paid into a corporate pension fund by the company and amounts to 20% of their respective fixed salary (excl. 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.

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)]	
	2016	2015	2016	2015	2016	2015	2016	2015
Alejandro Plater[1)]	558	582	321	221	-	-	879	804
Siegfried Mayrhofer[2)]	468	465	685	557	62	17	1,214	1,039
Hannes Ametsreiter[3)]	-	318	208	512	104	12	312	842
Günther Ottendorfer[4)]	-	123	-	405	98	-	98	529
Total[6), 7)]	**1,026**	**1,489**	**1,214**	**1,695**	**263**	**29**	**2,503**	**3,213**

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 and 2016 respectively also include the variable remuneration for the years 2014 and 2015 which was paid out in the reporting years 2015 and 2016. (Note: The variable remuneration paid to Alejandro Plater in 2015 and 2016 did not include any payments for previous years and hence is lower than the remuneration paid to Siegfried Mayrhofer.)

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 variable remuneration shown in the table in the amount of EUR 0.208 mn contains the proportion of variable remuneration paid to him in 2016 for the period from the start of 2015 until his departure from the company on 31 July 2015. 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 contract with a term until 31 August 2016 was prematurely terminated as of 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 in 2015.

5) Because Alejandro Plater relocated from Mexico to Austria, he received an expense allowance for housing and school fees for his children in the 2015 financial year; this is reported under the basic remuneration for 2015.

6) Hans Tschuden's contract with a term until 31 March 2015 was prematurely terminated as of 31 March 2014. The figures for 2016 shown in the table do not include benefits from the multi-year share-based remuneration (LTI 2013) amounting to EUR 0.096 mn. The figures for 2015 do not include termination benefits 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.

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

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

Furthermore, the members of the Management Board are entitled to a company car, and casualty insurance provides cover in the event of death or invalidity. There is also supplementary health insurance cover for Management Board members. The members of the Management Board are included in the D&O insurance policy entered into and paid for by Telekom Austria AG.

For the companies included in the scope of consolidation, the following applies with regard to the key principles of the remuneration policy: The Chairman of the Supervisory Board of the respective subsidiary is responsible for structuring Management Board remuneration. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component has been agreed with the Management Board members of the respective consolidated subsidiaries. This performance-based component is contingent upon the achievement of defined targets and is limited to 67% of the basic remuneration. The targets for the reporting year consist of 70% financial figures and 30% strategic objectives. The Chairman of the Supervisory Board of the respective subsidiary decides on the degree of target achievement and the amount of the variable salary component on the basis of the Consolidated Financial Statements, the Annual Financial Statements of the respective company and the implementation of strategy. Performance-based remuneration becomes payable after the result for the financial year in question has been resolved. Members of the Management Board of the key consolidated subsidiaries also participate in the long-term incentive program (LTI).

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 2016. 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 notional bonus shares. During the program, participants must hold shares in Telekom Austria AG, the number of which is determined by the defined number of notional bonus shares for each entitled beneficiary. Any payment is made in cash, not in shares. The amount of the payment depends on the achievement of 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 a 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. The relevant target performance indicators are based on the long-term development of the company. The targets and key performance indicators are determined by the Supervisory Board at the beginning of each tranche. Each performance period is three years long. The targets and key performance indicators for the 2013 and 2014 tranches were defined as net income (weighting 30%), EBITDA (weighting 35%) and relative total shareholder return, which is assessed by reference to a defined peer group of nine European telecommunication companies (weighting 35%). 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%). The following targets were set for the 2016 LTI tranche issued in the 2016 reporting year: return on invested capital (ROIC) of the Telekom Austria Group (weighting 50%) and revenue market share of the Telekom Austria Group (weighting 50%).

Benefits under the LTI program in the 2016 reporting year

The fourth LTI tranche (LTI 2013), which had been granted on 1 September 2013, was distributed to the entitled employees of the Group in September 2016 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 54.9% as determined by the Remuneration Committee of the Supervisory Board at the value of 224,676 notional bonus shares in total (measured using the average price for the fourth quarter of 2015 of EUR 5.23, and therefore EUR 1.17 mn (2015: EUR 0.41 mn; 2014: EUR 0.75 mn). Of this total, Siegfried Mayrhofer received 11,779 shares or EUR 0.062 mn (2015: EUR 0.017 mn). The following amounts were paid to former Management Board members: 19,834 shares or EUR 0.104 mn to Hannes Ametsreiter (2015: EUR 0.012 mn), 18,743 shares or EUR 0.098 mn to Günther Ottendorfer, and 18,447 shares or EUR 0.097 mn to Hans Tschuden (2015: EUR 0.012 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 2016, 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 2016

	shares	of which for LTI participation
Alejandro Plater	39,520	33,638
Siegfried Mayrhofer	24,750	24,750

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 25 May 2016 saw a change in the Supervisory Board: Elisabetta Castiglioni resigned with effect from 25 May 2016. Peter Hagen was elected as a member of the Supervisory Board at the Annual General Meeting on 25 May 2016, while the Supervisory Board mandates of Alejandro Cantú Jiménez, Stefan Pinter and Reinhard Kraxner were extended.

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[5]
Karin Exner-Wöhrer (1971)	CEO of Salzburger Aluminium AG
Peter Hagen (1959)	Business Consultant
Carlos M. Jarque (1954)	CEO of the FCC Group (Fomento de Construcciones y Contratas SA, Spain)
Reinhard Kraxner (1970)	Assistant General Counsel Treasury/Finance, Philip Morris International Inc. (USA)
Ronny Pecik (1962)	Businessman
Stefan Pinter (1978)	Member of Management, Philip Morris Austria GmbH
Oscar Von Hauske Solís (1957)	CEO Telmex Internacional (Mexico), Chief Fixed-Line Operations Officer América Móvil, S.A.B. de C.V. (Mexico)
Members of the Supervisory Board delegated by the Staff Council	
Silvia Bauer (1968)	Member of the Central Works Council of A1 Telekom Austria AG Member of the European Works Council of 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 2018 financial year (provisionally May 2019).
4) Term of office ends at the Annual General Meeting dealing with the 2016 financial year (June 2017).
5) CEO A1 Digital International GmbH as of 27 January 2017.

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
Flughafen Wien AG, RHI AG, NIS a.d. (Republic of Serbia) CA Immobilien Anlagen AG (until 1.11.2016)	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	2019 3)	yes
	29.05.2013	25.05.2016	yes
	27.05.2015	2020 1)	yes
VOEST Alpine AG	25.05.2016	2019 3)	yes
	14.08.2014	2018 2)	yes
	14.08.2014	2017 4)	yes
	23.05.2012	2018 2)	yes
	14.08.2014	2017 4)	yes
	23.10.2012	2018 2)	yes
	30.01.2009 to 03.11.2010 Re-delegated on 26.07.2012		
	Re-delegated to 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.

Since 22 August 2016, the free float of the company has been 20.58%[1)]. The shareholder representatives on the Supervisory Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and ÖBIB (formerly ÖIAG).

Report on Supervisory Board remuneration

The Annual General Meeting on 25 May 2016 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairman and EUR 15,000 for all other members for the 2015 financial year. The amount of remuneration was therefore unchanged from the previous year. Remuneration for the Supervisory Board for 2015 was paid out following the approval of the actions of the Supervisory Board members by the Annual General Meeting in May 2016. Until further notice, the attendance fee for meetings of the Supervisory Board is EUR 300 per member per meeting. Total remuneration, including attendance fees of EUR 0.204 mn, was paid to members of the Supervisory Board in the 2016 financial year (2015: EUR 0.235 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.

Remuneration of Supervisory Board members

Name	Supervisory Board remuneration awarded for 2015 and paid in 2016 (in EUR))	2016 attendance fees (in EUR)
Wolfgang Ruttenstorfer[2)]	18,000	3,300
Carlos García Moreno Elizondo	22,500	3,000
Alejandro Cantú Jiménez	15,000	1,200
Elisabetta Castiglioni	15,000	1,200
Karin Exner-Wöhrer[2)]	9,000	1,500
Peter Hagen	-	1,500
Carlos M. Jarque	15,000	2,400
Rudolf Kemler[3)]	12,082	-
Reinhard Kraxner	15,000	1,200
Günter Leonhartsberger[3)]	6,041	-
Ronny Pecik	15,000	2,100
Stefan Pinter	15,000	1,200
Oscar Von Hauske Solís	15,000	3,300
Walter Hotz	-	2,400
Silvia Bauer	-	2,400
Werner Luksch	-	1,200
Alexander Sollak	-	2,700
Gottfried Kehrer	-	1,200

1) Including the notification by América Móvil on 22 August 2016.
2) Supervisory Board remuneration for the period from 27 May 2015 to 31 December 2015.
3) Supervisory Board remuneration for the period from 1 January 2015 to 27 May 2015.

The members of the Supervisory Board are included in the D&O insurance policy concluded and paid for by Telekom Austria AG.

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 2016, the **Remuneration Committee** consisted of Wolfgang Ruttenstorfer (Chairman), Carlos García Moreno Elizondo (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 two committee meetings in 2016.

- In line with the statutory provisions, at four committee meetings the **Audit Committee** dealt primarily with the audit of and preparation for the adoption of the Annual Financial Statements, the audit of the Consolidated Financial Statements, the proposal for the distribution of profit, the Management Report, the Group Management Report and the consolidated Corporate Governance Report. High priority was also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. Furthermore, 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 2016, the Audit Committee consisted of Carlos García Moreno Elizondo, as its Chairman, Ronny Pecik, as its financial expert, Wolfgang Ruttenstorfer, Peter Hagen, Carlos M. Jarque and Oscar Von Hauske Solís, as well as the employee representatives Silvia Bauer, Walter Hotz and Alexander Sollak.

- 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 (Chairman), Wolfgang Ruttenstorfer, Carlos García Moreno Elizondo, Alejandro Cantú Jiménez, Ronny Pecik, Walter Hotz, Werner Luksch and Alexander Sollak. The committee did not meet in the 2016 financial year.

In the 2016 financial year, the Supervisory Board addressed the strategic orientation of the Telekom Austria Group and its business performance in detail at five meetings of the Supervisory Board and several committee meetings. The main activities of the Supervisory Board in 2016 are compiled in the Supervisory Board's report to the Annual General Meeting.

To ensure uniform Group management, the Telekom Austria AG Management Board members Alejandro Plater and Siegfried Mayrhofer also serve as the Chairman or Deputy Chairman of the Supervisory Board of the following key subsidiaries: A1 Telekom Austria AG (Austria), Mobiltel EAD (Bulgaria), Vipnet d.o.o. (Croatia), Unitary enterprise velcom (Belarus), Si.mobil d.d. (Slovenia), Vip mobile d.o.o. (Republic of Serbia) and one.Vip DOO (Republic of Macedonia).

MEASURES TO SUPPORT WOMEN

On the Telekom Austria AG Supervisory Board, one 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, seven management positions (out of a total of 19) and seven 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 2016. This target was already reached in 2015. As of the end of 2016, the Group-wide proportion of women in management positions was 36% (2015: 35%), and the overall proportion of women at the company was 39% (2015: 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 proportion of women in management positions to 37% in 2017 by pressing ahead with shared leadership and part-time management on a Group-wide basis, increasing the proportion 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 throughout the Group 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 25 May 2016 appointed Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as the auditor of the Annual and Consolidated Financial Statements for the 2016 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 the 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 Group Internal Audit.

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

The 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. In 2005, A1 Telekom Austria AG became the first network operator in Austria to be certified according to the ISO 27001 standard. It was followed by Vipnet d.o.o. in 2007 and Mobiltel EAD in 2012. The processes stipulated by this standard ensure the highest possible level of data security within the company. Since 2014, A1 Telekom Austria AG 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. In 2016, essential elements of the Group-wide compliance management system were reviewed for effectiveness by Group Internal Audit and Group Compliance with a successful outcome.

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.

The Group Compliance Director reports directly to the Management Board and is independent in his work. He is supported by experts in the Group Compliance division and the local compliance managers at the subsidiaries of the 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 2016, 4,200 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 2,600 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 300 questions in 2016.

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 30 tips received in 2016 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.

CHANGES AFTER THE REPORTING DATE

No events requiring reporting have occurred since 31 December 2016.

Vienna, 25 January 2017

The Management Board

Alejandro Plater
CEO and COO
Telekom Austria Group

Siegfried Mayrhofer
CFO
Telekom Austria Group

GROUP MANAGEMENT REPORT

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)]

The economic recovery in the industrialised countries slowed slightly, while there was a moderate upturn in momentum in the developing and emerging nations. In autumn, the International Monetary Fund (IMF) reduced its forecast for global economic growth in 2016 to 3.1%, down slightly from the figure anticipated in April 2016. IMF experts are currently forecasting growth of 3.4% in 2017.

In a forecast published in November of the year under review, the European Commission estimated that economic growth in the European Union would be 1.8% in 2016. In 2017, growth is expected to decline to 1.6%. The Austrian economy is expected to have grown by 1.5% in 2016. In Bulgaria, the increase in GDP is estimated at 3.1% in 2016. In Croatia, the economy is set to have expanded by 2.6% in the same period. In contrast, a drop in economic output of 3.0% has been anticipated for Belarus. This was driven by the recession in Russia. Based on European Commission estimates, Slovenia, the Republic of Serbia and the Republic of Macedonia saw economic growth of 2.2%, 2.7% and 2.1% respectively in 2016.

Development of real GDP in the markets of Telekom Austria Group

in %	2015	2016e	2017e
Austria	1.0	1.5	1.6
Bulgaria	3.6	3.1	2.9
Croatia	1.6	2.6	2.5
Belarus	–3.9	–3.0	–0.5
Slovenia	2.3	2.2	2.6
Republic of Serbia	0.8	2.7	3.0
Republic of Macedonia	3.7	2.1	3.2

Source: IMF for Belarus; European Commission for all other countries.

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 was buying securities in the amount of EUR 60 bn per month, raising this sum to EUR 80 bn in April 2016. The programme, which was originally planned to mature in March 2017, was prolonged in December 2016 until the end of the year 2017. The monthly purchase volume will be lowered again to EUR 60 bn from April 2017. The ECB also lowered its key interest rate from 0.05% to 0.00% in March 2016. Meanwhile, the US Federal Reserve raised its key interest rate from 0.25 – 0.5% to 0.5 – 0.75% in December 2016.

INDUSTRY TRENDS AND COMPETITION

The business performance of the Telekom Austria Group is significantly influenced by a number of external factors. In 2016, the market environment in both the fixed-line and the mobile communications markets proved to be highly competitive once again, particularly in mature markets. In the no-frills segment, there was sustained pressure on prices, not least as a result of the emergence of additional mobile virtual network operators (MVNOs). Regulatory provisions continued to negatively impact revenues and earnings. In particular, the stepwise abolition of retail roaming in the EU as of 30 April 2016 affected the Group's financial performance. Additionally, the high frequency usage fees in Croatia as well as the provisions on termination rates have a negative influence. Meanwhile, the uncertain political and economic situation in the CEE region affected consumer behaviour in many countries despite the first signs of a 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 end of the first half of 2016, underlines

1) Sources: GDP for World and Belarus: IMF http://www.imf.org/external/pubs/ft/weo/2016/02/pdf/text.pdf, dated October 2016, pages 2, 45; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Serbia and Republic of Macedonia: http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip038_en.pdf, dated November 2016, page 185

the high degree of maturity of the Austrian market and describes the following average trends across all operators:[1)]

- Average revenues generated per mobile customer decreased in the first half year from EUR 14.5 to EUR 14.3, while end customer revenues rose by 2.9% year-on-year. While the number of voice minutes fell by 4.7% compared with the first half of 2015 and the number of text messages saw a further significant downturn of 20.1%, data volume almost doubled, with growth of 92.3%. As previously, the strongest stimulus for this trend came from smartphone users, where an increase of 18.4% to more than 4.3 million users was recorded.

- In the Austrian fixed-line market, the number of fixed access lines again increased slightly by 0.3% year-on-year. By contrast, the share of total voice minutes attributable to fixed lines declined further from 13.1% in the first half of 2015 to 12.7% in the first half of 2016. Average voice revenues per month in the fixed-line segment also remained on a downward trend, declining by 10.3% for private customers and 5.1% for business customers. The strong demand for broadband solutions continued in 2016 and resulted in an overall rise of 13.3% to over nine million broadband connections. Fixed-line and mobile broadband grew by 3.7% and 15.5% respectively.

According to Statistics Austria, the share of Austrian households with internet access rose from 82% to 85%. Broadband lines in private households increased to 85%, while lines at companies rose to 98%.[2)]

In Bulgaria, the high level of competitive intensity continued to have an influence on pricing for mobile communications services as well as convergent product packages in the year under review. In 2016, the internet penetration rate across all households increased from 59.1% to 63.5% year-on-year, with mobile broadband currently being used by 52.2% of all users.[3)]

The recovery of the Croatian Information and Communications Technology market (ICT market) and the macroeconomic situation continued in the year under review. Broadband penetration in the fixed-line business increased to 23.9% in the third quarter of 2016 (Q3 2015: 22.7%), while mobile broadband penetration improved from 75.2% to 79.0% in the same period.[4)]

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 62.2% at the end of 2015.[5)]

In Slovenia, the internet penetration rate increased from 77.6% in the previous year to 78.4% 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 2016.[6)]

In the Republic of Serbia, the catch-up process in terms of internet access continued, starting from a far lower level than in the other markets of the Telekom Austria Group. Overall, 64.7% of all households already had internet access in 2016. Meanwhile, 90.2% of all Serbian households also own mobile telephones and 65.8% have a computer.[7)]

According to the Statistical Office of the Republic of Macedonia, 75.3% of all Macedonian households had internet access in the first quarter of 2016. 81% of people with internet access used a mobile device to access the web.[8)]

1) https://www.rtr.at/de/inf/TK_Monitor_4_2016/TM4_2016.pdf, pages 11, 16, 17, 18, 33, 47, 52, 65 (Telekom Austria Group calculations)
2) http://www.statistik.at/web_de/statistiken/informationsgesellschaft/index.html
3) http://www.nsi.bg/en/content/6099/households-who-have-internet-access-home; http://www.nsi.bg/sites/default/files/files/pressreleases/ICT_hh2016_en_TSVV05D.pdf
4) https://www.hakom.hr/UserDocsImages/2016/e_trziste/KVA%20ENG%20Q3%202016%20Fixed%20broadband%20penetration.pdf; https://www.hakom.hr/UserDocsImages/2016/e_trziste/KVA%20ENG%20Q3%202016%20Mobile%20broadband%20penetration.pdf
5) http://www.belstat.gov.by/en/ofitsialnaya-statistika/real-sector-of-the-economy/communication-and-ict/communication/annual-data/main-indicators-of-general-use-communications-development/; Statistical Yearbook of the Republic of Belarus, 2016 (retrieved on 30 December 2016): http://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/statistical-publications-data-books-bulletins/public_compilation/index_6467/; page 352
6) http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre_Repozitorij/&lang=1 (Telekom Austria Group calculations); http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H083E&ti=&path=../Database/Hitre_Repozitorij/&lang=1
7) 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/repository/documents/00/02/25/88/ICT_2016_pres_engl.pdf
8) http://www.stat.gov.mk/PrikaziSoopstenie_en.aspx?rbrtxt=77

REGULATION

As the market leader, A1 Telekom Austria Aktiengesellschaft 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 in their respective national markets. The relevant regulation for A1 Telekom Austria Aktiengesellschaft in the fixed-line network applies at retail and wholesale levels. This includes 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 reached at a European level. For example, this is the case for the European Commission roaming and net neutrality regulations[1)], 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, which is oriented towards the European Commission's new 'relevant markets recommendation' of October 2014. Draft decisions for most of the markets to be examined had been issued by the end of 2016, although final decisions are not expected before the middle of the second quarter of 2017. The new drafts had no impact on the year under review. As the process is still ongoing, the extent to which the new regulatory decisions will have a commercial impact in the second half of 2017 remains difficult to forecast at present.

MOBILE TELECOMMUNICATIONS MARKETS

The 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 respective regulations apply in Austria, Bulgaria, Croatia and Slovenia. They define roaming charges and termination rates between individual market players. The regulatory environment in Belarus, the Republic of Serbia and the Republic of Macedonia are at different stages of development. There are general signs of gradual harmonisation with EU statutory provisions in these countries as well.

The new regulation on net neutrality and roaming ('Connected Continent' or the 'Telecom Single Market' package) came into force in 2016. 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 device in question. In addition to internet access services, specialised services could also be offered, although this is subject to certain limitations. However, some details of the implementation of the regulation in terms of both net neutrality and roaming are still to be determined, meaning that the extent of its effects cannot be fully predicted.

As far as roaming in EU member states is concerned, the abolition of retail roaming surcharges as of 15 June 2017 has been resolved. From 30 April 2016 to 14 June 2017, there is a transition period in which network operators are allowed to apply roaming surcharges in the amount of wholesale caps in addition to domestic prices. Following

Glidepaths for mobile termination rates

	Jan 15	Jul 15	Jan 16	Jul 16	Jan 17	Jul 17
Austria (EUR)	0.008049	0.008049	0.008049	0.008049	0.008049[1)]	0.008049[1)]
Bulgaria (BGN)	0.019	0.019	0.019	0.019	0.014	0.014
Croatia (HRK)	0.063[2)]	0.063[2)]	0.063[2)]	0.063[2)]	0.063[2)]	0.047[2)]
Belarus (BYR)	0.018/0.009[3)]	0.018/0.009[3)]	0.018/0.009[3)]	0.018/0.009[3)]	0.018/0.009[3)]	0.018/0.009[3)]
Slovenia (EUR)	0.0114	0.0114	0.0114	0.0114	0.0114	0.0114
Republic of Serbia (RSD)	3.43	3.43	3.43	2.75	2.07	2.07
Republic of Macedonia (MKD)	0.90	0.90	0.90	0.90	0.63	0.63

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

2) National MTRs stated. International MTRs differ.

3) Belarus values following the currency reform in 2016: peak times/off-peak times – the weighted average MTR value amounts to BYN 0.015 per minute.

EU roaming glidepath

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

Wholesale (in EUR)	July 2014	30 April 2016	15 June 2017
Data (per MB)	0.05	0.05	?[2)]
Voice (per minute)	0.05	0.05	?[2)]
SMS (per SMS)	0.02	0.02	?[2)]

1) Sum of the domestic retail price and any surcharge applied to 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.

2) 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.

the Communications Committee's (COCOM) approval of the implementing regulation to be adopted on fair use limits for roaming on 12 December 2016, this was formally adopted by the European Commission by the end of 2016 as planned. The named provisions apply to the mobile communications companies of the Telekom Austria Group in the EEA member states of Austria, Bulgaria, Croatia and Slovenia and will have a negative impact on current and future roaming revenues.

INFORMATION ON FINANCIAL REPORTING

The Telekom Austria Group reports on seven business segments: Austria, Bulgaria, Croatia, Belarus, Slovenia, Republic of Serbia and Republic of Macedonia. 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 indicator EBITDA 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 and, if applicable, impairment losses or reversal of impairments.

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

INFORMATION ON REPORTING CHANGES

As of Q1 2016, the Telekom Austria Group changed its reporting structure to be fully aligned with América Móvil. Details of the key changes to the reporting structure can be found in Note (4) of the Notes to the Consolidated Financial Statements.

The attached Consolidated Financial Statements are prepared according to applicable accounting standards. The presentation and analysis of financial information and key performance indicators until page 77 may differ substantially from the financial information presented in the Consolidated Financial Statements. This is due to the fact that the presentation and analysis are partially based on proforma figures which include M&A transactions between the start of the comparison period and the end of the reporting period.

To reflect the performance on an operational basis, the proforma figures present comparison figures for previous periods as if M&A transactions executed between the start of the comparison period and the end of the reporting period had already been fully consolidated in the relevant months of the comparison period. Alternative performance measures are used to describe the operational performance. Please therefore also refer to the financial information presented in the Consolidated Financial Statements, which do not contain proforma figures, as well as the reconciliation tables provided on page 61.

Revenue and earnings development

Key financials Proforma view in EUR million	2016 reported	2015 proforma	Change in %
Total revenues	4,211.5	4,231.8	−0.5
EBITDA	1,354.3	1,390.5	−2.6
% of total revenues	32.2%	32.9%	-
Operating income	486.7	568.2	−14.4

Proforma view in EUR million	2016 reported	2015 proforma	Change in %
Cost of service	1,346.5	1,359.5	−1.0
Cost of equipment	521.9	470.7	10.9
Selling, general & administrative expenses	986.1	1,005.8	−2.0
Others	2.7	5.2	−48.4
Total costs and expenses	**2,857.2**	**2,841.2**	**0.6**
thereof employee costs	787.1	814.6	−3.4
thereof restructuring charges	7.2	0.4	n.m.
Impairment charges	2.3	0.0	n.a.
Depreciation and amortisation	865.3	822.3	5.2

Reported view in EUR million	2016 reported	2015 reported	Change in %
Net result	413.2	392.8	5.2
Net cash flow from operating activities	1,195.5	1,228.4	−2.7
Earnings per share (in EUR)	0.58	0.55	5.5
Free cash flow per share (in EUR)	0.35	0.53	−34.1
Capital expenditures[1]	764.1	784.5	−2.6
Net debt	2,339.4	2,483.0	−5.8

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

REVENUE AND EARNINGS DEVELOPMENT

The following analysis is based on proforma[2] figures if not stated otherwise.

In the 2016 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 by means of M&A activities. The following transactions between the start of the comparison period and the end of the reporting period are highlighted:

2) Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.

- 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 third-largest operator in the country, ONE, consolidated as of 1 October 2015.
- The acquisition of the fixed-line operator Atlant Telecom and its subsidiary TeleSet in Belarus, consolidated as of 1 December 2016.

In December 2016, an agreement for the acquisition of the fixed-line operator Metronet in Croatia was signed; the company is expected to be consolidated following the closing from the first quarter of 2017.

For further details on purchasing prices and cash outflow, see Note (33).

The performance in 2016 compared with the previous year was also impacted by the following material one-off and FX effects:

- EUR 10.5 mn positive one-off effects in total revenues in Austria in Q4 2015: Reversal of accruals in fixed-line and other revenues
- EUR 30.0 mn positive one-off effect in total revenues in Slovenia in other operating income in 2015, with payments 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 21.6 mn positive one-off effect in EBITDA in Austria in Q4 2015 in restructuring charge resulting from a settlement
- EUR 7.0 mn positive one-off effect in EBITDA in Austria in Q1 2016 resulting from the change of value adjustments for handsets under cost of equipment
- EUR 14.4 mn positive one-off effect in EBITDA in Austria in Q3 2016 resulting from the reversal of an accrual for copyrights under cost of service
- Negative FX effects of EUR 78.8 mn in revenues and EUR 37.0 mn in EBITDA in 2016, of which EUR 78.7 mn and EUR 37.2 mn respectively attributable to Belarus

In 2016, there were no one-off effects (without FX effects) for total revenues (2015: EUR +40.5 mn). One-off effects (without FX effects) for EBITDA amounted to EUR +21.4 mn (2015: EUR +62.1 mn).

In 2016, competition in Austria continued to be driven by mobile no-frills offers. In addition, mobile WiFi routers with unlimited data offers are becoming an increasingly relevant element of the Austrian broadband market. Developments in the Austrian market were also impacted by the stepwise abolition of retail roaming in the EU as of 30 April 2016. In Bulgaria, performance in 2016 was again characterised by a difficult competitive environment which particularly affected the business segment. However, some market segments showed first signs of stabilisation. In Croatia, the beginning easing of the market environment continued, whereas regulatory pressure remained in the form of high frequency usage fees.

The macroeconomic and regulatory headwinds in Belarus remained in place in the year under review. In this environment, the government sought to stabilise inflation, but also increased the value added tax on mobile services from 20% to 25% in April 2016. In 2016, the Slovenian telecommunications market was again characterised by fierce competition in the mobile business. In the Republic of Serbia, the highly competitive market environment saw the launch of new convergent offers in the first half of 2016. Following the merger of Vip operator with ONE in October 2015 in the Republic of Macedonia, one.Vip, the combined entity, is now the leading operator in the mobile segment of the telecommunications market. In spite of this consolidation, competition in the mobile market accelerated with the entry of a mobile virtual network operator (MVNO) as of July 2016.

In mobile communications, the Telekom Austria Group subscriber number remained stable (0.0%) at 20.71 million subscribers in the year under review. The strongest growth was recorded in Austria, with 167,800 additional customers. This development was driven by Machine-to-Machine (M2M) SIM cards. The number of customers in the Republic of Serbia (36,000) and Slovenia (5,800) also increased, whereas customer numbers declined in Bulgaria (-127,500), the Republic of Macedonia (-59,800), Croatia (-13,600) and Belarus (-11,900).

In the fixed-line business, the company gained around 76,500 revenue generating units (RGUs) at Group level, corresponding to growth of 1.3% to around 5.90 million RGUs. This growth was attributable primarily to Croatia and Slovenia, which contributed 67,100 and 24,400 additional RGUs respectively, while the number of RGUs in Austria fell by 38,900.

As a result of the developments described above, the Telekom Austria Group experienced a downturn in revenues of 0.5% in the 2016 financial year (reported: +2.1%). Higher total revenues in Croatia and the Republic of Serbia as well as stable total revenues in Bulgaria were offset by declines in the other segments. Adjusted for the one-off and FX effects described above, total revenues rose by 2.4% compared with the previous year.

On the cost side, the Telekom Austria Group increasingly invested in handset subsidies in almost all markets in 2016, resulting in a larger number of handsets sold and hence higher costs of equipment. The ongoing optimisation of operating efficiency was a focal point of management activities once again. Among other things, this included the

Key performance indicators Telekom Austria Group

in EUR million

Proforma view

Total revenues	2016 reported	2015 proforma	Change in %
Austria	2,575.5	2,582.1	−0.3
Bulgaria	412.0	411.7	0.1
Croatia	398.3	372.3	7.0
Belarus	321.0	333.8	−3.9
Slovenia	214.1	245.5	−12.8
Republic of Serbia	221.1	210.7	5.0
Republic of Macedonia	119.4	122.7	−2.7
Corporate & other, eliminations	−50.1	−47.1	n.m.
Total	**4,211.5**	**4,231.8**	**−0.5**

EBITDA	2016 reported	2015 proforma	Change in %
Austria	897.5	881.2	1.8
Bulgaria	125.6	143.9	−12.7
Croatia	88.3	79.6	10.9
Belarus	151.5	164.0	−7.6
Slovenia	52.8	83.0	−36.4
Republic of Serbia	38.8	43.5	−10.7
Republic of Macedonia	26.1	24.4	7.2
Corporate & other, eliminations	−26.4	−29.1	n.m.
Total	**1,354.3**	**1,390.5**	**−2.6**

Operating income	2016 reported	2015 proforma	Change in %
Austria	402.1	414.9	−3.1
Bulgaria	15.4	41.4	−62.8
Croatia	9.4	8.8	6.7
Belarus	87.8	86.8	1.2
Slovenia	20.1	56.2	−64.2
Republic of Serbia	−7.8	−7.6	n.m.
Republic of Macedonia	−29.5	−3.3	n.m.
Corporate & other, eliminations	−10.8	−29.0	n.m.
Total	**486.7**	**568.2**	**−14.4**

implementation of management clusters in the previous year, resulting in lower operating expenses for administration and maintenance in 2016. Restructuring expenses originated entirely from the Austrian segment and amounted to EUR 7.2 mn in the year under review after EUR 0.4 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. Costs and expenses were also influenced by the one-off effects in 2015 and 2016 mentioned above. All in all, the developments described led to a slight increase in costs and expenses of 0.6% year-on-year (reported: increase of 3.7%).

In the 2016 financial year, EBITDA fell by 2.6% (reported: -1.1%) as a result of the lower level of total revenues, amongst others driven by roaming, as well as higher costs and expenses. EBITDA growth in Austria, Croatia and the Republic of Macedonia could not offset the decline in the other segments. All in all, the EBITDA margin declined from 32.9% in the previous year to 32.2% in the year under review. Adjusted for the one-off and FX effects described above, EBITDA rose by 3.1% year-on-year.

Depreciation and amortisation increased by 5.2% year-on-year, mostly due to the higher level of depreciation and amortisation in Austria and the Republic of Macedonia. As a result, operating income declined by 14.4% compared with the previous year (reported: -14.9%).

The following analysis is based on reported figures only.

The Telekom Austria Group recorded a financial result of negative EUR 127.0 mn in the year under review, 18.1% lower than in the previous year. This was mainly due to the EUR 20.1 mn reduction in the interest expense primarily due to the repayment of a EUR 750 mn bond on 29 January 2016. FX differences amounted to a positive EUR 10.0 mn in the reporting period after a negative EUR 2.3 mn in 2015.

A tax benefit of EUR 53.5 mn was recorded in the year under review. This was mainly due to the positive effect of the recognition of higher deferred tax assets on tax losses carried forward due to higher expected future tax results within the Austrian tax group. Tax expenses of EUR 23.8 mn were reported in the previous year.

Overall, the Telekom Austria Group reported a positive net result of EUR 413.2 mn in the year under review (2015: EUR 392.8 mn).

Company key figures

Reported view

	2016 reported	2015 reported	Change in %
Earnings per share (in EUR)	0.58	0.55	5.5
Dividend per share (in EUR)	0.20[1]	0.05	n.a.
Free cash flow per share (in EUR)	0.35	0.53	–34.1
ROE[2]	15.9%	16.9%	-
ROIC[3]	9.9%	9.7%	-

1) Proposal to the 2017 Annual General Meeting, which will take place on 9 June 2017.

2) Ratio of net result to the average equity employed; serves as an indicator which measures the yield on equity.

3) Total return on invested capital, calculated as the operating result after tax divided by the average capital invested.

The following analysis is based on reported figures only.

Net assets and financial position

Balance sheet structure
Reported view

in EUR million	31 Dec 2016 reported	As % of the balance sheet total	31 Dec 2015 reported	As % of the balance sheet total
Current assets	1,438.9	18.1	1,853.1	22.3
Property, plant and equipment	2,550.8	32.1	2,409.4	29.0
Goodwill	1,241.8	15.6	1,229.7	14.8
Other intangible assets	2,321.4	29.2	2,507.9	30.2
Other assets	390.4	4.9	304.4	3.7
Assets	**7,943.2**	**100.0**	**8,304.5**	**100.0**
Current liabilities	1,847.8	23.3	2,253.3	27.1
Long-term debt	2,303.5	29.0	2,584.1	31.1
Employee benefit obligation	206.3	2.6	196.5	2.4
Non-current provisions	731.8	9.2	750.3	9.0
Other long-term liabilities	83.1	1.0	94.2	1.1
Stockholders' equity	2,770.7	34.9	2,426.0	29.2
Liabilities and stockholders' equity	**7,943.2**	**100.0**	**8,304.5**	**100.0**

NET ASSETS AND FINANCIAL POSITION

As of 31 December 2016, the balance sheet total declined by 4.4% year-on-year to EUR 7,943.2 mn.

Current assets fell by 22.4% to EUR 1,438.9 mn in the year under review as a result of the reduction in cash and cash equivalents.

Non-current assets increased slightly by 0.8% to EUR 6,504.3 mn, as the growth in property, plant and equipment and deferred tax assets was partially offset by the reduction in other intangible assets. The increase in property, plant and equipment was attributable to the fibre rollout in Austria, the development of a solar power plant in Belarus and changes in parameters for calculating the asset retirement obligation. The positive tax income effect is mainly due to the recognition of higher deferred tax assets on tax losses carried forward due to higher expected future tax results within the Austrian tax group. The reduction in other intangible assets resulted from the depreciation of licences.

Current liabilities decreased by 18.0% to EUR 1,847.8 mn in the year under review as a result of the aforementioned repayment of the Eurobond and short-term bank debt. This was partially offset by the reclassification of a EUR 500 mn bond, which will become due on 27 January 2017, to short-term debt. Accounts payable also fell due to lower accrued interest and the payment of spectrum in the 800-MHz frequency band in the Republic of Serbia in January 2016, which was acquired in November 2015, as well as payments in Austria which were due in Q1 2016.

Non-current liabilities decreased by 8.3% to EUR 3,324.7 mn in the year under review. The aforementioned bond reclassification and the early repayment of financial debt were lowered by the EUR 500 mn bond issue on 7 December 2016.

Dividend payments for the 2015 reporting year, which also included coupon payments in the amount of EUR 33.8 mn for the outstanding EUR 600 mn hybrid bond, remained stable at EUR 67.2 mn in the year under review.

The rise in equity from EUR 2,426.0 mn to EUR 2,770.7 mn results from the net income for 2016 combined with retained earnings. This also led to an increase in the equity ratio as of 31 December 2016 to 34.9% after 29.2% as of 31 December 2015.

Net debt
Reported view

in EUR million	31 Dec 2016 reported	31 Dec 2015 reported
Long-term debt	2,303.5	2,584.1
Short-term borrowings	500.1	810.4
Cash and cash equivalents, short-term investments	–464.2	–911.5
Net debt Telekom Austria Group	**2,339.4**	**2,483.0**
Net debt/EBITDA (last 12 months)	1.7	1.8

NET DEBT
The Telekom Austria Group's net debt fell by 5.8% to EUR 2,339.4 mn in the year under review, as the lower level of financial debt more than offset lower cash and cash equivalents. Despite the decrease in EBITDA, this resulted in a reduction in the net debt to EBITDA ratio from 1.8x as of 31 December 2015 to 1.7x as of 31 December 2016.

CASH FLOW
Earnings before income tax (EBT) declined by 13.7% year-on-year. Depreciation increased due to depreciation of frequencies in Austria which started in Q1 2016 as well as due to last year's M&A transactions. Additional needs for working capital (see 'Consolidated Statements of Cash Flows' in the Consolidated Financial Statements) were primarily driven by the payment for restructuring. Payments for income taxes and higher receivables due to instalment sales also contributed to the change in working capital, despite interest received. All in all, the lower level of earnings before income tax (EBT) and slightly higher working capital needs in a year-on-year comparison resulted in a reduction in net cash flow from operating activities of 2.7% year-on-year to EUR 1,195.5 mn.

Net cash flow from investing activities decreased by 4.9% to EUR 823.5 mn in the year under review as the acquisitions in Q3 2015 outweighed the rise in capital expenditures paid. The latter included payments for expenditures from the previous year, such as the spectrum investment in the Republic of Serbia in Q4 2015.

Net cash flow from financing activities decreased from EUR -465.2 mn in 2015 to EUR -824.3 mn in the year under review. The repayment of a EUR 750 mn bond in January 2016 and bank debt outweighed the EUR 500 mn bond issue on 7 December 2016.

Overall, this resulted in a reduction in cash and cash equivalents of EUR 451.7 mn in the year under review compared with EUR 108.9 mn in the previous year.

Free cash flow, which is calculated as net cash flow from operating activities less capital expenditures paid and interest paid plus proceeds from the sale of equipment, declined from EUR 352.2 mn in the previous year to EUR 232.0 mn in the year under review. This was attributable essentially to the higher level of capital expenditures paid, while net cash flow from operating activities also decreased.

Cashflow
Reported view

in EUR million	2016 reported	2015 reported	Change in %
Earnings before income tax (EBT)	359.7	416.6	–13.7
Net cash flow from operating activities	1,195.5	1,228.4	–2.7
Net cash flow from investing activities	–823.5	–866.2	n.m.
Net cash flow from financing activities	–824.3	–465.2	n.m.
Net change in cash and cash equivalents	–451.7	–108.9	n.m.
Adjustment to cash flows due to exchange rate fluctuations, net	0.6	–5.9	n.m.

CAPITAL EXPENDITURES[1)]

In the year under review, capital expenditures fell by 2.6% year-on-year, largely as a result of the acquisition of mobile frequencies in Croatia and the Republic of Serbia in the previous year.

Tangible capital expenditures rose by 11.9% in 2016, as lower investment in the Republic of Serbia was more than outweighing by higher levels in the other segments. The increase in Austria in tangible capital expenditures was attributable to increased investment in the fibre network. In Bulgaria, tangible capital expenditures decreased as a result of the lower level of IT investment, among other things. Higher levels of investment in the LTE rollout and the fibre network led to higher tangible capital expenditures in Croatia compared with the previous year. The increase in tangible capital expenditures in Belarus was mainly driven by the development of a solar power plant, which will significantly reduce the company's vulnerability to FX and energy prices volatility.

The significant reduction in intangible capital expenditures to EUR 123.7 mn (2015: EUR 212.0 mn) is largely due to the acquisition of mobile frequencies in Croatia, Belarus and the Republic of Serbia in the previous year. In Austria, lower spending on the mobile network due to lower prices led to a reduction in intangible capital expenditures. In Croatia, Belarus and the Republic of Serbia, intangible capital expenditures declined as a result of the acquisition of frequency in the previous year totalling EUR 64.9 mn.

SEGMENT ANALYSIS

Segment Austria

As there were no mergers or acquisitions in Austria between the start of the comparison period and the end of the reporting period, the following analysis is based on reported figures.

In 2016, competition in Austria continued to be driven by mobile no-frills offers. In addition, mobile WiFi routers with unlimited data offers are becoming an increasingly relevant element of the Austrian broadband market. A1 Telekom Austria Aktiengesellschaft counters these challenges, on the one hand, with its successful multi-brand strategy that allows it to address price pressure via its no-frills brands bob and YESSS!. On the other hand, A1 introduced a hybrid modem in July 2016 which combines the fixed-line and the mobile network and thereby enables A1 to offer higher fixed-line bandwidth products. Convenient unlimited mobile broadband offers complete A1's data-centric high-value proposition.

In the year under review, the number of wireless subscribers in the Austrian segment rose by 2.9% year-on-year, due to the growth in the number of Machine-to-Machine (M2M) SIM cards. However, the customer base remained almost stable excluding M2M, with growth in the high-value segment offsetting most of the decline in the number of no-frills customers. The number of mobile broadband customers rose due to a change in the counting methodology. The market share in mobile communications declined slightly to 39.4% in the year under review (2015: 39.5%). In the fixed-line business, the number of revenue generating units (RGU) decreased by 1.1% year-on-year in 2016. Fixed broadband RGU growth slowed over the course of the year to 1.5% year-on-year, while TV RGUs again increased by 5.5% to 284,400 customers in the same period. Additionally, speed upgrades and hybrid routers exhibited strong growth. These developments were contrasted by another decline in fixed-line voice minutes by 10.4% (2015: -10.0%).

In 2016, total revenues in the Austrian segment declined slightly by 0.3% year-on-year. Excluding the aforementioned positive one-off effects from 2015 in the amount of EUR 10.5 mn, total revenues remained stable (+0.1%). These positive effects were reflected in fixed-line and other revenues. The stable revenues were driven by higher interconnection revenues and revenues from handset sales, which compensated the reduction in service revenues.

In the mobile business, the decrease in wireless service revenues compared with the previous year was almost exclusively due to the stepwise abolition of retail roaming in the EU as of 30 April 2016. Excluding these negative effects, wireless service revenues rose as losses in the low-value customer segment were more than offset by higher fixed fees, which mainly resulted from subscriber growth in higher-value customer segments as well as tariff indexations. Equipment revenues rose due to the volume growth resulting from increased handset subsidies. In the fixed-line business, higher revenues from broadband and TV as well as the support from speed upgrades and hybrid routers partly offset the decline in voice revenues. Together with increasing interconnection revenues due to a changed settlement logic as well as higher quantities, this resulted in a slight increase in fixed-line service revenues.

1) Detailed figures can be found in the reconciliation tables and the Notes to the Consolidated Financial Statements.

Key performance indicators Austria

Proforma view (= Reported view)

Key financials in EUR million	2016 reported	2015 proforma	Change in %
Total revenues	2,575.5	2,582.1	−0.3
thereof wireless revenues	1,238.9	1,244.0	−0.4
thereof service revenues	1,034.8	1,057.2	−2.1
thereof equipment revenues	146.9	135.2	8.6
thereof fixed-line and other revenues	1,336.6	1,338.2	−0.1
EBITDA	897.5	881.2	1.8
% of total revenues	34.8%	34.1%	-
Operating income	402.1	414.9	−3.1
% of total revenues	15.6%	16.1%	-

Wireless indicators	2016 reported	2015 proforma	Change in %
Postpaid subscribers (in '000)	4,242.7	4,076.8	4.1
Prepaid subscribers (in '000)	1,728.8	1,726.9	0.1
Wireless subscribers (in '000)	5,971.5	5,803.7	2.9
thereof mobile broadband subscribers (in '000)	945.4	873.6	8.2
MoU (per Ø subscriber)	233.3	244.6	−4.7
ARPU (in EUR)	14.7	15.6	−5.7
Churn (%)	1.6%	1.4%	-
Market share	39.4%	39.5%	-
Penetration	158.7%	161.2%	-

Wireline indicators	2016 reported	2015 proforma	Change in %
RGUs (in '000)	3,495.5	3,534.4	−1.1
thereof fixed broadband RGUs	1,481.0	1,458.5	1.5
ARPL (in EUR)	28.0	28.4	−1.3
Total access lines (in '000)	2,202.8	2,236.9	−1.5
Unbundled lines (in '000)	228.7	236.1	−3.2
Fixed line voice traffic (in million minutes)	1,469.1	1,639.5	−10.4
Mobile and fixed broadband penetration in % of households	139.4%	135.2%	-

Average monthly revenue per user (ARPU) declined from EUR 15.6 to EUR 14.7 in the year under review; this was attributable primarily to negative roaming effects and a higher proportion of M2M SIM cards. Excluding the negative roaming effects, ARPU remained almost stable (-0.2% year-on-year). 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-line (ARPL) declined to EUR 28.0 in the year under review (2015: EUR 28.4).

Costs and expenses in the Austrian segment fell by 1.4% year-on-year in 2016 (EUR -23.0 mn). The positive one-off effects in costs and expenses in the year under review and the comparison period almost offset each other. In the year under review, EUR 7.0 mn resulted from the change in value adjustments for handsets in the first quarter and EUR 14.4 mn from the reversal of an accrual for copyrights in the third quarter. In the previous year, restructuring charges contained a positive one-off effect in the amount of EUR 21.6 mn stemming from a settlement. The costs

Total costs and expenses

Proforma view (= Reported view)

in EUR million	2016 reported	2015 proforma	Change in %
Cost of service	849.5	867.6	–2.1
Cost of equipment	226.6	223.8	1.3
Selling, general & administrative expenses	602.9	604.2	–0.2
Others	–1.0	5.3	n.m.
Total costs and expenditures	**1,678.0**	**1,700.9**	**–1.4**
thereof employee costs	616.7	634.8	–2.9

and expenses declined in 2016 primarily as a result of cost savings in personnel as well as maintenance and repair expenses. The reduction in costs and expenses was also driven by the higher level of own work capitalised. The interconnection expenses increased as a result of a changed settlement logic, while cost of equipment due to higher volumes and provisions also rose. In the Austrian segment, a restructuring charge of EUR 7.2 mn (2015: EUR -0.4 mn) was recognised for the 2016 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.

Lower total revenues were more than compensated by the decline in costs and expenses, which led to an EBITDA increase of 1.8% in the year under review. The EBITDA margin improved from 34.1% in the previous year to 34.8% in 2016. Adjusted for one-off effects in costs and revenues, EBITDA rose by 3.2%.

In the period under review, depreciation and amortisation increased by 5.7% year-on-year, mostly due to spectrum licences starting in Q1 2016. All in all, operating income in the Austrian segment declined by 3.1% year-on-year.

Segment Bulgaria

The following analysis is based on proforma[1] figures if not stated otherwise.

In Bulgaria, the performance in 2016 was again characterised by a competitive environment, which is particularly visible in the business segment. To counter price pressure, Mobiltel intensified its focus on value-based management and its efforts to retain high-value customers. The Bulgarian mobile market also saw a shift from prepaid to postpaid offers. These factors meant that the downturn in service revenues slowed considerably in 2016 compared with the previous years. Management also aimed to mitigate revenue pressure on profitability by means of strict cost management.

The number of wireless subscribers declined by 3.0% in the year under review in line with the general market trend, attributable exclusively to losses in the prepaid segment. The ongoing rise in the use of mobile data led to a further year-on-year increase in the number of mobile broadband

1) Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.

customers of 19.7% to over 382,400. Although the mobile market share declined from 38.8% to 38.4%, the aforementioned focus on value-oriented retention resulted in an increased share of contract customers, 85.4% (2015: 82.5%). In the fixed-line business, revenue generating units (RGUs) increased by 0.7% year-on-year due to the growing popularity of bundled products with TV and the increased demand for broadband products.

Total revenues were stable (+0.1%) compared with the previous year (reported: +9.6%), as the higher level of equipment revenues offset the decline in other operating income and wireless service revenues. Despite rising interconnection revenues and improved trends in the residential business following the aforementioned focus on value-oriented management, wireless service revenues declined as a result of strong price pressure in the business segment in particular.

Key performance indicators Bulgaria

Proforma view

Key financials in EUR million	2016 reported	2015 proforma	Change in %
Total revenues	412.0	411.7	0.1
thereof wireless revenues	324.8	326.9	–0.6
thereof service revenues	271.9	276.8	–1.7
thereof equipment revenues	46.9	38.6	21.4
thereof fixed-line and other revenues	87.2	84.8	2.8
EBITDA	125.6	143.9	–12.7
% of total revenues	30.5%	35.0%	-
Operating income	15.4	41.4	–62.8
% of total revenues	3.7%	10.1%	-

Wireless indicators	2016 reported	2015 proforma	Change in %
Postpaid subscribers (in '000)	3,509.4	3,494.9	0.4
Prepaid subscribers (in '000)	598.7	740.8	–19.2
Wireless subscribers (in '000)	4,108.1	4,235.7	–3.0
thereof mobile broadband subscribers (in '000)	382.4	319.6	19.7
MoU (per Ø subscriber)	275.4	260.7	5.6
ARPU (in EUR)	5.5	5.4	2.2
Churn (%)	2.0%	2.0%	-
Market share	38.4%	38.8%	-
Penetration	150.5%	149.2%	-

Wireline indicators (proforma)	2016 reported	2015 proforma	Change in %
RGUs (in '000)	1,018.9	1,011.9	0.7
thereof fixed broadband RGUs	429.3	413.8	3.7

Wireline indicators (reported)	2016 reported	2015 reported	Change in %
ARPL (in EUR)	10.8	11.7	–7.6
Total access lines (in '000)	542.6	539.1	0.6

Equipment revenues increased due to volume growth and higher demand for more expensive handsets. Fixed-line service revenues increased on the back of growth in satellite TV (DTH) revenues and fixed corporate solutions.

Average monthly revenue per user (ARPU) rose by 2.2% to EUR 5.5 (2015: EUR 5.4) due to the higher proportion of contract subscribers. On a reported basis, the average monthly revenue per fixed line (ARPL) fell from EUR 11.7 in the previous year to EUR 10.8; this was due to the consolidation of Blizoo customers with a comparably low ARPL. However, reported fixed-line service revenues increased from EUR 34.9 mn in the previous year to EUR 70.3 mn in the year under review.

Costs and expenses increased by 7.0% year-on-year, resulting to a large extent from higher costs of equipment due to the increase in the number of handsets sold and higher average subsidies per handset. In the costs of service area, interconnection costs rose in line with the growing popularity of tariffs including free minutes to all national networks. Content costs rose in line with the growth of TV RGUs. Intensified cost-cutting measures, leading to lower costs in the administration area, and the optimisation of network maintenance costs partly offset the cost increases mentioned above.

Stable total revenues, together with higher costs and expenses, resulted in an EBITDA decline of 12.7% in the year under review (reported: -5.7%). In the year under review, the EBITDA margin fell to 30.5% (2015: 35.0%). In 2016, depreciation and amortisation increased by 7.4% year-on-year due to a network modernisation project. As a result, operating income declined by 62.8% in 2016 (reported: -63.3%).

Segment Croatia

The following analysis is based on proforma[1] figures if not stated otherwise.

The Croatian segment continued its positive operating development in the year under review thanks to sustained fixed-line growth and stronger mobile trends. On the other hand, regulatory pressure remained in the form of high frequency usage fees. The mobile business has benefited from the push towards higher tariffs since May 2015 and the continuous rise in the proportion of contract customers as a result. The fixed-line business continued to grow as a result of the increased sales focus on broadband and TV services.

The fixed-line business segment will be further strengthened following the closing of the acquisition of Metronet, which is expected for the first quarter of 2017. The company is expected to be consolidated in the first quarter of 2017.

The total number of wireless subscribers fell by 0.8% to around 1.72 million in the year under review. The proportion of contract customers increased to 49.2% over the course of the year (2015: 48.2%). The market share increased slightly from 36.0% in the previous year to 36.1% in the year under review. In the fixed-line business, the number of revenue generating units (RGUs) increased by 12.1% to 620,100, with growth of 17.1% in broadband RGUs and 7.2% in TV RGUs.

Vipnet recorded total revenue growth of 7.0% in the year under review (reported: +8.6%). Service revenues rose on the back of the strong growth in fixed-line RGUs as well as higher fixed fees in the mobile business following the aforementioned push towards higher-value tariffs. Equipment revenues also rose as a result of more handsets sold and the higher subsidy level.

Average monthly revenue per user (ARPU) increased from EUR 11.5 in the previous year to EUR 11.9 in the year under review. This was due to the higher contract customer ARPU in the wake of the aforementioned migration to higher-value tariffs. Average monthly revenue per fixed line (ARPL) remained almost stable on a reported basis at EUR 23.6. On a reported basis, the higher number of revenue generating units (RGUs) and the stable ARPL meant that fixed-line service revenues increased by 24.5% compared with the previous year.

The 5.9% year-on-year increase in costs and expenses in the year under review was attributable primarily to higher equipment costs which increased due to volume growth as well as higher equipment prices. Furthermore, growth in the number of RGUs led to an increase in wholesale costs resulting from bitstream access and higher content costs.

The higher costs and expenses were more than offset by revenue growth, which led to an EBITDA increase of 10.9% year-on-year (reported: +12.3%). In the year under review, the EBITDA margin improved to 22.2% (2015: 21.4%). Together with higher depreciation and amortisation due to the changed methodology for accounting of spare parts and the activation of a new license in November 2015, this translated into an increase in operating income of 6.7% (reported: +9.0%).

1) Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.

Key performance indicators Croatia

Proforma view

Key financials in EUR million	2016 reported	2015 proforma	Change in %
Total revenues	398.3	372.3	7.0
thereof wireless revenues	307.9	292.2	5.4
thereof service revenues	249.9	242.9	2.9
thereof equipment revenues	51.2	45.4	12.8
thereof fixed-line and other revenues	90.5	80.1	12.9
EBITDA	88.3	79.6	10.9
% of total revenues	22.2%	21.4%	-
Operating income	9.4	8.8	6.7
% of total revenues	2.4%	2.4%	-

Wireless indicators	2016 reported	2015 proforma	Change in %
Postpaid subscribers (in '000)	846.8	836.0	1.3
Prepaid subscribers (in '000)	873.2	897.6	–2.7
Wireless subscribers (in '000)	1,720.0	1,733.6	–0.8
thereof mobile broadband subscribers (in '000)	131.1	139.1	–5.7
MoU (per Ø subscriber)	304.2	299.8	1.5
ARPU (in EUR)	11.9	11.5	3.2
Churn (%)	2.8%	2.5%	-
Market share	36.1%	36.0%	-
Penetration	114.3%	113.7%	-

Wireline indicators (proforma)	2016 reported	2015 proforma	Change in %
RGUs (in '000)	620.1	553.0	12.1
thereof fixed broadband RGUs	234.4	200.2	17.1

Wireline indicators (reported)	2016 reported	2015 reported	Change in %
ARPL (in EUR)	23.6	23.5	0.4
Total access lines (in '000)	284.9	256.9	10.9

Segment Belarus

The following analysis is based on proforma[1] figures if not stated otherwise.

In Belarus, strong operational developments continued to face macroeconomic and regulatory headwinds. In this context, the government is pushing for a stabilisation of inflation, which slowed to 10.6% in 2016 (2015: 12.0%). The government increased the value added tax on mobile services from 20% to 25% in April 2016. The devaluation at the start of the year also overshadowed the positive operating results, although the currency recovered thanks to the improved development of the oil price and the Russian Rouble over the course of the year. In a year-on-year comparison, however, the Belarusian Rouble still declined by

Key performance indicators Belarus

Proforma view

Key financials in EUR million	2016 reported	2015 proforma	Change in %
Total revenues	321.0	333.8	−3.9
thereof wireless revenues	309.0	319.8	−3.4
thereof service revenues	242.5	267.4	−9.3
thereof equipment revenues	58.4	47.3	23.6
thereof fixed-line and other revenues	12.0	14.0	−14.4
EBITDA	151.5	164.0	−7.6
% of total revenues	47.2%	49.1%	-
Operating income	87.8	86.8	1.2
% of total revenues	27.4%	26.0%	-

Wireless indicators	2016 reported	2015 proforma	Change in %
Postpaid subscribers (in '000)	3,972.5	4,011.7	−1.0
Prepaid subscribers (in '000)	972.3	945.1	2.9
Wireless subscribers (in '000)	4,944.9	4,956.8	−0.2
thereof mobile broadband subscribers (in '000)	391.6	308.8	26.8
MoU (per Ø subscriber)	401.4	391.5	2.5
ARPU (in EUR)[2]	4.1	4.5	−9.0
Churn (%)	1.6%	1.4%	-
Market share	43.2%	42.5%	-
Penetration	120.3%	123.0%	-

Wireline indicators (proforma)	2016 reported	2015 proforma	Change in %
RGUs (in '000)	279.4	272.2	2.6
thereof fixed broadband RGUs	132.0	135.1	−2.3

Wireline indicators (reported)	2016 reported	2015 reported	Change in %
ARPL (in EUR)	7.9	n.a.	n.a.
Total access lines (in '000)	179.3	n.a.	n.a.

1) Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.

2) As per September 2015, the presentation of value-added services has been changed, which negatively impacts ARPU.

19.7% (figure based on period averages in accordance with IFRS). Through the acquisition of Atlant and its subsidiary TeleSet, which has been consolidated as of 1 December 2016, velcom developed from a pure mobile provider into a convergent operator.

Thanks to its positioning as a premium provider with excellent network quality as well as a tariff and handset portfolio centred on smartphones and tablets, velcom again succeeded in 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 and energy prices; this included the commissioning of a solar power plant.

The total number of wireless subscribers at velcom declined slightly, by 0.2% year-on-year during the year under review, to 4.94 million. This was driven by a lower number of multiple SIM cards as a result of worsening economic environment and lower purchasing power. However, this development improved again in Q4 2016. The 26.8% rise in the number of mobile broadband customers to around 391,600 reflects the aforementioned strong demand for data services. Owing to the negative currency development, average monthly revenue per user (ARPU) declined from EUR 4.5 to EUR 4.1. velcom had 279,400 fixed-line revenue generating units (RGUs) at the end of the year.

Including negative currency effects in the amount of EUR 78.7 mn, total revenues declined by 3.9% year-on-year in 2016 (reported: -3.4%). In local currency, total revenues rose by 19.7%. Inflation-related price adjustments in December 2015 and April, May and September 2016, as well as the migration of existing customers from old tariffs to higher-ARPU bundled offers, were the main reasons for the increase in service revenues. Equipment revenues rose due to FX-driven higher handset prices as well as volume growth. Other operating income increased following the commissioning of the solar power plant, which reduced the company's vulnerability to FX and energy prices volatility.

Consolidated costs and expenses fell slightly by 0.2% in the year under review (reported: increase of 0.5%) but rose in local currency. This was attributable primarily to the higher costs of equipment, which increased similar to the revenues due to FX-driven higher handset prices and volume growth. FX-denominated costs such as frequencies, maintenance and repair expenses were also higher. Inflation-related salary increases led to a rise in employee costs. Interconnection costs rose on the back of increased traffic and higher international tariffs. Other expenses increased due to the retirement of software.

Despite the positive operating development, EBITDA in EUR declined by 7.6% in the year under review (reported: -7.4%) driven by negative FX effects in the amount of EUR 37.2 mn. The Belarusian segment recorded the highest EBITDA margin in the Group at 47.2% in the year under review (2015: 49.1%). Despite the decline in EBITDA, the lower level of depreciation and amortisation owing to the negative FX effect translated into an increase in operating income of 1.2% (reported: +1.4%).

Segment Slovenia

The following analysis is based on proforma[1] figures if not stated otherwise.

In 2016, the Slovenian telecommunications market was again characterised by fierce competition in the mobile business. Si.mobil[2] countered this challenging environment through the acquisition of the fixed-line reseller Amis in September 2015.

In 2016, the number of wireless subscribers rose by 0.8% year-on-year due to higher gross additions in the business segment as well as more no-frills customers. The number of fixed-line revenue generating units (RGUs) increased by 16.5% year-on-year to 172,000 in 2016, driven by higher demand for IPTV, voice and broadband.

Total revenues in Slovenia declined by 12.8% year-on-year (reported: -4.3%) as a result of the positive one-off effect of EUR 30.0 mn in 2015 relating to an agreement on settling mutual relations and business collaboration with Telekom Slovenije. Excluding this one-off effect, total revenues declined by 0.6%. Despite lower volumes, wireless equipment revenues rose as a result of higher average prices. Mobile service revenues declined due to the stepwise abolition of retail roaming in the EU as of 30 April 2016 in spite of higher interconnection revenues and a volume-driven increase in revenue from monthly fees. Fixed-line revenues declined mostly due to intensified competition.

Costs and expenses declined by 0.7% year-on-year as higher costs of equipment due to higher handset prices were more than offset by savings in administrative expenses thanks to cluster synergies.

1) Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.

2) The renaming of Si.mobil d.d. in A1 Slovenija, d.d. in the course of the rebranding became effective in April 2017.

This reduction in costs and expenses could not compensate the one-off revenue effect in the previous year, which led to an EBITDA decline of 36.4% year-on-year (reported: -34.7%). Adjusted for this one-off effect, EBITDA declined by 0.5%. Taking into account the 21.6% increase in depreciation and amortisation due to amortisation of brand names, operating income declined by 64.2% (reported: -64.6%).

Key performance indicators Slovenia

Proforma view

Key financials in EUR million	2016 reported	2015 proforma	Change in %
Total revenues	214.1	245.5	−12.8
thereof wireless revenues	180.0	210.1	−14.3
thereof service revenues	135.7	136.3	−0.4
thereof equipment revenues	40.1	39.1	2.5
thereof fixed-line and other revenues	34.1	35.4	−3.8
EBITDA	52.8	83.0	−36.4
% of total revenues	24.7%	33.8%	-
Operating income	20.1	56.2	−64.2
% of total revenues	9.4%	22.9%	-

Wireless indicators	2016 reported	2015 proforma	Change in %
Postpaid subscribers (in '000)	591.8	570.3	3.8
Prepaid subscribers (in '000)	122.5	138.2	−11.3
Wireless subscribers (in '000)	714.3	708.5	0.8
thereof mobile broadband subscribers (in '000)	39.8	35.7	11.2
MoU (per Ø subscriber)	346.6	348.6	−0.6
ARPU (in EUR)	15.8	16.4	−3.5
Churn (%)	1.5%	1.4%	-
Market share	30.1%	29.9%	-
Penetration	115.1%	113.7%	-

Wireline indicators (proforma)	2016 reported	2015 proforma	Change in %
RGUs (in '000)	172.0	147.6	16.5
thereof fixed broadband RGUs	70.2	65.3	7.6

Wireline indicators (reported)	2016 reported	2015 reported	Change in %
ARPL (in EUR)	35.4	37.9	−6.4
Total access lines (in '000)	70.2	65.5	7.1

Segment Republic of Serbia

As there were no mergers or acquisitions in the Republic of Serbia between the start of the comparison period and the end of the reporting period, the following analysis is based on reported figures.

In the 2016 financial year, competition in the Republic of Serbia remained intense following the launch of new aggressive convergent offers on the market during the first half of the year, which Vip mobile counteracted through its focus on the contract segment and hardware promotions.

The proportion of contract customers increased from 55.0% in the previous year to 57.7%. This was also attributable to a general shift in the market from multiple prepaid to single postpaid offers. The total number of customers increased by 1.7% compared with the previous year due to the abovementioned growth in the number of contract subscribers.

Total revenues in the Republic of Serbia rose by 5.0% year-on-year in 2016; this was driven by higher equipment revenues. Mobile service revenues declined by 7.1% year-on-year due to a negative effect from the changed distribution model which led to a different accounting treatment as well as lower roaming revenues; this was offset partially by higher revenues from monthly fees and interconnection revenues.

Costs and expenses increased by 9.1% year-on-year in 2016. This development was driven by increased costs of equipment, interconnection costs as well as selling and marketing expenses, which were partially compensated by lower roaming expenses.

Higher total revenues and higher costs and expenses led to an EBITDA decline of 10.7% compared with the previous year. Without the abovementioned effect, EBITDA increased. Together with the reduction in depreciation and amortisation, this resulted in operating income of negative EUR 7.8 mn in the year under review (2015: EUR -7.6 mn).

Key performance indicators Republic of Serbia

Proforma view (= Reported view)

Key financials in EUR million	2016 reported	2015 proforma	Change in %
Total revenues	221.1	210.7	5.0
thereof wireless revenues	213.9	207.8	2.9
thereof service revenues	139.9	150.6	–7.1
thereof equipment revenues	69.8	53.9	29.4
EBITDA	38.8	43.5	–10.7
% of total revenues	17.6%	20.6%	-
Operating income	–7.8	–7.6	n.m.
% of total revenues	–3.5%	–3.6%	-

Wireless indicators	2016 reported	2015 proforma	Change in %
Postpaid subscribers (in '000)	1,236.8	1,160.9	6.5
Prepaid subscribers (in '000)	908.5	948.4	–4.2
Wireless subscribers (in '000)	2,145.3	2,109.3	1.7
thereof mobile broadband subscribers (in '000)	98.1	88.7	10.6
MoU (per Ø subscriber)	272.4	274.0	–0.6
ARPU (in EUR)	5.6	5.9	–6.0
Churn (%)	3.3%	3.7%	-
Market share	22.4%	22.6%	-
Penetration	135.0%	130.9%	-

Segment Republic of Macedonia

The following analysis is based on proforma[1] figures if not stated otherwise.

Following the merger of Vip operator with ONE in October 2015, the combined entity, one.Vip, is now the leading operator in the mobile segment of the telecommunications market of the Republic of Macedonia. In spite of this consolidation, competition in the mobile market accelerated with the entry of a mobile virtual network operator (MVNO) as of July 2016.

In the Republic of Macedonia, one.Vip's customer base declined by 5.1% year-on-year as customers continued to move from multiple prepaid to single contract subscriptions. In the fixed-line business, the number of revenue generating units (RGU) increased by 3.2% compared with the previous year.

Key performance indicators Republic of Macedonia

Proforma view

Key financials in EUR million	2016 reported	2015 proforma	Change in %
Total revenues	119.4	122.7	−2.7
thereof wireless revenues	92.4	92.4	0.0
thereof service revenues	82.8	84.1	−1.6
thereof equipment revenues	7.0	5.7	22.6
thereof fixed-line and other revenues	27.0	30.3	−10.9
EBITDA	26.1	24.4	7.2
% of total revenues	21.9%	19.9%	-
Operating income	−29.5	−3.3	n.m.
% of total revenues	−24.7%	−2.7%	-

Wireless indicators	2016 reported	2015 proforma	Change in %
Postpaid subscribers (in '000)	641.0	636.5	0.7
Prepaid subscribers (in '000)	462.6	526.9	−12.2
Wireless subscribers (in '000)	1,103.6	1,163.5	−5.1
thereof mobile broadband subscribers (in '000)	2.3	2.4	−3.8
MoU (per Ø subscriber)	398.3	379.1	5.1
ARPU (in EUR)	6.1	5.9	2.7
Churn (%)	2.5%	2.5%	-
Market share	49.5%	53.4%	-
Penetration	107.7%	106.2%	-

Wireline indicators (proforma)	2016 reported	2015 proforma	Change in %
RGUs (in '000)	314.3	304.5	3.2
thereof fixed broadband RGUs	102.0	99.9	2.1

Wireline indicators (reported)	2016 reported	2015 reported	Change in %
ARPL (in EUR)	12.3	12.7	−2.5
Total access lines (in '000)	141.8	144.5	−1.9

1) Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.

Total revenues declined by 2.7% year-on-year (reported: +47.3%) due to the decrease in interconnection revenues caused by lower transit.

Total costs and expenses declined by 5.1% year-on-year; this was primarily due to synergy effects in administrative and advertising expenses in particular.

Overall, the decrease in total revenues, together with lower total costs and expenses, resulted in year-on-year EBITDA growth of 7.2% in 2016 (reported: +55.4%). Depreciation and amortisation increased by 101.4% year-on-year due to the merger-related depreciation of mobile network components. Overall, this resulted in negative operating income of EUR 29.5 mn, compared to a negative EUR 3.3 mn in the comparison period (reported: EUR -0.6 mn).

RECONCILIATION TABLES – ADDITIONAL PERFORMANCE MEASURES AND FURTHER DETAILS ON ABOVE MENTIONED FIGURES

The following tables present all the proforma tables from the previous section on a reported as well as on a proforma basis. Additionally, the difference between reported and proforma values is also provided and stems from the M&A activities between the start of the comparison period and the end of the reporting period mentioned on page 44. Alternative performance measures are used to describe the operational performance. Further explanations are provided to give additional, useful and relevant detail on the company's performance.

ARPL (reported)

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

ARPL-relevant revenues

in EUR million	2016 reported	2015 reported	Change in %
Austria	746.4	762.4	–2.1
Bulgaria	70.3	34.9	101.1
Croatia	77.8	62.5	24.5
Belarus	1.5	n.a.	n.a.
Slovenia	29.8	9.9	199.8
Republic of Serbia	n.a.	n.a.	n.a.
Republic of Macedonia	21.0	14.4	45.8

Total access lines

in '000	2016 reported	2015 reported	Change in %
Austria	2,202.8	2,236.9	–1.5
Bulgaria	542.6	539.1	0.6
Croatia	284.9	256.9	10.9
Belarus	179.3	n.a.	n.a.
Slovenia	70.2	65.5	7.1
Republic of Serbia	n.a.	n.a.	n.a.
Republic of Macedonia	141.8	144.5	–1.9

ARPU (proforma)

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

in EUR million	2016 reported	2015 proforma	Change in % proforma
Wireless service revenues	2,146.3	2,199.8	–2.4

Free Cashflow (reported)

in EUR million	2016 reported	2015 reported	Change in %
Net cash flow from operating activities	1,195.5	1,228.4	–2.7
Capital expenditures paid	–816.5	–731.1	n.m.
Proceeds from sale of plant, property and equipment	18.9	10.7	76.6
Interest paid	–166.0	–155.8	n.m.
Free cash flow	232.0	352.2	–34.1

BELARUS KEY FINANCIALS IN EUR AND BYN

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

Belarus key financials

in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Total revenues	321.0	332.2	−3.4	333.8	−3.9	1.6
Total costs and expenditures	−169.4	−168.6	n.m.	-169.8	n.m.	−1.2
EBITDA	151.5	163.7	−7.4	164.0	−7.6	0.4

in BYN million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Total revenues	707.1	587.8	20.3	590.6	19.7	2.8
Total costs and expenditures	−373.3	−298.2	n.m.	−300.4	n.m.	−2.2
EBITDA	333.8	289.5	15.3	290.2	15.0	0.6

YEAR-TO-DATE COMPARISON

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

- The acquisition of the fixed-line 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 third-largest operator in the country, ONE, consolidated as of 1 October 2015.
- The acquisition of the fixed-line operator Atlant Telecom and its subsidiary TeleSet in Belarus, consolidated as of 1 December 2016.

For further details on purchasing prices and cash outflow, see Note (33).

Group Summary

Key financials in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Total revenues	4,211.5	4,125.3	2.1	4,231.8	–0.5	106.4
EBITDA	1,354.3	1,368.7	–1.1	1,390.5	–2.6	21.8
% of total revenues	32.2%	33.2%	-	32.9%	-	-
Operating income	486.7	571.7	–14.9	568.2	–14.4	–3.5

Total costs and expenses in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Cost of service	1,346.5	1,312.6	2.6	1,359.5	–1.0	46.9
Cost of equipment	521.9	463.7	12.6	470.7	10.9	7.1
Selling, general & administrative expenses	986.1	976.8	1.0	1,005.8	–2.0	29.0
Others	2.7	3.5	–24.4	5.2	–48.4	1.6
Total costs and expenses	**2,857.2**	**2,756.6**	**3.7**	**2,841.2**	**0.6**	**84.6**
thereof employee costs	787.1	799.7	–1.6	814.6	–3.4	14.9
thereof restructuring charges	7.2	0.4	n.m.	0.4	n.m.	0.0
Impairment charges	2.3	0.0	n.m.	0.0	n.m.	0.0
Depreciation and amortisation	865.3	797.1	8.6	822.3	5.2	25.3

Segment Bulgaria

Key financials in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Total revenues	412.0	375.8	9.6	411.7	0.1	35.9
thereof wireless revenues	324.8	326.5	–0.5	326.9	–0.6	0.4
thereof service revenues	271.9	276.8	–1.7	276.8	–1.7	0.0
thereof equipment revenues	46.9	38.6	21.4	38.6	21.4	0.0
thereof fixed-line and other revenues	87.2	49.3	76.8	84.8	2.8	35.5
EBITDA	125.6	133.2	–5.7	143.9	–12.7	10.8
% of total revenues	30.5%	35.4%	-	35.0%	-	-
Operating income	15.4	42.1	–63.3	41.4	–62.8	–0.6
% of total revenues	3.7%	11.2%	-	10.1%	-	-

Wireline indicators	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
RGUs (in '000)	1,018.9	1,011.9	0.7	1,011.9	0.7	0.0
thereof fixed broadband RGUs	429.3	413.8	3.7	413.8	3.7	0.0

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

Segment Croatia

Key financials in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Total revenues	398.3	366.9	8.6	372.3	7.0	5.4
thereof wireless revenues	307.9	292.2	5.4	292.2	5.4	0.0
thereof service revenues	249.9	242.9	2.9	242.9	2.9	0.0
thereof equipment revenues	51.2	45.4	12.8	45.4	12.8	0.0
thereof fixed-line and other revenues	90.5	74.7	21.1	80.1	12.9	5.4
EBITDA	88.3	78.6	12.3	79.6	10.9	1.0
% of total revenues	22.2%	21.4%	-	21.4%	-	-
Operating income	9.4	8.6	9.0	8.8	6.7	0.2
% of total revenues	2.4%	2.4%	-	2.4%	-	-

Wireline indicators	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
RGUs (in '000)	620.1	553.0	12.1	553.0	12.1	0.0
thereof fixed broadband RGUs	234.4	200.2	17.1	200.2	17.1	0.0

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

Segment Belarus

Key financials in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Total revenues	321.0	332.2	−3.4	333.8	−3.9	1.6
thereof wireless revenues	309.0	319.8	−3.4	319.8	−3.4	0.0
thereof service revenues	242.5	267.4	−9.3	267.4	−9.3	0.0
thereof equipment revenues	58.4	47.3	23.6	47.3	23.6	0.0
thereof fixed-line and other revenues	12.0	12.5	−3.5	14.0	−14.4	1.6
EBITDA	151.5	163.7	−7.4	164.0	−7.6	0.4
% of total revenues	47.2%	49.3%	-	49.1%	-	-
Operating income	87.8	86.6	1.4	86.8	1.2	0.2
% of total revenues	27.4%	26.1%	-	26.0%	-	-

Wireline indicators	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
RGUs (in '000)	279.4	n.a.	n.a.	272.2	2.6	n.m.
thereof fixed broadband RGUs	132.0	n.a.	n.a.	135.1	−2.3	n.m.

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

Segment Slovenia

Key financials in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Total revenues	214.1	223.6	–4.3	245.5	–12.8	21.9
thereof wireless revenues	180.0	209.6	–14.1	210.1	–14.3	0.5
thereof service revenues	135.7	136.3	–0.4	136.3	–0.4	0.0
thereof equipment revenues	40.1	39.1	2.5	39.1	2.5	0.0
thereof fixed-line and other revenues	34.1	14.0	142.6	35.4	–3.8	21.4
EBITDA	52.8	80.9	–34.7	83.0	–36.4	2.2
% of total revenues	24.7%	36.2%	-	33.8%	-	-
Operating income	20.1	56.7	–64.6	56.2	–64.2	–0.5
% of total revenues	9.4%	25.3%	-	22.9%	-	-

Wireline indicators	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
RGUs (in '000)	172.0	147.6	16.5	147.6	16.5	0.0
thereof fixed broadband RGUs	70.2	65.3	7.6	65.3	7.6	0.0

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

Republic of Macedonia

Key financials in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Total revenues	119.4	81.1	47.3	122.7	–2.7	41.7
thereof wireless revenues	92.4	62.9	47.0	92.4	0.0	29.5
thereof service revenues	82.8	58.3	42.1	84.1	–1.6	25.9
thereof equipment revenues	7.0	3.9	80.6	5.7	22.6	1.8
thereof fixed-line and other revenues	27.0	18.2	48.5	30.3	–10.9	12.1
EBITDA	26.1	16.8	55.4	24.4	7.2	7.6
% of total revenues	21.9%	20.7%	-	19.9%	-	-
Operating income	–29.5	–0.6	n.m.	–3.3	n.m.	–2.7
% of total revenues	–24.7%	–0.8%	-	–2.7%	-	-

Wireless indicators	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Postpaid subscribers (in '000)	641.0	636.5	0.7	636.5	0.7	0.0
Prepaid subscribers (in '000)	462.6	526.9	–12.2	526.9	–12.2	0.0
Wireless subscribers (in '000)	1,103.6	1,163.5	–5.1	1,163.5	–5.1	0.0
thereof mobile broadband subscribers (in '000)	2.3	2.4	–3.8	2.4	–3.8	0.0
MoU (per Ø subscriber)	398.3	405.5	–1.8	379.1	5.1	–26.4
ARPU (in EUR)	6.1	6.4	–5.1	5.9	2.7	–0.5
Churn (%)	2.5%	2.5%	-	2.5%	-	-
Market share	49.5%	53.4%	-	53.4%	-	-
Penetration	107.7%	106.2%	-	106.2%	-	-

Wireline indicators	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
RGUs (in '000)	314.3	304.5	3.2	304.5	3.2	0.0
thereof fixed broadband RGUs	102.0	99.9	2.1	99.9	2.1	0.0

Revenues

in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Austria	2,575.5	2,582.1	−0.3	2,582.1	−0.3	0.0
Bulgaria	412.0	375.8	9.6	411.7	0.1	35.9
Croatia	398.3	366.9	8.6	372.3	7.0	5.4
Belarus	321.0	332.2	−3.4	333.8	−3.9	1.6
Slovenia	214.1	223.6	−4.3	245.5	−12.8	21.9
Republic of Serbia	221.1	210.7	5.0	210.7	5.0	0.0
Republic of Macedonia	119.4	81.1	47.3	122.7	−2.7	41.7
Corporate & other, eliminations	−50.1	−47.1	n.m.	−47.1	n.m.	0.0
Total revenues	**4,211.5**	**4,125.3**	**2.1**	**4,231.8**	**−0.5**	**106.4**

EBITDA

in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Austria	897.5	881.2	1.8	881.2	1.8	0.0
Bulgaria	125.6	133.2	−5.7	143.9	−12.7	10.8
Croatia	88.3	78.6	12.3	79.6	10.9	1.0
Belarus	151.5	163.7	−7.4	164.0	−7.6	0.4
Slovenia	52.8	80.9	−34.7	83.0	−36.4	2.2
Republic of Serbia	38.8	43.5	−10.7	43.5	−10.7	0.0
Republic of Macedonia	26.1	16.8	55.4	24.4	7.2	7.6
Corporate & other, eliminations	−26.4	−29.1	n.m.	−29.1	n.m.	0.0
Total EBITDA	**1,354.3**	**1,368.7**	**−1.1**	**1,390.5**	**−2.6**	**21.8**

D&A

in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Austria	−493.1	−466.3	n.m.	−466.3	n.m.	0.0
Bulgaria	−110.2	−91.1	n.m.	−102.5	n.m.	−11.4
Croatia	−78.8	−70.0	n.m.	−70.7	n.m.	−0.8
Belarus	−63.7	−77.0	n.m.	−77.2	n.m.	−0.2
Slovenia	−32.7	−24.2	n.m.	−26.9	n.m.	−2.7
Republic of Serbia	−46.6	−51.1	n.m.	−51.1	n.m.	0.0
Republic of Macedonia	−55.7	−17.4	n.m.	−27.6	n.m.	−10.2
Corporate & other, eliminations	15.5	0.1	n.m.	0.1	n.m.	0.0
Total D&A	**−865.3**	**−797.1**	**n.m.**	**−822.3**	**n.m.**	**−25.3**

EBIT

in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Austria	402.1	414.9	–3.1	414.9	–3.1	0.0
Bulgaria	15.4	42.1	–63.3	41.4	–62.8	–0.6
Croatia	9.4	8.6	9.0	8.8	6.7	0.2
Belarus	87.8	86.6	1.4	86.8	1.2	0.2
Slovenia	20.1	56.7	–64.6	56.2	–64.2	–0.5
Republic of Serbia	–7.8	–7.6	n.m.	–7.6	n.m.	0.0
Republic of Macedonia	–29.5	–0.6	n.m.	–3.3	n.m.	–2.7
Corporate & other, eliminations	–10.8	–29.0	n.m.	–29.0	n.m.	0.0
Total EBIT	**486.7**	**571.7**	**–14.9**	**568.2**	**–14.4**	**–3.5**

CAPEX[1)]

in EUR million	2016 reported	2015 reported	Change in %	2015 proforma	Change in % proforma	Absolute change (proforma – reported)
Austria	460.3	456.8	0.8	456.8	0.8	0.0
Bulgaria	73.0	74.3	–1.8	82.4	–11.4	8.1
Croatia	76.3	72.4	5.4	73.3	4.2	0.9
Belarus	73.7	66.1	11.5	66.5	10.8	0.4
Slovenia	26.8	17.9	49.6	20.2	32.3	2.3
Republic of Serbia	25.9	77.7	–66.7	77.7	–66.7	0.0
Republic of Macedonia	35.4	21.6	64.0	25.1	41.1	3.5
Corporate & other, eliminations	–7.2	–2.3	n.m.	–2.3	n.m.	0.0
Total capital expenditures	**764.1**	**784.5**	**–2.6**	**799.6**	**–4.4**	**15.2**

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

CAPEX – Tangible

in EUR million	2016 reported	2015 proforma	Change in %
Austria	391.3	360.1	8.7
Bulgaria	52.6	50.3	4.5
Croatia	67.2	45.3	48.2
Belarus	65.8	55.6	18.3
Slovenia	20.2	13.7	–47.0
Republic of Serbia	19.2	29.4	–34.7
Republic of Macedonia	30.9	20.2	53.0
Corporate & other, eliminations	–6.9	–2.3	n.m.
Total capital expenditures – tangible	**640.4**	**572.5**	**11.9**

CAPEX – Intangible

in EUR million	2016 reported	2015 proforma	Change in %
Austria	68.9	96.7	–28.7
Bulgaria	20.4	24.0	–15.0
Croatia	9.1	27.1	–66.3
Belarus	7.8	10.5	–25.0
Slovenia	6.6	4.2	58.3
Republic of Serbia	6.6	48.2	–86.2
Republic of Macedonia	4.5	1.4	227.7
Corporate & other, eliminations	–0.4	0.0	n.m.
Total capital expenditures – intangible	**123.7**	**212.0**	**–41.7**

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.

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 'Network and customers' aims to ensure a high-quality, secure network infrastructure and a product and service range that offers clear value added for customers. 'Environment' 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. 'Employees' focuses on fostering and developing skills and providing a healthy, flexible and modern working environment. Finally, 'Society' encompasses the Telekom Austria Group's initiatives aimed at fostering digital media skills in its markets.

The environmental management systems at A1 Telekom Austria Aktiengesellschaft, 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 Aktiengesellschaft is also ISO 50001 certified. Since 2014, A1 Telekom Austria Aktiengesellschaft 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

Telekom Austria Group had 18,203 employees at year-end 2016, 3.0% more than a year earlier. This development was primarily attributable to the acquisition of Atlant Telecom in Belarus and an increase in the sales force in Bulgaria. Headcount in the Austrian segment was reduced by 1.9% to 8,352 employees as part of the ongoing restructuring measures. Around 48% of existing employees have civil servant status. The segments outside of Austria saw an increase of 7.4% to 9,613 employees.

With a view to maintaining its competitiveness and innovative drive, the Telekom Austria Group invests in sound professional training for its employees on an ongoing basis. The Telekom Austria Group Business School functions as a central development platform. It developed and organised more than 34 training opportunities for 443 participants in the course of 2016. In addition to the training offered by this central institution, the Telekom Austria Group is increasingly using a central e-learning platform to provide training to all its employees throughout the Group wherever and whenever. Employee skills are also developed using a company-wide collaborative tool, Workplace by Facebook. The Telekom Austria Group subsidiaries have also developed their own training programmes tailored to the needs of their

Employees

Employees[1] at year-end	2016	2015	Change in %
Austria	8,352	8,512	–1.9
Bulgaria	3,808	3,607	5.6
Croatia	1,288	1,239	4.0
Belarus	2,248	1,777	26.5
Slovenia	532	508	4.7
Republic of Serbia	917	879	4.3
Republic of Macedonia	822	942	–12.8
Corporate	238	209	13.6
Total	**18,203**	**17,673**	**3.0**

1) Full-time equivalent employees

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 through the A1 trainee programme. Internal mobility is being pursued in order to have the right people and skills in place. The use of internal training, coaching and mentoring has been intensified in order 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 5.0 mn (2015: EUR 5.2 mn). This corresponds to an average of EUR 275 per employee at year-end (2015: EUR 294).

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 the Group's innovation strategy.

One of the Telekom Austria Group's priorities remains the digital transformation of its network infrastructure, which it successfully continued in 2016. The first virtualised systems have already gone into commercial operation at the Belarusian and Bulgarian subsidiaries velcom and Mobiltel, and there are specific implementation plans for system virtualisation at all of the Group's other subsidiaries.

In 2016, the accelerated LTE rollout led to a significant improvement in the provision of high-speed mobile internet. Following the launch in Bulgaria in 2016, the Group now already offers LTE in Austria, Bulgaria, Croatia, Slovenia, the Republic of Serbia and the Republic of Macedonia. Voice over LTE (VoLTE) and WiFi Calling was launched in Austria in 2016. In order to achieve even faster internet speeds, carrier aggregation was implemented at selected locations of A1, Vipnet, Vip mobile and Mobiltel, enabling data rates of up to 300 Mbps. 2016 also saw a major innovation in mobile technology with transfers in excess of 500 Mbps in the A1 live network thanks to LTE triple carrier aggregation in conjunction with a new mobile modulation technique.

The largest broadband expansion in the history of A1 was initiated in 2015. At the end of 2016, 50% of all Austrian private and commercial addresses were already equipped with A1's 30 Mbps product. With G.fast, A1 already reached data transfer rates of more than 500 Mbps on conventional copper lines back in 2014. In 2015, it showcased the new broadband technology (VDSL2 35b), which has now been used to connect the first customers to A1's fibre network. While G.fast provides data rates of up to 500 Mbps on line lengths in the region of 200 metres, VDSL2 35b achieves significantly enhanced performance compared with conventional DSL technologies, particularly on line lengths up to approximately 500 metres. Since 2016, A1 has also offered its customers a hybrid modem that brings together mobile and fixed-line infrastructure in order to enable higher speeds. The undivided bandwidth and high capacity of a DSL fixed broadband line is combined with the peak data rates of the A1 LTE network and provided to customers for home internet access.

Research partnerships with scientific and industrial partners and joint projects with national and international institutions are supporting the Telekom Austria Group in the launch of technologies of the future for market and customer-oriented communications solutions. In 2016, the Telekom Austria Group had research partnerships with the Vienna University of Technology, the Christian Doppler Laboratory for Wireless Technologies for Sustainable Mobility, the Christian Doppler Laboratory for Dependable Wireless Connectivity for the Society in Motion, 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.

The Telekom Austria Group is also a partner of the Industry 4.0 platform and is addressing the interoperability of Internet of Things (IoT) platforms within the Europe-wide H2020 project symbIoTe.

The Machine-to-Machine (M2M) business area of the Telekom Austria Group successfully implemented numerous innovative projects in the period under review. These range from managed connectivity as a basic product to other extensive solutions for asset tracking, fleet management and connected cash registers, 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 first rollout projects involving A1 field service employees have been successfully completed. The areas of application for M2M communication now encompass almost all industries and customer segments and are collectively described as the Internet of Things (IoT). In order to manage the growing number of networked objects and the rising requirements in terms of communication, the Telekom Austria Group is investing in the extensive rollout of narrowband IoT as an energy-saving, cost-effective network technology for the Internet of Things.

DISCLOSURE IN ACCORDANCE WITH SECTION 243A OF THE AUSTRIAN BUSINESS ENTERPRISE CODE ('UGB')

Shareholder structure and capital disclosures

At the end of 2016, a total of 51.00% or 338,895,000 shares of Telekom Austria Aktiengesellschaft were held by América Móvil B.V., Netherlands ('América Móvil B.V.'; formerly Carso Telecom B.V.), a wholly-owned subsidiary of América Móvil, S.A.B. de C.V. ('América Móvil'). The Republic of Austria holds 28.42% via Österreichische Bundes- und Industriebeteiligungen GmbH ('ÖBIB'), formerly Österreichische Industrieholding AG ('ÖIAG'), while the remaining 20.58% of the shares are in free float. 0.1% or 0.4 million shares of the latter were held by the company itself. Employee shares that are being held in a collective custody account are also part of the free float. The associated voting rights are exercised by a custodian (notary). The total number of no-par value shares remains at 664,500,000.

	2016	2015	Change in %
Treasury shares	415,159	415,159	0.0%

Further details on treasury shares are provided in Section 27 of the Notes.

Standard change-of-control clauses that could ultimately lead to the termination of contracts affect the majority of financing agreements. None of these clauses came into effect in the 2016 financial year or up until the date of this report.

The key changes in the shareholder structure relate to directly and indirectly held shares as well as financial and other instruments in accordance with section 91a of the Austrian Stock Exchange Act ('BörseG'). In the course of 2016, América Móvil, S.A.B. de C.V. and América Móvil B.V. sold 8.70% of the shares in Telekom Austria Aktiengesellschaft in two stages:

Firstly, América Móvil B.V. sold 51,887,646 (7.81%) shares in Telekom Austria Aktiengesellschaft on 28 July 2016 and América Móvil S.A.B. de C.V. simultaneously concluded a cash-settled put option agreement expiring on 5 August 2023 for 7.81% of the shares. On the same date, Citigroup Inc. indirectly concluded a call option for 51,887,646 (7.81%) shares in Telekom Austria Aktiengesellschaft, expiring on 7 August 2023, via Citigroup Global Markets Funding Luxembourg. It holds 25,943,824 shares in Telekom Austria Aktiengesellschaft, corresponding to 3.90% of the share capital, indirectly via Citigroup Global Markets Limited and 25,943,824 shares (3.90% of the share capital) under a swap expiring on 4 August 2023.

On 22 August 2016, América Móvil, S.A.B de C.V. voluntarily announced the sale of 5,922,550 shares in Telekom Austria Aktiengesellschaft (0.89%).

As of 6 October 2016, Deutsche Bank Aktiengesellschaft held 26,540,763 shares (3.99% of the voting rights) in Telekom Austria Aktiengesellschaft and 16,993,642 shares (2.56%) in financial/other instruments. Of these, 469,636 shares (0.07%) relate to a right to recall, 915,015 shares (0.14%) to an exchangeable bond (expiry date: 4 August 2023), 15,278,391 shares (2.30%) to a cash-settled put option (expiry date and exercise period: 7 August 2023) and 330,600 shares (0.05%) to cash-settled swaps (expiry date: 8 August 2023).

The following information concerning the Shareholders' Agreement is based solely on publicly available information[1]. The company has no additional information. The shareholders' agreement between ÖBIB, América Móvil and América Móvil B.V., Netherlands ('América Móvil B.V.'; formerly 'Carso Telecom B.V.') came into force on 27 June 2014 (see Note (27)). Under the terms of the shareholders' agreement, the parties have undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria Aktiengesellschaft by exercising their voting rights on a concerted basis. The shareholders' agreement also contains provisions on the joint exercise of voting rights in the committees of the company for the election of Supervisory Board and Management Board members and restrictions on the sale of shares. The Supervisory Board of the company consists of ten shareholder representatives, of which eight members are nominated by América Móvil B.V. and two by ÖBIB. ÖBIB has the right to appoint the Chairman of the Supervisory Board. América Móvil B.V. has the right to appoint the Deputy Chairman. The Management Board of the company consists of three members. Two members are nominated by América Móvil B.V., while one member of the Management Board, namely the Chief Executive Officer (CEO), is nominated by ÖBIB. On 24 July 2015, the Chief Executive Officer responsibilities of Telekom Austria Aktiengesellschaft 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 América Móvil B.V. have agreed that at least 24% of the shares of the company should be in free float while the shareholders' agreement is in place. This minimum free float requirement is based on ÖBIB's maximum equity interest of 25% plus one share. If ÖBIB holds more than 25% plus one share of the share capital of the company, the minimum free float requirement decreases accordingly so that América Móvil can retain an equity interest in the company of 51%. If the number of shares in free float falls below the minimum while the shareholders' agreement is in place, (i) América Móvil B.V. undertakes to sell shares within the next 24 months and (ii) América Móvil undertakes to ensure that neither it nor its subsidiaries purchase any additional shares until the minimum free float requirement is restored.

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

1) Information provided in the takeover offer (9 May 2014): http://www.telekomaustria.com/de/ir/12474
Information on the capital increase as of 7 November 2014: http://www.telekomaustria.com/de/ir/14887

Changes to the Management Board and the Supervisory Board

At the Annual General Meeting on 25 May 2016, Peter Hagen was elected to the Supervisory Board to replace Elisabetta Castiglioni, while Alejandro Cantú Jiménez's, Stefan Pinter's and Reinhard Kraxner's supervisory board seats were prolonged.

There were no changes in the Management Board of Telekom Austria Aktiengesellschaft in 2016.

CASH-USE POLICY

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

On 22 July 2016, Telekom Austria Group announced that América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) agreed that day on a new expected dividend level starting with the financial year 2016. This decision is based on the improved operational and financial performance of the Group. This new dividend expectation entails the payment of EUR 0.20 per share to be maintained or increased on a sustainable basis in line with the operational and financial developments of the Group.

Telekom Austria Aktiengesellschaft: 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	25.05.2016
Karin Exner-Wöhrer (1971)	27.05.2015	2020[4)]
Carlos García Moreno Elizondo, first Deputy Chairman (1957)	14.08.2014	2018[2)]
Peter Hagen (1959)	25.05.2016	2019[3)]
Carlos M. Jarque (1954)	14.08.2014	2018[2)]
Alejandro Cantú Jiménez (1972)	14.08.2014	2019[3)]
Reinhard Kraxner (1970)	14.08.2014	2017[1)]
Ronny Pecik (1962)	23.05.2012	2018[2)]
Stefan Pinter (1978)	14.08.2014	2017[1)]
Wolfgang Ruttenstorfer, Chairman (1950)	27.05.2010 to 14.08.2014, reappointed on 27.05.2015	2020[4)]
Oscar Von Hauske Solís (1957)	23.10.2012	2018[2)]

Members of the Supervisory Board appointed by the Central Works 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

1) The term of office ends at the Annual General Meeting for the 2016 financial year (provisionally June 2017).
2) The term of office ends at the Annual General Meeting for the 2017 financial year (provisionally May 2018).
3) The term of office ends at the Annual General Meeting for the 2018 financial year (provisionally May 2019).
4) The term of office ends at the Annual General Meeting for the 2019 financial year (provisionally May 2020).

RISK MANAGEMENT

Principles and methods

As one of the leading telecommunications companies in Austria as well as Central and Eastern Europe, Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. The risk management system of 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. 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 in six other telecommunications markets abroad. This ensures diversification in terms of both sectors and geographical regions. The risk sets of the respective markets vary, which is why risk management is the responsibility of the local operational units. Risk management is controlled by the holding company. In addition to the regular operating meeting (MPC) and strategic (LTM) meetings, a multi-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.

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 Telekom Austria Group are explained below.

Risks

Market and competition risks

High competitive intensity in 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 almost 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 of being 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 in 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 in 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 to 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 'Regulation' section, a new regulation on net neutrality and roaming (previously known as 'Connected Continent' or the 'Telecom Single Market' package) came into force in 2016 with extensive consequences for A1 and other subsidiaries within the EU. However, some details of the implementation of the regulation in terms of both net neutrality and roaming are still to be determined, meaning that the extent of its effects cannot be fully predicted. In turn, this gives rise to legal, regulatory and financial uncertainty.

In 2016, the European Commission presented the draft of a new directive revising the current framework, access, authorisation and universal service directives and introducing a range of new regulations (European Electronic Communications Code). This initial proposed legislation must now be negotiated in the European Parliament and at the level of the EU member states. Policy objectives for a 'gigabit society' and a 5G plan of action were also presented.

Telekom Austria Group and its subsidiaries are party to a number of legal proceedings both in and out of court with public authorities, competitors and other parties. An ongoing 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 (32)).

Investment risks

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

It should also be mentioned that there is a profit and loss elimination agreement in place between A1 Telekom Austria Aktiengesellschaft and Telekom Austria Personalmanagement GmbH. Based on this agreement, A1 Telekom Austria Aktiengesellschaft 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 Aktiengesellschaft 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 Aktiengesellschaft, 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 and Group-wide talent management. 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 1996, civil servants of the Republic of Austria were allocated to Telekom Austria Aktiengesellschaft or predecessor companies until their retirement in accordance with the Austrian Postal Services Structure Act ('Poststrukturgesetz').

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 48% of employees in the Austrian segment have civil servant status. This corresponds to 22% 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.

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 2016.

Due to the listing of the ultimate parent América Móvil on the New York Stock Exchange (NYSE), the implementation of the U.S. Sarbanes-Oxley Act (SOX) is required (again) pursuant to the specifications of América Móvil. To this end, an adjustment to and amendment of the internal control system to reflect this standard was implemented in the 2015 financial year. In 2016, the full SOX scope was defined for Austria and a limited SOX scope was defined for all other segments. The scope of SOX is redefined each financial year by the ultimate parent.

Outlook

During the year 2016, Telekom Austria Group managed to grow its total revenues on a reported basis. This was achieved despite strong competition in the Austrian mobile market as well as ongoing challenges in the CEE region. Most of the Group's mobile markets continued to be characterized by intense competition, partly resulting from ongoing macroeconomic headwinds which, however, flattened out a bit in some segments. The high devaluation of the Belarusian Rouble already at the beginning of the year dampened total revenue growth in EUR terms in Belarus. Moreover, a further burden arose from the stepwise abolition of retail roaming in the EU as of 30 April 2016, which overshadowed operational improvements.

In 2017, most of these business conditions are expected to remain intact. In Austria, strong competition in the mobile market will persist and is anticipated to remain. In the CEE region, a mixed economic forecast is expected to lend only weak support, while high competition on the mobile market is anticipated to remain. Moreover, operational improvements continue to be overshadowed by negative impacts from the abolition of roaming, which are expected to amount to approximately EUR 40 mn in Group EBITDA in 2017. 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: Exceling 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 2017, the Management of Telekom Austria Group aims to offset the negative roaming impact and achieve modest growth in Group revenues (on a reported basis).

In order to monetise the strong data growth, Telekom Austria Group will further invest in the LTE rollout across its markets as well as the accelerated fibre deployment in Austria. Despite the ongoing intensified investment in these areas, CAPEX before spectrum investments and acquisitions will decrease moderately to approximately EUR 725 mn in 2017.

On 22 July 2016, América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) agreed on a new expected dividend level starting with the financial year 2016. This decision is based on the improved operational and financial performance of the Group. This new dividend expectation entails the payment of EUR 0.20 per share to be maintained or increased on a sustainable basis in line with the operational and financial developments of the Group.

In order to ensure its financial flexibility, Telekom Austria Group remains committed to maintaining its Baa2/BBB ratings from Moody's and Standard & Poor's.

This outlook is based on constant exchange rates, 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 10–15% versus the EUR in 2017.

With regards to frequencies, the government of Belarus is expected to sell spectrum in the 2,100-MHz band. Moreover, there might be some tenders in Bulgaria for frequencies in the 800-MHz band and potentially in the 2.6-GHz band, in Slovenia for the 3,500-MHz and 10-12-GHz bands in Q1 2017, and in Macedonia for the 900-MHz and 1,800-MHz bands after the termination date of current licenses in March 2017.

Vienna, 25 January 2017

The Management Board

Alejandro Plater
CEO and COO
Telekom Austria Group

Siegfried Mayrhofer
CFO
Telekom Austria Group

CONSOLIDATED FINANCIAL STATEMENTS 2016

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 Comprehensive Income

in TEUR	Notes	2016	2015 restated
Service revenues (incl. other operating income)		3,761,113	3,734,282
Equipment revenues		450,349	391,033
Total revenues (incl. other operating income)	(5)	**4,211,463**	**4,125,315**
Cost of service		–1,346,550	–1,312,593
Cost of equipment		–521,873	–463,663
Selling, general & administrative expenses		–986,117	–976,782
Other expenses		–2,672	–3,533
Total cost and expenses	(6)	**–2,857,211**	**–2,756,571**
Earnings before interest, tax, depreciation and amortisation – EBITDA		**1,354,251**	**1,368,744**
Depreciation and amortisation	(14) (15)	–865,271	–797,082
Impairment	(15)	–2,319	0
Operating income – EBIT		**486,661**	**571,662**
Interest income		13,841	26,911
Interest expense		–142,514	–162,611
Interest on employee benefits and restructuring and other financial items, net		–9,739	–17,343
Foreign currency exchange differences, net		10,013	–2,257
Equity interest in net income of associated companies		1,427	240
Financial result	(7)	**–126,972**	**–155,060**
Earnings before income tax – EBT		**359,690**	**416,602**
Income tax	(28)	53,515	–23,829
Net result		**413,205**	**392,774**
Attributable to:			
Equity holders of the parent		387,518	367,286
Non-controlling interests	(33)	374	175
Hybrid capital owners	(27)	25,313	25,313
Basic and diluted earnings per share attributable to equity holders of the parent	(8)	**0.58**	**0.55**
Other comprehensive income items:			
Items that may be reclassified to profit or loss:			
Effect of translation of foreign entities	(4) (27)	–7,678	–136,056
Realised result on hedging activities, net of tax	(32)	4,380	4,380
Unrealised result on securities available-for-sale, net of tax	(9) (18)	106	–335
Realised result on securities available-for-sale, net of tax	(7)	59	–2
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations, net of tax		–6,564	5,201
Total other comprehensive income (loss)		**–9,697**	**–126,812**
Total comprehensive income (loss)		**403,508**	**265,962**
Attributable to:			
Equity holders of the parent		377,821	240,474
Non-controlling interests	(33)	374	175
Hybrid capital owners	(27)	25,313	25,313

See accompanying Notes to the Consolidated Financial Statements. For the adjustment of the comparison period 2015, see Note (4).
The use of automated calculation systems may give rise to rounding differences.

TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

	Notes	31 December 2016	31 December 2015 restated	1 January 2015 restated
ASSETS				
Current assets				
Cash and cash equivalents		457,460	909,176	1,018,065
Short-term investments	(9)	6,733	2,367	14,433
Accounts receivable: subscribers, distributors and other, net	(10)	636,474	624,635	600,068
Receivables due from related parties	(11)	925	878	1,255
Inventories, net	(12)	82,463	78,905	91,696
Income tax receivable	(28)	12,818	4,448	27,373
Assets held for sale	(14)	0	0	413
Other current assets, net	(13)	241,994	232,726	245,556
Total current assets		**1,438,866**	**1,853,135**	**1,998,859**
Non-current assets				
Property, plant and equipment, net	(14)	2,550,754	2,409,435	2,294,544
Intangibles, net	(15)	2,321,394	2,507,855	2,570,106
Goodwill	(16)	1,241,823	1,229,712	1,189,481
Investments in associated companies	(17)	40,820	40,428	38,253
Long-term investments	(18)	8,383	8,226	7,400
Deferred income tax assets	(28)	286,431	206,719	170,895
Other non-current assets, net	(19)	54,723	49,012	46,859
Total non-current assets		**6,504,328**	**6,451,387**	**6,317,538**
TOTAL ASSETS		**7,943,194**	**8,304,522**	**8,316,397**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Short-term debt and current portion of long-term debt	(20)	–500,065	–810,440	–247,354
Accounts payable	(21)	–852,619	–905,155	–748,506
Accrued liabilities and current provisions	(22)	–299,022	–335,473	–337,297
Income tax payable	(28)	–26,474	–38,885	–33,448
Payables due to related parties	(11)	–6,418	–1,829	–7,058
Deferred revenues	(23)	–163,218	–161,518	–163,877
Total current liabilities		**–1,847,816**	**–2,253,301**	**–1,537,539**
Non-current liabilities				
Long-term debt	(24)	–2,303,496	–2,584,122	–3,384,984
Deferred income tax liabilities	(28)	–63,073	–71,427	–90,804
Deferred revenues and other non-current liabilities	(25)	–20,000	–22,804	–16,595
Asset retirement obligation and restructuring	(22)	–731,833	–750,298	–867,518
Employee benefits	(26)	–206,251	–196,550	–200,916
Total non-current liabilities		**–3,324,652**	**–3,625,200**	**–4,560,818**
Stockholders' equity				
Capital stock		–1,449,275	–1,449,275	–1,449,275
Treasury shares		7,803	7,803	7,803
Additional paid-in capital		–1,100,148	–1,100,148	–1,100,148
Hybrid capital		–591,186	–591,186	–591,186
Retained earnings		–306,338	47,978	382,059
Other comprehensive income (loss) items		670,409	660,712	533,900
Equity attributable to equity holders of the parent	(27)	**–2,768,734**	**–2,424,115**	**–2,216,846**
Non-controlling interests		–1,993	–1,907	–1,195
Total stockholders' equity		**–2,770,727**	**–2,426,022**	**–2,218,041**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**–7,943,194**	**–8,304,522**	**–8,316,397**

See accompanying Notes to the Consolidated Financial Statements. For the adjustment of the comparison period 2015, see Note (4).
The use of automated calculation systems may give rise to rounding differences.

TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows

	Notes	2016	2015 restated
Earnings before income tax – EBT		359,690	416,602
Items not requiring the use of cash and other reconciliation:			
Depreciation	(14)	546,732	502,393
Amortisation of intangibles	(15)	318,538	294,689
Impairment of intangibles	(15)	2,319	0
Equity interest in net income of associated companies	(17)	−1,427	−240
Result on sale of investments	(7)	−3,851	−20
Result on sale of property, plant and equipment	(5) (6)	−2,743	3,061
Net period cost of labour obligations and restructuring	(7) (22) (26)	23,050	17,758
Foreign currency exchange differences, net	(7)	−10,013	2,257
Interest income	(7)	−13,841	−26,911
Interest expense	(7)	144,679	164,910
Other adjustments		−1,927	−3,783
Changes in financial positions:			
Accounts receivable: subscribers, distributors and other, net	(10)	−12,201	−16,606
Prepaid expenses	(13)	5,536	13,192
Due from related parties	(11)	−46	389
Inventories	(12)	−3,640	11,362
Other assets	(13) (19)	−16,111	−813
Employee benefits and restructuring	(22) (26)	−111,476	−106,064
Accounts payable and accrued liabilities	(21) (22)	2,900	−25,120
Due to related parties	(11)	4,590	−5,369
Deferred revenues	(23) (25)	−517	−5,338
Interest received	(7)	13,841	24,177
Income taxes paid	(28)	−48,550	−32,121
Net cash flow from operating activities		**1,195,531**	**1,228,405**
Capital expenditures paid	(31)	−816,463	−731,140
Dividends received from associates	(17)	1,264	715
Proceeds from sale of plant, property and equipment	(14)	18,944	10,727
Purchase of investments	(9) (18)	−7,285	−4,401
Proceeds from sale of investments	(9) (18)	6,017	13,039
Acquisition of businesses, net of cash acquired	(33)	−26,024	−155,740
Sale of businesses, net of cash disposed		0	563
Net cash flow from investing activities		**−823,546**	**−866,237**
Long-term debt obtained	(24)	494,248	0
Repayments of long-term debt	(24)	−1,083,305	−247,326
Interest paid	(7)	−166,047	−155,779
Change in short-term debt	(20)	−1,944	5,061
Dividends paid	(27)	−67,242	−67,118
Net cash flow from financing activities		**−824,290**	**−465,163**
Adjustment to cash flows due to exchange rate fluctuations, net	(4)	589	−5,895
Net change in cash and cash equivalents		**−451,716**	**−108,890**
Cash and cash equivalents beginning of period		909,176	1,018,065
Cash and cash equivalents end of period		457,460	909,176

See accompanying Notes to the Consolidated Financial Statements. For the adjustment of the comparison period 2015, see Note (4).
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 2015	1,449,275	–7,803	1,100,148	591,186	–382,059
Net result	0	0	0	0	392,598
Other comprehensive income (loss)	0	0	0	0	0
Total comprehensive income	0	0	0	0	392,598
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**	**–47,978**
Net result	0	0	0	0	412,830
Other comprehensive income (loss)	0	0	0	0	0
Total comprehensive income	**0**	**0**	**0**	**0**	**412,830**
Distribution of dividends	0	0	0	0	–58,515
At 31 December 2016	**1,449,275**	**–7,803**	**1,100,148**	**591,186**	**306,338**

See accompanying Notes to the Consolidated Financial Statements. For the adjustment of the comparison period 2015, see Note (4).
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 (27)).

Remeasurement of defined benefit plans	Available-for-sale reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
−35,973	−50	−37,227	−460,649	2,216,846	1,195	2,218,041
0	0	0	0	392,598	175	392,774
5,201	−337	4,380	−136,056	−126,812	0	−126,812
0						
5,201	−337	4,380	−136,056	265,786	175	265,961
0	0	0	0	−58,517	−163	−58,680
0	0	0	0	0	700	700
−30,772	**−387**	**−32,848**	**−596,705**	**2,424,115**	**1,907**	**2,426,022**
0	0	0	0	412,830	374	413,205
−6,564	166	4,380	−7,678	−9,697	0	−9,697
−6,564	**166**	**4,380**	**−7,678**	**403,133**	**374**	**403,508**
0	0	0	0	−58,515	−288	−58,803
−37,336	**−221**	**−28,468**	**−604,384**	**2,768,734**	**1,993**	**2,770,727**

TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements

(1) Segment Reporting

2016 (in TEUR)	Austria	Bulgaria	Croatia	Belarus
External revenues	2,550,880	407,630	390,333	320,964
Intersegmental revenues	24,600	4,413	8,017	8
Total revenues (incl. other operating income)	**2,575,480**	**412,044**	**398,350**	**320,972**
Segment expenses	–1,677,964	–286,468	–310,092	–169,443
EBITDA	**897,516**	**125,576**	**88,257**	**151,529**
Depreciation and amortisation	–493,100	–110,154	–78,842	–63,726
Impairment	–2,319	0	0	0
Operating income – EBIT	**402,097**	**15,422**	**9,416**	**87,803**
Interest income	2,058	2,813	3,608	1,548
Interest expense	–19,340	–947	–10,249	–3,121
Other financial result	–7,198	–298	2,991	2,561
Equity interest in net income of associated companies	1,763	0	0	0
Earnings before income tax – EBT	**379,380**	**16,990**	**5,766**	**88,791**
Income taxes	–47,654	–1,381	–1,486	–14,271
Net result	**331,726**	**15,609**	**4,280**	**74,520**
EBITDA margin	34.8%	30.5%	22.2%	47.2%
Capital expenditures – intangible	68,910	20,448	9,139	7,849
Capital expenditures – tangible	391,346	52,580	67,200	65,826
Total capital expenditures	**460,256**	**73,028**	**76,339**	**73,675**
Assets by segment	4,940,034	952,644	611,695	441,438
Property, plant and equipment	1,629,594	251,685	210,492	214,927
Goodwill	708,211	242,691	102,203	11,018
Brand names and patents	158,351	244,903	25,301	76,184
Licenses and rights of use	1,025,520	43,858	59,336	32,266
Other intangible assets	198,824	80,559	44,043	23,322
Investments in associated companies	4,329	0	0	0
Liabilities by segment	–2,490,637	–174,188	–416,041	–101,702

2015 (in TEUR)	Austria	Bulgaria	Croatia	Belarus
External revenues	2,557,972	373,339	359,678	332,212
Intersegmental revenues	24,174	2,447	7,209	35
Total revenues (incl. other operating income)	2,582,146	375,786	366,887	332,247
Segment expenses	–1,700,930	–242,625	–288,299	–168,579
EBITDA	881,217	133,160	78,588	163,669
Depreciation and amortisation	–466,300	–91,104	–69,954	–77,044
Operating income – EBIT	414,917	42,056	8,634	86,625
Interest income	2,366	2,212	5,151	13,011
Interest expense	–14,840	–509	–9,213	–2,009
Other financial result	–15,035	–7	563	–1,025
Equity interest in net income of associated companies	376	0	0	0
Earnings before income tax – EBT	387,783	43,752	5,134	96,603
Income taxes	–67,833	–4,344	–244	–14,936
Net result	319,950	39,408	4,890	81,667
EBITDA margin	34.1%	35.4%	21.4%	49.3%
Capital expenditures – intangible	96,659	24,044	27,082	10,463
Capital expenditures – tangible	360,126	50,303	45,337	55,636
Total capital expenditures	456,785	74,348	72,419	66,099
Assets by segment	4,957,413	993,004	592,030	402,242
Property, plant and equipment	1,518,113	269,824	201,983	175,429
Goodwill	708,211	242,691	100,745	0
Brand names and patents	158,849	246,225	25,857	73,665
Licenses and rights of use	1,097,392	44,871	66,225	35,843
Other intangible assets	239,507	98,045	43,432	37,237
Investments in associated companies	3,487	0	0	0
Liabilities by segment	–2,580,743	–230,026	–411,835	–78,002

The EBITDA margin is calculated by dividing EBITDA by total revenues (including other operating income).
Additions to assets do not include additions related to ARO, see Notes (14) and (15).

Slovenia	Serbia	Macedonia	Corporate & Other	Eliminations	Consolidated
210,997	214,140	117,997	2,596	–4,075	4,211,463
3,121	7,008	1,431	22	–48,619	0
214,118	**221,148**	**119,428**	**2,618**	**–52,695**	**4,211,463**
–161,331	–182,322	–93,285	–26,538	50,232	–2,857,211
52,787	**38,826**	**26,143**	**–23,920**	**–2,463**	**1,354,251**
–32,704	–46,607	–55,672	0	15,535	–865,271
0	0	0	0	0	–2,319
20,082	**–7,781**	**–29,529**	**–23,920**	**13,072**	**486,661**
2,344	512	293	37,899	–37,235	13,841
–1,157	–1,770	–1,586	–141,529	37,185	–142,514
–79	–1,184	–66	258,049	–254,502	274
0	0	0	–336	0	1,427
21,191	**–10,224**	**–30,888**	**130,163**	**–241,479**	**359,690**
–949	28	807	122,080	–3,660	53,515
20,242	**–10,196**	**–30,081**	**252,243**	**–245,139**	**413,205**
24.7%	17.6%	21.9%	n.a.	n.a.	32.2%
6,597	6,636	4,471	0	–387	123,663
20,160	19,231	30,934	0	–6,853	640,424
26,757	**25,867**	**35,405**	**0**	**–7,241**	**764,086**
421,962	360,648	214,335	7,707,348	–7,706,908	7,943,194
65,766	77,444	86,187	0	14,659	2,550,754
147,632	0	30,068	123,465	–123,465	1,241,823
1,971	2,980	7,311	0	0	517,001
62,416	149,337	33,961	0	0	1,406,694
20,756	14,851	15,373	0	–28	397,699
0	0	0	36,491	0	40,820
–64,716	–115,982	–92,249	–3,598,284	1,881,331	–5,172,468

Slovenia	Serbia	Macedonia	Corporate & Other	Eliminations	Consolidated
220,551	204,800	78,248	169	–1,653	4,125,315
3,088	5,868	2,830	25	–45,676	0
223,639	210,667	81,078	194	–47,329	4,125,315
–142,747	–167,177	–64,255	–26,205	44,245	–2,756,571
80,892	43,491	16,823	–26,011	–3,084	1,368,744
–24,210	–51,097	–17,431	0	58	–797,082
56,682	–7,607	–609	–26,011	–3,025	571,662
2,007	206	186	35,955	–34,184	26,911
–1,792	–1,643	–672	–166,052	34,120	–162,611
–35	293	–400	460,004	–463,956	–19,599
0	0	0	–136	0	240
56,862	–8,750	–1,495	303,759	–467,045	416,602
–8,822	–653	52	72,959	–8	–23,829
48,040	–9,403	–1,443	376,717	–467,054	392,774
36.2%	20.6%	20.7%	n.a.	n.a.	33.2%
4,168	48,213	1,364	0	0	211,993
13,714	29,444	20,218	0	–2,305	572,473
17,882	77,657	21,582	0	–2,305	784,467
440,351	367,607	225,732	8,168,825	–7,842,681	8,304,522
61,352	88,312	94,333	0	89	2,409,435
147,632	0	30,433	123,465	–123,465	1,229,712
5,357	4,121	8,986	0	0	523,060
67,395	164,975	38,854	0	0	1,515,555
22,343	12,765	15,912	0	0	469,240
0	0	0	36,941	0	40,428
–103,992	–108,736	–73,794	–4,258,008	1,966,636	–5,878,501

Telekom Austria Group has aligned its management structure and the resulting segment reporting on geographical markets and reports separately based on its seven operating segments: Austria, Bulgaria, Croatia, Belarus, Slovenia, Serbia and Macedonia. Until 31 December 2015, Slovenia, Serbia and Macedonia were summarised in the segment Additional Markets which also included the Austrian subsidiary Telekom Austria Group M2M GmbH which is now reported in the segment Austria. The segments were expanded to provide more relevant information. Comparative figures were adjusted accordingly.

The Management Board of Telekom Austria Group, which regularly meets in Management Board meetings, acts as the chief operating decision maker. Members of the Management Board are the Group CEO and the Group CFO (see Note (35)). The Management Board focuses on revenue and EBITDA.

The accounting policies of the segments are the same as those of Telekom Austria Group (see Note (4)). The segments offer the following services and products (for brand names, see Note (15)):

Austria: voice telephony (mobile and fixed-line telephone services), convergent products, internet access, data and IT solutions, value-added services, wholesale services, IP television, sale of end-user terminal equipment as well as mobile business and payment solutions

Bulgaria: voice telephony (mobile and fixed-line telephone services), convergent products, internet access, data and IT solutions, value-added services, wholesale services, IP and satellite television, sale of end-user terminal equipment as well as mobile business solutions

Croatia: voice telephony (mobile and fixed-line telephone services), convergent products, internet access, value-added services, wholesale services, IP and satellite television, sale of end-user terminal equipment as well as mobile business solutions

Belarus: mobile telephone services, internet access, value-added services, wholesale services, sale of end-user terminal equipment, fixed-line telephone services for selected business customers as well as, since the acquisition of a fixed-line operator in 2016 (see Note (33)), convergent products as well as IP television

Slovenia: voice telephony (mobile and fixed-line telephone services), convergent products, sale of end-user terminal equipment, internet access, value-added services, wholesale services as well as IP television

Serbia: mobile telephone services, internet access, sale of end-user terminal equipment, value-added services as well as wholesale services

Macedonia: voice telephony (mobile and fixed-line telephone services), convergent products, sale of end-user terminal equipment, DVBT, IP television, internet access, value-added services as well as wholesale services

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

The column Corporate & Other comprises mainly holding companies as well as the group financing company and is reported in addition to the column Eliminations for improved transparency. Other financial income reported in the column Corporate & Other mainly 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.

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.

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

(2) The Company

Telekom Austria Aktiengesellschaft (Telekom Austria AG) is incorporated as a joint stock corporation under the laws of the Republic of Austria and is located in Austria, Lassallestrasse 9, 1020 Vienna. Telekom Austria AG and its subsidiaries (Telekom Austria Group) provide the services and products listed in the Segment Reporting (see Note (1)) in Austria, Bulgaria, Croatia, Belarus, Slovenia and Macedonia.

The ultimate 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), with an interest of 28.42%, is the second significant shareholder of Telekom Austria Group. América Móvil's and ÖBIB's stakes in Telekom Austria Group are disclosed in Note (27).

In addition to the related party transactions described in Note (11), 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.

(3) Basis of Presentation

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

Telekom Austria Group prepared the Consolidated Financial Statements as of 31 December 2016 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 2016 and as endorsed by the European Union, as well as in accordance with the supplemental regulations of Section 245a of the Austrian Commercial Code (UGB).

(4) Significant Accounting Policies

Changed format of the Consolidated Financial Statements

Starting 2016, Telekom Austria Group has aligned its financial reporting structure to its parent company América Móvil. The new presentation provides reliable and more relevant information to understand the entity's financial performance. In accordance with IAS 8, the change in the reporting structure was applied retrospectively, thus prior period comparative figures have been adjusted accordingly.

In prior periods, the Consolidated Statements of Profit or Loss were presented in a separate statement according to the nature of expense method and are now presented in the Consolidated Statements of Comprehensive Income according to the cost of sales method. Material, employee and other expenses are now presented according to their function as cost of service, cost of equipment, selling, general & administrative expenses as well as other expenses (mainly including loss on retirement of equipment, compensations for damages, stocktaking differences and penalties). Depreciation, amortisation and impairment are not allocated to functions but disclosed separately in the Consolidated Statements of Comprehensive Income. Earnings before interest, tax, depreciation and amortisation (EBITDA) is defined as the net result excluding the financial result, income taxes and depreciation and amortisation and, if applicable, impairment losses or reversal of impairments.

Additionally, some line items were reclassified in the course of the harmonisation with América Móvil's financial reporting structure. These changes (besides the change to the cost of sales method) in the Consolidated Statement of Comprehensive Income are presented in the following table:

in TEUR	2015 As previously reported	Reclassifications	2015 New reporting structure
Total revenues (incl. other operating income – OOI)	4,152,857	–27,542	4,125,315
Total cost and expenses	–2,780,681	24,110	–2,756,571
Earnings before interest, tax, depreciation and amortisation – EBITDA	**1,372,175**	**– 3,432**	**1,368,744**
Depreciation and amortisation	– 798,179	1,098	– 797,082
Operating income – EBIT	**573,996**	**– 2,334**	**571,662**
Interest income	22,449	4,461	26,911
Interest expense	–177,990	15,379	–162,611
Interest on employee benefits and restructuring and other financial items, net	164	–17,507	–17,343
Foreign currency exchange differences, net	–2,257	0	–2,257
Equity interest in net income of associated companies	240	0	240
Financial result	**– 157,394**	**2,334**	**– 155,060**
Earnings before income tax – EBT	**416,602**	**0**	**416,602**
Income tax	– 23,829	0	– 23,829
Net result	**392,774**	**0**	**392,774**

The shift in revenues (incl. other operating income – OOI) and cost and expenses mainly results from own work capitalised previously reported on a gross basis in the original expenses and the corresponding amount in other operating income – OOI. In the new reporting format, the original expenses are directly offset by the amounts capitalised. Income from penalties and collection fees was reported in other operating expenses and is now presented in total revenues (including other operating income).

Following the reclassification of spare parts, cables and supplies from inventories to property, plant and equipment, the measurement of these materials is not reported in material expense anymore but in depreciation. The increase in interest income is mainly due to the segment Croatia, as penalty interest charged to customers was previously reported in other operating expense.

Total interest expense was reported in one line item and is now split into interest expense on financial liabilities (including interest expense on debt, interest charged by suppliers and the unwinding of asset retirement obligation) and interest on employee benefits and restructuring and other financial items, net. Fees related to the issuance of bank debt and fees for unused credit lines were presented in other operating expenses and are now reported in interest on employee benefits and restructuring and other financial items, net, as these expenses represent financing cost (see Note (7)).

The changes in the Consolidated Statement of Financial Position are presented in the following table:

in TEUR	31 Dec. 2015 As previously reported	Reclassifications	31 Dec. 2015 New reporting structure
Accounts receivable: subscribers, distributors and other, net	0	624,635	624,635
Accounts receivable – trade, net of allowances	624,635	–624,635	0
Inventories	130,972	–52,067	78,905
Prepaid expenses	115,597	–115,597	0
Other current assets	117,129	115,597	232,726
Total current assets	**1,905,203**	**–52,067**	**1,853,135**
Property, plant and equipment, net	2,357,367	52,067	2,409,435
Total non-current assets	**6,399,319**	**52,068**	**6,451,387**
TOTAL ASSETS	**8,304,522**	**0**	**8,304,522**
Short-term debt and current portion of long-term debt	–903,640	93,200	–810,440
Accounts payable	0	–905,155	–905,155
Accounts payable – trade	–573,650	573,650	0
Other current liabilities	–238,305	238,305	0
Total current liabilities	**–2,253,301**	**0**	**–2,253,301**
Total non-current liabilities	**–3,625,200**	**0**	**–3,625,200**
Retained earnings	78,750	–30,772	47,978
Other comprehensive income (loss) items	0	660,712	660,712
Available-for-sale reserve	387	–387	0
Hedging reserve	32,848	–32,848	0
Translation adjustments	596,706	–596,706	0
Equity attributable to equity holders of the parent	**–2,424,115**	**0**	**–2,424,115**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**–8,304,522**	**0**	**–8,304,522**

Accounts receivable – trade, net of allowances was renamed to accounts receivable: subscribers, distributors and other, net.

Spare parts, cables and supplies were included in inventories and are now reported in property, plant and equipment in accordance with IAS 16.8 as it is expected that these items will be used during more than one period.

Prepaid expenses were reported in a separate line item and are now included in other current assets.

Accrued interest, previously included in short-term debt, is now included in accounts payable. As a consequence, accrued interest is not included in net debt anymore.

Accounts payable – trade and other current liabilities were presented in two separate line items and are now presented in one item: accounts payable.

Available-for-sale reserve, hedging reserve and translation adjustments were presented in three separate line items and are now presented in one item, other comprehensive income (loss), together with the remeasurement of defined benefit plans which was previously included in retained earnings. The development of the remeasurement of defined benefit plans is reflected in the Consolidated Statements of Changes in Stockholders' Equity.

The shifts between operating, investing and financing activities in the Consolidated Statement of Cash Flows are presented in the following table:

in TEUR	2015 As previously reported	Reclassifications	2015 New reporting structure
Depreciation and amortisation	798,179	–1,098	797,082
Inventories	7,163	4,084	11,362
Equity interest in net income of associated companies	475	–715	–240
Accretion expense asset retirement obligation	5,306	–5,306	0
Realised result on hedging activities	5,840	–5,840	0
Interest expense	0	164,910	164,910
Net cash flow from operating activities	**1,072,370**	**156,035**	**1,228,405**
Capital expenditures paid	–726,661	–4,479	–731,140
Dividends received from associates	0	715	715
Proceeds from sale of property, plant and equipment	9,234	1,492	10,727
Net cash flow from investing activities	**–863,966**	**–2,271**	**–866,237**
Change in short-term debt	3,045	2,015	5,061
Interest paid	0	–155,779	–155,779
Net cash flow from financing activities	**–311,399**	**–153,764**	**–465,163**
Adjustment to cash flows due to exchange rate fluctuations, net	–5,895	0	–5,895
Net change in cash and cash equivalents	**–108,890**	**0**	**–108,890**

Following the reclassification of spare parts, cables and supplies from inventories to property, plant and equipment, the measurement effects of these items is not reported in material expense within EBITDA anymore but in depreciation. Furthermore, the purchase of spare parts, cables and supplies is reported in capital expenditures paid and their sale is reported in proceeds from sale of property, plant and equipment while in the previous reporting period these were reported in changes in financial positions in inventories.

Previously interest paid was not reported separately in the Cash Flow Statements. Interest expense was reported in net cash flow from operating activities. Only accretion expense for asset retirement obligation and interest relating to the disposal of the hedging reserve were adjusted as items not requiring the use of cash in the reconciliation of net income to cash generated from operations. In the new structure, total interest paid is reported in net cash flow from financing activities, which leads to a shift between cash flow from operating and financing activities.

Dividends received from associates are now reported in the investing cash flow while they were previously included in the cash flow from operating activities.

In addition to the shift between the cash flows from operating, investing and financing activities, the structure of cash flow from operating activities has been changed. The changes are explained in the following table:

in TEUR	2015 As previously reported	Reclassifications	2015 New reporting structure
Net result	**392,774**	**–392,774**	**0**
Change in deferred taxes	–38,783	38,783	0
Earnings before income tax – EBT	**0**	**416,602**	**416,602**
Bad debt expenses	40,740	–40,740	0
Share-based compensation	955	–955	0
Result on sale of property, plant and equipment	3,051	11	3,061
Net period cost of labour obligations and restructuring	17,938	–180	17,758
Foreign currency exchange differences, net	0	2,257	2,257
Interest income	0	–26,911	–26,911
Other adjustments	–5,232	1,448	–3,783
Accounts receivable: subscribers, distributors and other, net	–50,981	34,375	–16,606
Prepaid expenses and other assets	27,843	–27,843	0
Prepaid expenses	0	13,192	13,192
Other assets	0	–813	–813
Employee benefits and restructuring	0	–106,064	–106,064
Employee benefit obligation	–11,284	11,284	0
Accounts payable and accrued liabilities	–16,050	–9,071	–25,120
Provisions and accrued liabilities	–108,390	108,390	0
Deferred revenues		–5,338	–5,338
Other liabilities and deferred income	7,710	–7,710	0
Interest received	0	24,177	24,177
Income taxes paid	0	–32,121	–32,121
Total	**260,292**	**0**	**260,292**

Income tax paid was previously included in the net result and changes in other assets and liabilities and is now reported in a separate line. Bad debt expense is not adjusted as a non-cash item anymore but is included in the changes in accounts receivable: subscribers, distributors and other, net. Payments for restructuring were reported in the line item provisions and accrued liabilities and are now reported together with employee benefits in the item employee benefits and restructuring.

For information on the changes in Segment Reporting, see Note (1).

Changes in accounting policies

The following amendments to existing and new IFRS are effective as of 1 January 2016.

IAS 19	Defined Benefit Plans: Employee Contributions
all IFRSs	Annual Improvements 2010 – 2012
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
IAS 16, 38	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 16, 41	Agriculture: Bearer Plants
all IFRSs	Annual Improvements 2012 – 2014
IAS 27	Equity Method in Separate Financial Statements
IAS 1	Disclosure Initiative
IFRS 10, 12, IAS 28	Investment Entities – Applying the Consolidation Exception

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

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

		Effective *	Effective**
IFRS 15	Revenue from Contracts with Customers	1 January 2018	1 January 2018
IFRS 9	Financial Instruments	1 January 2018	1 January 2018
IFRS 16	Leases	1 January 2019	1 January 2019
IAS 7	Statement of Cash Flows – Disclosure Initiative (Amendments to IAS 7)	1 January 2017	not endorsed
IAS 12	Income taxes – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	not endorsed
IFRS 15	Revenue from Contracts with Customers – Clarifications	1 January 2018	not endorsed
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018	not endorsed
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018	not endorsed
all IFRSs	Annual Improvements 2014 – 2016	1 January 2018/ 1 January 2017	not endorsed
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	not endorsed
IAS 40	Transfers of Investment Property (Amendments to IAS 40)	1 January 2018	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).

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

Telekom Austria Group initiated a groupwide two-phase project for the implementation of IFRS 15. In phase I, employees were first trained, then deviations in revenue recognition, based on contractual agreements, were identified for individual business transactions and the possibility of establishing portfolios was assessed. Telekom Austria Group intends to apply the new standard at its effective date and plans to use, in accordance with the transition guidance, the modified retrospective approach for the first-time application of IFRS 15. In phase II, the analyses of contracts will be continued with a special focus on the adaption of IT and system processes. A software allowing for IT-based mass data processing in the portfolios has already been procured.

Based on the results of the IFRS 15 analyses in 2016, the following significant effects compared to the previous revenue recognition principles were identified, which might change in the course of further detailed analyses:

- The separation of performance obligations and the resulting allocation of the transaction price determined by IFRS 15 will influence the timing of revenue recognition as well as the allocation to services and to equipment revenues. Even though discounts on multiple-elements arrangements have been generally allocated to the separate performance obligations up to now, the application of IFRS 15 may nonetheless have effects in this regard compared to the current revenue recognition according to IAS 18.
- Furthermore, contract costs recognised as an asset according to IFRS 15 will most probably lead to higher deferrals than deferrals recognised up to now.
- Financing components are considered insignificant on current individual contract level.
- Due to the new regulations of IFRS 15, hardware sales to dealers will presumably not be recognised as revenue anymore as the dealers are considered agents. Thus, revenue will only be recognised once the hardware is sold to end customers.

The effects of the first-time application of IFRS 15 cannot be quantified yet, as the relevant systems that allow for the evaluation of mass data have not been implemented yet.

IFRS 9, issued in July 2014, deals with 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 of Telekom Austria Group. 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. As for the recognition of impairment for accounts receivable trade, the simplified approach of IFRS 9 is used. Although Management does not expect major measurement changes in financial instruments, the possible impact on the Consolidated Financial Statements from the initial adoption of IFRS 9 cannot currently be estimated.

In January 2016, the IASB issued the new accounting standard IFRS 16 Leases. The fundamental innovations affect especially the lessees' recognition of leases in the financial statements. Generally, all leases have to be recognised based on the "right of use approach". For lessors, the classification of IAS 17 into operating lease and financing lease remains unchanged.

IFRS 16 will affect net assets, financial position and results of operations of Telekom Austria Group:

- While, up to now, payment obligations for operating leases had to be disclosed in the Notes, the resulting rights and obligations will have to be recognised as rights of use and lease obligations in future. At the initial application, Telekom Austria Group expects a moderate increase of the balance sheet total due to the increase in leasing obligations and a similarly high increase in rights of use recognised as assets.
- In future, depreciation and interest expense will be recognised in the Statement of Comprehensive Income instead of leasing expenses, which will slightly improve EBITDA.

The overall impact will be examined in a groupwide project for the implementation of IFRS 16. Quantitative effects cannot be reliably estimated prior to the completion of the project.

Principles of consolidation

Note (33) shows a list of all subsidiaries included in the Consolidated Financial Statements on 31 December 2016 and 2015.

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. In accordance with IFRS 3.45, goodwill may be adjusted for subsequent changes in the estimated purchase price. If the fair value of the assets acquired exceeds the consideration transferred, the resulting gain is recognised in profit or loss. Transaction costs are expensed as incurred. In case of an acquisition achieved in stages, the previously held interest is restated at fair value and any resulting difference is recognised in profit or loss. All transactions with non-controlling interest 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 over the investee, are 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 Comprehensive Income. 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

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. Until the disposal of the respective subsidiary, the foreign currency translation adjustment classified in stockholders' equity is recognised in other comprehensive income (OCI).

Gains and losses that arise from exchange rate fluctuations between the recognition of the transaction and payment date or translation at year-end are recognised 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 year	
	2016	2015	2016	2015
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.5597	7.6380	7.5332	7.6144
Czech Koruna (CZK)	27.0210	27.0230	27.0345	27.2791
Hungarian Forint (HUF)	309.8300	315.9800	311.4161	309.9362
Serbian Dinar (CSD)	123.4723	121.6261	123.1089	120.7386
Swiss Franc (CHF)	1.0739	1.0835	1.0901	1.0680
Rumanian Leu (RON)	4.5390	4.5240	4.4903	4.4452
Turkish Lira (TRY)	3.7072	3.1765	3.3419	3.0252
Macedonian Denar (MKD)	61.4791	61.5947	61.5952	61.6102
Belarusian Rouble (BYR/BYN)*	2.0450	20,300.0000	2.2029	17,690.3640
US Dollar (USD)	1.0541	1.0887	1.1070	1.1093
Great Britain Pound (GBP)	0.8562	0.7340	0.8195	0.7259
Bosnian Convertible Mark (BAM)	1.9558	1.9558	1.9558	1.9558
Polish Zloty (PLN)	4.4103	4.2639	4.3630	4.1838

* On 1 July 2016, the Belarusian Rouble was redenominated (redenomination scale 1:10,000). The redenomination has no impact on the consolidated financial statements.

Financial reporting in hyperinflationary economies

From 2011 to 2014, hyperinflation accounting according to IAS 29 was applied to the subsidiary in Belarus. Financial statements of subsidiaries located in hyperinflationary economies were 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. All non-monetary items measured at cost or amortised cost were restated for the changes in the general price index from the date of transaction to the reporting date. Monetary items were not restated. All items of stockholders' equity were restated for the changes in the general price index since their addition until the end of the reporting period. The items of comprehensive income were restated for the change in the general price index from the date of initial recognition to the reporting date. All amounts expressed in the measuring unit at 31 December 2014 were treated as the basis for the carrying amounts in 2015.

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 any other taxes and fees, collected from the customer on behalf of tax and other relevant 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 if 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.

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.

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.

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 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 the 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 the 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: subscribers, distributors and other as well as 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: subscribers, distributors and other as well as 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 selling, general and administrative expenses. When a receivable is considered to be irrecoverable, the amount is written off against the receivable.

Inventories

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

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.

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

Depreciation on property, plant and equipment is calculated using the straight-line method and the estimated useful lives of property, plant and equipment. Property, 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.

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.

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 Comprehensive Income.

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.

Goodwill and other intangible assets

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

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

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 five (2015: four) years. The recognition and measurement of deferred tax assets is now also based on the business plans for these periods. Significant assumptions to determine the value in use comprise the development of revenues, cost drivers, working capital changes, capital expenditure, growth rate and discount rate.

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

Costs and capital expenditure are based on past experience and 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 detailed planning, respectively.

The discount rate applied for discounting 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 Comprehensive Income. 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.

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 generally 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 as well as research and development costs (with the exception of the abovementioned capitalisable development costs) are expensed as incurred.

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 prepare for its intended use.

Own work capitalised
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 (15). The original expenses are directly offset by the amounts capitalised (see Note (6)).

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 Comprehensive Income.

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 in the financial result (amortised cost) using the effective interest rate method.

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.

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 functional area.

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 (OCI), 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 in the respective functional area.

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 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 these credits are granted. Income tax receivables or payables cover obligations for current and prior periods.

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 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.

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 (subsequently called fictitious bonus shares), the share-based payments 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: subscribers, distributors and other, net as well as 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. 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 (26)).

b) Impairments: The impairment test for goodwill, other intangible assets and property, plant and equipment is generally based upon discounted estimated future net cash flows from the continuing use and ultimate disposal of the assets. Changes in the discount rates used, in the development of revenues, in cost drivers as well as in capital expenditures could lead to impairments or, to the extent permitted, to reversals of impairments (see Note (16)). For more information on the carrying amounts of goodwill, other intangible assets and property, plant and equipment, see Notes (16), (15) and (14).

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 (14).

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 (30)).

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 (28)).

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 the estimated probability of default of receivables: Deviation of actual from the estimated payment behaviour of customers may result in higher or lower expenses (see Note (32)).

h) Asset retirement obligation: The calculation of the provision is based on parameters such as estimated decommissioning costs, discount rate and inflation rate. Changes in these parameters may result in higher or lower provisions (see Note (22)).

(5) Revenues

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

in TEUR	2016	2015
Service revenues	2,146,301	2,173,961
Equipment revenues	419,519	362,647
Other operating income	86,629	105,033
Wireless revenues	**2,652,449**	**2,641,641**
Service revenues	1,528,183	1,455,288
Equipment revenues	30,830	28,387
Fixed-line and other revenues	**1,559,013**	**1,483,674**
Total revenues (incl. other operating income)	**4,211,463**	**4,125,315**

Other operating income includes mainly bad debt recovery, collection fees, penalties and rental income. 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.

In 2016 and 2015, other operating income includes research and educational tax credits amounting to TEUR 1,515 and TEUR 1,762, respectively. In 2016 and 2015, other operating income also includes the gain resulting from the bargain purchase of Blizoo Bulgaria of TEUR 196 and TEUR 845, respectively, as well as the gain from the sale of GPS of TEUR 471 in 2015 (see Note (33)).

The decrease in other operating income relates to the segment Slovenia: 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 an initial 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.

(6) Cost and Expenses

The following table presents cost and expenses according to their nature:

in TEUR	2016	2015
Cost of Equipment	521,873	463,663
Employee expenses, including benefits and taxes	787,065	799,679
Other operating expenses	1,548,273	1,493,229
Total costs and expenses	**2,857,211**	2,756,571

Employee expenses, including benefits and taxes comprise all benefits to employees excluding own work capitalised, which is reported on a net basis.

in TEUR	2016	2015
Own work capitalised	72,003	53,519

The following table provides the depreciation according to functional areas:

in TEUR	2016	2015
Cost of service	698,208	612,138
Cost of equipment	27,137	28,540
Selling, general & administrative expenses	139,925	156,404
Depreciation and amortisation	**865,271**	797,082

At the Annual General Meeting on 25 May 2016, Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. (EY) was appointed as group auditor for Telekom Austria AG. Expenses related to the group auditor amount to:

in TEUR	2016	2015
Audit fees	854	850
Other reviews	284	0
Other services	0	19
Fees EY	**1,138**	869

In 2016, other reviews relate to expenses for the issuance of a bond (see Note (24)).

(7) Financial Result

in TEUR	2016	2015
Interest income on loans and receivables	13,044	17,209
Interest income on bank deposits	604	9,459
Interest income on available-for-sale financial assets	193	244
Interest income	**13,841**	26,911

In 2015, interest income on bank deposits mainly results from fixed deposits of the subsidiary velcom in Belarus.

in TEUR	2016	2015
Interest expense on financial liabilities	132,946	168,432
Interest capitalised	–6,801	–10,981
Interest expense on asset retirement obligations	4,702	5,160
Interest expense on deferred considerations	11,667	0
Interest expense	**142,514**	162,611

The decrease in interest expense on financial liabilities is mainly due to the repayment of a bond in January 2016 (see Note (24)). Interest expense on deferred considerations relates to one.Vip in Macedonia (see Note (33)).

In 2016 and 2015, interest capitalised on internally developed software as well as on qualifying assets of property, plant and equipment (see Notes (14) and (15)) was based on an interest rate of 4.0% and 4.6%, respectively. In 2016 and 2015, the calculation of interest capitalised for licenses was based on an interest rate of 3.125%, which is derived from a specific financing facility.

in TEUR	2016	2015
Interest expense on employee benefit obligations	3,694	4,072
Interest expense on restructuring provision	8,293	11,136
Fees for unused credit lines	2,165	2,299
Dividends received	–563	–144
Gain on disposal of available-for-sale securities transferred from other comprehensive income	–24	–29
Loss on disposal of available-for-sale securities transferred from other comprehensive income	103	24
Result from other investments	–3,931	–15
Interest on employee benefits and restructuring and other financial items, net	**9,739**	17,343

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

For information on the interest rate for restructuring provisions and employee benefit obligations, see Notes (22) and (26).

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.

In 2016, the result from other investments mainly relates to paybox Bank as, in June 2016, VISA Inc. acquired 100% of the shares in VISA Europe Limited from the member banks. Up to that date, paybox Bank, as a member of VISA Europe Limited, held one share which was exchanged for a consideration of TEUR 2,920 and 1,060 preferred shares in VISA Inc. amounting to TEUR 1,011.

in TEUR	2016	2015
Foreign exchange gains	20,986	17,087
Foreign exchange losses	–10,973	–19,344
Foreign exchange differences	**10,013**	–2,257

The net foreign exchange gains mainly result from currency fluctuations of the Belarusian Rouble towards the Euro and the US Dollar.

(8) Earnings per Share

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

	2016	2015
Net result attributable to owners of the parent in TEUR	387,518	367,286
Weighted average number of common shares outstanding	664,084,841	664,084,841
Basic and diluted earnings per share in Euro	0.58	0.55

For the number of shares see Note (27)

According to IAS 33.12, the after-tax dividend on the hybrid capital is deducted from the net result attributable to owners of the parent, since the hybrid capital represents equity but does not constitute net result attributable to owners of the parent (see Note (27)).

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred as of 31 December 2016 and 2015.

(9) Short-term Investments

in TEUR, at 31 December	2016	2015
Marketable securities short-term – available-for-sale	6,733	2,367
Short-term investments	**6,733**	**2,367**

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

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

in TEUR, at 31 December	2016	2015
Accounts receivable, gross	848,722	825,223
Allowances	–212,247	–200,588
Accounts receivable, net	**636,474**	**624,635**

At 31 December 2016 and 2015, respectively, accounts receivable: subscribers, distributors and other (trade receivables) in an amount of TEUR 382 and TEUR 358 have a maturity of more than 12 months and are non-interest bearing.

The roll-forward of the allowance for doubtful accounts receivable: subscribers, distributors and other as well as their ageing is presented in “credit risk” in Note (32).

(11) Related Party Transactions

The significant shareholders América Móvil and ÖBIB are considered related parties due to their stake in Telekom Austria AG allowing them to control and to exercise significant influence, respectively. Through América Móvil, 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 2016 and 2015, revenues generated with these related parties were approximately 3% of the total revenues in the segment Austria. In 2016 and 2015, services received from the related parties mentioned above mainly relate to postage fees, transportation, commissions, roaming and fees to RTR and amount to approximately 7% of total cost and expenses (excluding employee expenses) in the segment Austria.

Telekom Austria Group is obligated to provide communication services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis. The contract with the government concluded in July 2016 specifies the reimbursement of Euro 10.00 per customer per month for customers having a valid official notice. Official notices specifying the reimbursement amount of Euro 13.81, which were based on contracts before 1 July 2011, expired in September 2016 and since then the uniform reimbursement amounts to Euro 10.00 per month. The total reimbursement recorded as revenue in the service period was TEUR 14,532 and TEUR 15,397 in 2016 and 2015, 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	2016	2015
Revenues (incl. other operating income)	1,817	1,861
Expenses	25,517	24,510

In 2016 and 2015, the expenses relate mainly to advertising and marketing services provided by media.at-Group.

At 31 December 2016 and 2015, accounts payable due to related parties relate primarily to media.at-Group and subsidiaries of América Móvil; accounts receivable from related parties relate to Telecom Liechtenstein and to subsidiaries of América Móvil (see Note (17)).

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

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

in TEUR	2016	2015
Short-term employee benefits	9,756	11,559
Pensions	584	693
Other long-term benefits	142	156
Termination benefits	1,908	4,831
Share-based payments	825	752
Compensation of key management	**13,215**	17,991
Expenses for pensions and severance for other employees	19,251	23,022

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

(12) Inventories

As of 31 December 2016 and 2015, the carrying amount of merchandise measured at fair value less cost to sell amounted to TEUR 43,002 and TEUR 37,383, respectively. The net amount relating to the valuation of merchandise that is recognised in cost of equipment is the following:

in TEUR	2016	2015
Write-down/reversals of write-down of inventories	7,777	–7,385

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

(13) Other Current Assets

Other current assets, net include prepaid expenses and other current assets.

in TEUR, at 31 December	2016	2015
Advances to employees	17,521	17,394
Rent	9,498	8,774
Marketing expenses	38,005	41,138
Concession fees	21,596	21,316
Other	23,804	26,976
Prepaid expenses	**110,424**	115,597

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

in TEUR, at 31 December	2016	2015
Instalment sales	93,666	84,079
Finance lease receivables	161	161
Other financial assets	11,224	6,617
Financial assets	**105,051**	90,857
Fiscal authorities	10,113	10,125
Customer loyalty programme deferrals	16,155	14,238
Advance payments	4,391	3,852
Other non-financial assets	10,479	11,597
Non-financial assets	**41,138**	39,811
Other current assets, gross	**146,189**	130,668
Less allowance for financial assets	–11,982	–10,351
Less allowance for non-financial assets	–2,637	–3,189
Other current assets	**131,569**	117,129

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 2016 and 2015, respectively, the instalment sales receivables relate to all segments.

For information on finance lease receivables, see Note (29).

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

The roll-forward of the allowance for doubtful financial assets as well as their ageing is presented in “Credit risk” in Note (32).

(14) Property, Plant and Equipment

in TEUR	Telephonic plant in operation and equipment	Land and buildings & leasehold improvements	Other assets	Construction in progress and advances	Inventories for operation of the plant	Total
Cost						
At 1 January 2015	9,643,585	897,191	436,956	191,197	82,324	11,251,254
Additions	345,104	7,737	30,243	201,067	4,479	588,630
Disposals	−451,007	−30,292	−66,495	−1,847	−2,205	−551,847
Transfers	154,102	4,569	14,746	−186,869	12,660	−792
Translation adjustment	−125,811	−12,568	−20,234	−12,382	−829	−171,825
Changes in reporting entities	229,819	2,939	43,908	8,581	−12	285,235
At 31 December 2015	**9,795,792**	**869,576**	**439,124**	**199,746**	**96,417**	**11,400,654**
Additions	275,644	11,016	21,309	253,952	139,081	701,002
Disposals	−373,542	−7,808	−27,934	−267	−9,466	−419,017
Transfers	253,670	2,825	40,189	−220,737	−85,315	−9,368
Translation adjustment	1,600	352	1,471	−598	90	2,915
Changes in reporting entities	18,091	176	1,474	166	253	20,160
At 31 December 2016	**9,971,254**	**876,137**	**475,633**	**232,261**	**141,061**	**11,696,346**
Accumulated depreciation and impairment						
At 1 January 2015	−7,961,047	−611,505	−350,262	0	−33,895	−8,956,710
Additions	−422,921	−32,340	−48,230	0	1,098	−502,393
Disposals	413,538	25,253	65,054	0	702	504,547
Transfers	−1,087	−666	−3,396	0	0	−5,149
Translation adjustment	83,941	2,030	16,667	0	366	103,004
Changes in reporting entities	−96,877	−780	−36,862	0	0	−134,519
At 31 December 2015	**−7,984,453**	**−618,009**	**−357,029**	**0**	**−31,729**	**−8,991,220**
Additions	−464,438	−29,163	−39,258	0	−13,873	−546,732
Disposals	362,508	6,002	27,355	0	5,050	400,915
Transfers	282	20	−46	0	0	257
Translation adjustment	−1,222	−299	413	0	57	−1,051
Changes in reporting entities	−6,651	−76	−1,034	0	0	−7,761
At 31 December 2016	**−8,093,974**	**−641,526**	**−369,598**	**0**	**−40,495**	**−9,145,592**
Carrying amount at						
31 December 2016	1,877,281	234,611	106,035	232,261	100,566	2,550,754
31 December 2015	1,811,339	251,567	82,095	199,746	64,688	2,409,435

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

The useful lives are:

	Years
Transmission equipment	3–20
Cables and wires	2–20
Communications equipment	2–20
Buildings and leasehold improvements	3–100
Furniture, fixtures and other	2–25

At 31 December 2016 and 2015, respectively, leased automobiles with a carrying value of TEUR 233 and TEUR 369 are included in other assets.

As of 31 December 2016 and 2015, the carrying amount of land amounted to TEUR 57,534 and TEUR 56,261, respectively.

In 2016, the estimated useful lives of certain communications networks and other equipment of the merged company "ONE" in the segment Macedonia were reduced, which led to an increase in depreciation of TEUR 15,655. In 2015, Telekom Austria Group reduced the estimated useful lives of buildings and certain technical equipment in the segments Austria, Bulgaria and Belarus, which resulted in an increase in depreciation of TEUR 8,655. In both years, the useful lives were reduced due to rapid technological progress.

Government grants totalling TEUR 4,226 and TEUR 3,913 were deducted from acquisition cost in 2016 and 2015, respectively.

The transfers from advances/construction in progress relate to property, plant and equipment and intangible assets. Furthermore, in 2015, assets held for sale as of 31 December 2014 were reclassified as no sale was expected anymore.

At 31 December 2016 and 2015, purchase commitments for property, plant and equipment amount to TEUR 150,233 and TEUR 107,949, respectively.

At 31 December 2015, property, plant and equipment in the amount of TEUR 1,750 was 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	2016	2015
Decrease due to extension by one year	187,017	163,364
Increase due to reduction by one year	220,507	189,021

(15) Intangibles

in TEUR	Licenses and rights of use	Brand names and patents	Software	Customer base	Advances/ construction in progress	Total
Cost						
At 1 January 2015	2,388,245	672,055	1,208,285	1,144,064	50,356	5,463,006
Additions	92,844	1,774	56,182	0	61,193	211,993
Disposals	−9,464	0	−83,069	0	−374	−92,907
Transfers	2,481	−3,536	65,586	0	−62,718	1,813
Translation adjustment	−34,315	−30,558	−23,323	−107,847	−1,163	−197,207
Changes in reporting entities	31,811	14,116	5,139	90,815	−12	141,870
At 31 December 2015	**2,471,602**	**653,852**	**1,228,799**	**1,127,032**	**47,282**	**5,528,567**
Additions	21,130	3,160	38,240	0	61,133	123,663
Disposals	−346,172	−518	−40,991	0	−238	−387,919
Transfers	3,919	−633	52,394	0	−46,313	9,368
Translation adjustment	−2,736	−954	448	−1,110	−320	−4,672
Changes in reporting entities	349	3,243	1,245	5,433	89	10,360
At 31 December 2016	**2,148,093**	**658,150**	**1,280,135**	**1,131,356**	**61,633**	**5,279,367**

in TEUR	Licenses and rights of use	Brand names and patents	Software	Customer base	Advances/ construction in progress	Total
Accumulated amortisation and impairment						
At 1 January 2015	–882,082	–121,627	–883,298	–1,005,892	0	–2,892,899
Additions	–95,354	–6,768	–142,939	–49,628	0	–294,689
Disposals	9,344	0	82,451	0	0	91,795
Transfers	4,053	689	–201	0	0	4,541
Translation adjustment	15,609	303	18,413	91,199	0	125,526
Changes in reporting entities	–7,618	–3,390	–2,680	–41,298	0	–54,986
At 31 December 2015	**–956,047**	**–130,791**	**–928,254**	**–1,005,619**	**0**	**–3,020,712**
Additions	–127,968	–11,591	–137,656	–41,324	0	–318,538
Impairment	0	–496	–1,685	–138	0	–2,319
Disposals	342,851	0	40,777	0	0	383,628
Transfers	–1,110	1,037	–184	0	0	–257
Translation adjustment	1,004	693	–455	–243	0	1,000
Changes in reporting entities	–130	–1	–388	–258	0	–776
At 31 December 2016	–741,399	–141,148	–1,027,844	–1,047,581	0	–2,957,973
Carrying amount at						
31 December 2016	1,406,694	517,001	252,291	83,775	61,633	2,321,394
31 December 2015	1,515,555	523,060	300,545	121,413	47,282	2,507,855

Licenses and rights of use include licenses not yet put into operation.

Intangible assets are amortised using the straight-line method over their estimated useful lives:

	Years
Mobile communications and fixed net licenses*	5–30
Rights of use	2–50
Patents	2–30
Software	2–14
Subscriber base	2–12

* See also terms in table below

Rights of use amortised over more than 20 years relate to indefeasible rights of use of cable fibre or wavelength over a fixed period of time. The indefeasible rights are amortised over the term of the contract.

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	1,019,877	317,052	638,988
End of the term	2017–2039	2019–2031	2024–2033

Telekom Austria Group holds mobile telecommunication licenses provided by regulatory authorities in Austria, Croatia, Slovenia, Serbia, Bulgaria, Belarus and Macedonia.

On 4 May 2016, Mtel, located in Bulgaria, acquired 2 x 5 MHz in the 1,800-MHz spectrum for TEUR 6,212.

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 in the 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 was 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.

The following table presents expected amortisation expense in TEUR related to intangible assets with a finite useful life for each of the following periods:

2017	292,580
2018	201,143
2019	166,242
2020	138,278
2021	119,544
Thereafter	903,514

The following table presents the changes in the carrying values of brand names by segment:

in TEUR	Austria	Bulgaria	Croatia	Belarus	Slovenia	Macedonia	Total
At 1 January 2015	158,847	243,704	26,584	103,992	3,148	665	536,941
Amortisation	0	0	–1,315	0	–190	–716	–2,220
Translation adjustment	0	0	68	–30,327	0	9	–30,250
Changes in reporting entities	0	0	517	0	1,897	6,572	8,986
At 31 December 2015	**158,847**	**243,704**	**25,855**	**73,665**	**4,856**	**6,530**	**513,457**
Amortisation	0	0	–824	–237	–3,465	–1,264	–5,790
Translation adjustment	0	0	271	–487	0	10	–206
Impairment	–496	0	0	0	0	0	–496
Changes in reporting entities	0	0	0	3,242	0	0	3,242
At 31 December 2016	**158,351**	**243,704**	**25,301**	**76,184**	**1,391**	**5,276**	**510,207**

Regarding the acquisitions and disposals of brand names, see Note (33).

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 (4). 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.

The impairment test of the cash-generating unit paybox Bank led to an impairment in the segment Austria amounting to TEUR 2,319 as the carrying amount exceeded the estimated future net cash flows approved by Management in the business plans. Brand name, customer base and software were written off completely (see table of intangible assets). The value in use of paybox Bank amounts to TEUR 6,797. The pre-tax interest rate on which the calculation of the value in use is based amounts to 7.0% in 2016 and 7.2% in 2015.

Brand names which will be used for a limited period of time are/were amortised over their estimated useful life. These brand names are B.net and Amis Croatia in the segment Croatia, Amis Slovenia and Si.mobil in the segment Slovenia, Atlant Telecom in the segment Belarus as well as blizoo and one in the segment Macedonia.

The following table provides a detail of the brand names recognised:

in TEUR, at 31 December	2016	2015
A1 Telekom Austria	144,910	144,910
Cable Runner	491	491
Paybox Bank	0	496
YESSS!	12,950	12,950
Total Austria	**158,351**	**158,847**
Mobiltel	243,704	243,704
Total Bulgaria	**243,704**	**243,704**
Vipnet	25,301	25,042
B.net	0	594
AMIS	0	219
Total Croatia	**25,301**	**25,855**
velcom	73,125	73,665
Atlant Telecom	3,059	0
Total Belarus	**76,184**	**73,665**
Si.mobil	1,049	3,148
AMIS Slovenia	341	1,707
Total Slovenia	**1,391**	**4,856**
blizoo	0	211
one	5,276	6,319
Total Macedonia	**5,276**	**6,530**
Total brand names	**510,207**	**513,457**
Thereof with indefinite useful life	500,481	504,407
Thereof with definite useful life	9,726	9,051

At 31 December 2016 and 2015, the line item software comprises internally developed software with a carrying amount of TEUR 23,183 and TEUR 23,462, acquisition cost of TEUR 123,957 and TEUR 120,372 and the related accumulated amortisation of TEUR 100,774 and TEUR 96,910, respectively. Additions in 2016 and 2015 amounted to TEUR 1,546 and TEUR 1,823, respectively.

In 2016 and 2015, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

As of 31 December 2016 and 2015, purchase commitments for intangible assets amounted to TEUR 31,422 and TEUR 21,193, 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.

(16) Goodwill

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

in TEUR	Austria	Bulgaria	Croatia	Belarus	Slovenia	Macedonia	Total
At 1 January 2015	708,211	242,691	94,473	0	136,260	7,846	1,189,481
Translation adjustment	0	0	180	0	0	19	198
Acquisitions	0	0	6,093	0	11,372	22,568	40,033
At 31 December 2015	**708,211**	**242,691**	**100,745**	**0**	**147,632**	**30,433**	**1,229,712**
Translation adjustment	0	0	1,048	250	0	56	1,354
Acquisitions	0	0	410	10,768	0	−421	10,757
At 31 December 2016	**708,211**	**242,691**	**102,203**	**11,018**	**147,632**	**30,068**	**1,241,823**

For details of acquisitions, see Note (33).

The acquisition cost of goodwill was as follows:

in TEUR, at 31 December	2016	2015
Segment Austria	712,231	712,231
Segment Bulgaria	642,691	642,691
Segment Croatia	107,210	105,637
Segment Belarus	523,817	516,588
Segment Slovenia	175,556	175,556
Segment Macedonia	35,180	35,535
Total cost	**2,196,684**	**2,188,238**

Accumulated impairment charges of goodwill amount to:

in TEUR, at 31 December	2016	2015
Segment Austria	4,020	4,020
Segment Bulgaria	400,000	400,000
Segment Croatia	5,007	4,892
Segment Belarus	512,799	516,588
Segment Slovenia	27,924	27,924
Segment Macedonia	5,112	5,102
Accumulated impairment	**954,861**	**958,526**

When the impairment test is performed, a planning period of five (2015: four) years is used for calculating the value in use. Peer group beta factors and peer group leverage factors are used for the calculation of the discount rate.

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

	Growth rates perpetual annuity		Pre-tax interest rates*	
	2016	2015	2016	2015
Segment Austria	0.6%	0%–0.5%	7.0%	7.2%
Segment Bulgaria	0.8%	0.8%	7.8%	9.0%
Segment Croatia	2.2%	1.0%	9.6%	9.5%
Segment Belarus	10.8%	12.6%	24.3%	25.6%
Segment Slovenia	0.6%	0.6%	8.4%	8.9%
Segment Macedonia	−0.3%	3.3%	10.1%	10.5%

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

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 detailed planning, respectively.

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

in TEUR, at 31 December	2016	2015
Segment Austria	4,300,514	3,852,749
Segment Bulgaria	858,913	866,059
Segment Croatia	273,314	230,760
Segment Belarus	662,083	856,995
Segment Slovenia	418,159	584,395
Segment Macedonia	192,491	286,947

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 2016 and 2015:

Pre-tax interest rates*	2016	2015
Segment Austria	10.9%	10.4%
Segment Bulgaria	8.4%	10.0%
Segment Croatia	10.7%	10.4%
Segment Belarus	43.7%	54.3%
Segment Slovenia	9.7%	15.4%
Segment Macedonia	13.6%	15.3%

* 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 2016 and 2015:

2016	Revenues	Cost	Capital expenditures
Segment Austria	–5.5%	9.4%	25.3%
Segment Bulgaria	–1.6%	2.7%	8.0%
Segment Croatia	–1.7%	2.6%	8.1%
Segment Belarus	–14.0%	33.9%	89.3%
Segment Slovenia	–2.8%	4.2%	18.7%
Segment Macedonia	–5.7%	9.5%	30.1%
2015			
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%
Segment Slovenia	–8.7%	12.5%	76.0%
Segment Macedonia	–7.8%	12.1%	43.3%

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

(17) Investments in Associates

Investments in associates accounted for using the equity method as of 31 December 2016 and 2015 as well as their allocation to the segments are set forth in Note (33).

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

in TEUR	2016	2015
At 1 January	**40,428**	38,253
Dividends received	–1,264	–715
Recognised income	1,427	240
Translation adjustment	230	2,650
At 31 December	**40,820**	40,428

The investment in media.at is included in the investments in associates with the proportionate total consolidated equity of the media.at-Group.
Dividends received are reported in the net cash flow from investing activities.

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)	2016	2015
Revenues	165,038	168,657
Operating income	6,838	6,491
Net income	7,135	6,282

The financial information of media.at-Group is based on its reporting period 1 July to 30 June.
Net income equals total comprehensive income.

in TEUR	2016	2015
Total current assets	35,649	52,741
Total non-current assets	55,463	51,595
Total liabilities	23,398	39,342
Total stockholders' equity	67,713	64,994

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 associates and their proportional equity as well as their allocation to the segments.

in TEUR, at 31 December	2016	2015
Proportional equity	16,974	15,606
Goodwill	14,043	14,043
Purchase price allocation	9,804	10,779
Investments in associates	**40,820**	**40,428**
Segment Austria	4,329	3,487
Corporate & Other	36,491	36,941

(18) Long-term Investments

in TEUR, at 31 December	2016	2015
Other investments carried at cost	1,468	1,701
Other long-term investments	923	1,757
Marketable securities – available-for-sale, long-term	5,992	4,768
Long-term investments	**8,383**	**8,226**

Other investments carried at cost include investments in unquoted equity instruments (investments). These relate mainly to CEESEG AG. 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 31 December 2015, other investments also included the investment in CATV-047 d.o.o. Kabelska televizija (CATV) in the amount of TEUR 818; CATV was initially consolidated in the first quarter 2016 (see Note (33)).

As of 31 December 2016 and 2015, respectively, other long-term investments comprise fixed deposits.

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

(19) Other Non-current Assets

in TEUR, at 31 December	2016	2015
Finance lease receivables	2,419	2,580
Instalment sales	43,612	32,830
Other financial assets	1,588	2,164
Financial assets	**47,619**	**37,574**
Other non-financial assets	**8,528**	**12,690**
Other non-current assets, gross	**56,147**	**50,264**
Less allowance for financial assets	–1,424	–1,252
Other non-current assets	**54,723**	**49,012**

For information on finance lease receivables and instalment sales receivables, see Notes (29) and (13). Instalment sales contracts in Belarus are only concluded with terms of less than twelve months.

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

The roll-forward of the allowance for doubtful non-current finance lease receivable, non-current instalment sales receivables and other non-current financial assets as well as their ageing is presented in "Credit risk" in Note (32).

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

in TEUR, at 31 December	2016	2015
Current portion of long-term debt	499,953	805,236
Short-term debt	35	5,087
Current portion of lease obligations	77	117
Short-term debt	**500,065**	**810,440**

For further information regarding the current portion of long-term debt and lease obligations, see Notes (24) and (29). The decrease in the current portion of long-term debt results from the repayment of a bond amounting to TEUR 750,000 in January 2016 as well as from bank debt which was partly compensated by the reclassification to short-term debt of a bond amounting to TEUR 500,000 falling due in January 2017. Further funding sources are listed in Note (32).

(21) Accounts Payable

Accounts payable consist of the following items:

in TEUR, at 31 December	2016	2015
Fiscal authorities	56,797	62,787
Social security	10,474	10,110
Employees	16,311	17,270
Long-term incentive program	1,327	1,237
Employees – transferred to government	4,084	4,692
Prepayments from customers	13,252	6,595
Government	130	136
Other non-financial liabilities	4,225	9,167
Current non-financial liabilities	**106,600**	**111,994**
Suppliers	553,747	573,650
Deferred consideration	111,667	100,149
Accrued interest	49,624	93,200
Cash deposits received	8,710	6,543
Other current financial liabilities	22,271	19,618
Current financial liabilities	**746,019**	**793,161**
Accounts payable	**852,619**	**905,155**

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.

For information on the long-term incentive programme, see Note (30).

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)).

At 31 December 2016 and 2015, accounts payable amounting to TEUR 8,277 and TEUR 887, respectively, have a maturity of more than twelve months.

For purchase price liabilities from business combinations, see Note (33).

Accrued interest includes interest on bonds and bank debt (see Note (24)). In 2016 and 2015, other current financial liabilities include mainly customer deposits.

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

in TEUR	Restructuring	Employees	Customer allowances	Asset retirement obligation	Legal	Other	Total
At 31 December 2015	**702,215**	**122,700**	**23,704**	**166,748**	**31,987**	**38,417**	**1,085,771**
Additions	95,244	38,781	17,617	23,960	3,698	24,941	204,241
Change in estimates	−4,286	0	0	34,059	0	0	29,774
Used	−98,255	−41,543	−18,849	−1,368	−6,066	−20,282	−186,363
Released	−86,463	−6,490	−2,282	−1,509	−16,448	−7,526	−120,719
Accretion expense	8,293	0	0	4,702	0	0	12,995
Reclassifications*	−3,209	9,298	0	0	0	−2,791	3,298
Translation adjustment	0	59	0	41	26	93	220
Changes in reporting entities	0	166	0	0	0	1,470	1,636
At 31 December 2016	**613,541**	**122,971**	**20,190**	**226,633**	**13,197**	**34,322**	**1,030,854**
Thereof long-term							
31 December 2016	**505,200**	**0**	**0**	**226,633**	**0**	**0**	**731,833**
31 December 2015	583,550	0	0	166,748	0	0	750,298

* 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, 2015 and 2016, 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 2016 and 2015, the corresponding liability amounts to TEUR 589,468 and TEUR 668,491 and includes 2,021 and 1,914 employees, respectively.

In 2016 and 2015, the rates of compensation increase used to measure the provisions for restructuring are the same as those used for employee benefit obligations (see Note (26)). The following table provides the discount rates used, which are determined based on the Mercer Yield Curve Approach taking into account the respective maturities.

	2016	2015
Employees permanently leaving the service process	1.25%	2.00%
Social plans	0.75%	1.00%
Civil servants transferred to the government	1.25%	1.00%

Changes in the provision are recognised in employee expense and reported in the line item selling, general and administrative expenses, while the accretion expense is reported in the financial result in the line item interest on employee benefits and restructuring and other financial items. 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 the previous year. The change in estimates is due to adjustments of the discount rate and the rate of compensation (see Note (26)) as well as an adjustment of the employee turnover rate from 22.9% in 2015 to 34.3% in 2016. 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 2016 and 2015, the provision for the transfer of civil servants to the government amounts to TEUR 24,073 and TEUR 33,724 and comprises 193 and 205 employees, respectively. For information on the liability for employees transferred to the government, see Note (21).

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

in TEUR, at 31 December 2016	1 percentage point increase	1 percentage point decrease
Change in discount rate	–27,965	26,584
Change in rate of compensation	25,258	–23,719
in TEUR, at 31 December 2015		
Change in discount rate	–33,778	37,178
Change in rate of compensation	31,345	–29,142

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 (26)).

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 2016 and 2015, Telekom Austria Group recognised a provision for employees in its financial statements of TEUR 49,069 and TEUR 50.255, respectively.

Customer rebates
The provision 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. Furthermore, based on the Universal Service Ordinance (Universaldienstverordnung) an asset retirement obligation for the decommissioning of payphones was recorded in 2016.

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

	Austria	Other countries	Belarus
2016			
Discount rate	1.5%	1.5%	13.3%
Inflation rate	1.5%	1.0%	9.9%
2015			
Discount rate	2.0%	2.0%	17.1%
Inflation rate	1.0%	1.0%	11.5%

The discount rate applied to the calculation of asset retirement obligations reflects current market expectations with regard to interest effects as well as specific risks of the obligation, based on the risk-free interest rate of Austrian government bonds with a maturity of 30 years (2015: 25 years) or the comparable applicable interest rate in the case of Belarus. The inflation rates are adapted quarterly to reflect the general development in the individual countries. The change in these parameters resulted in an increase of the asset retirement obligation, as reported in the table of provisions in change in estimates, which is mainly recorded as an increase in the related item of property, plant and equipment.

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 2016	1 percentage point increase	1 percentage point decrease
Change in discount rate	–22,538	27,237
Change in inflation rate	26,953	–22,696
in TEUR at 31 December 2015		
Change in discount rate	–16,176	18,822
Change in inflation rate	19,251	17,211

Legal
Provisions mainly relate to expenses incurred in respect of legal advice and litigation. In 2016, accruals which had been recognised for proceedings relating to the statutory levy on hardware, blank tapes and storage media were used, or released, as A1 Telekom Austria AG joined the framework contract “New Media” concluded between the Austrian Chamber of Commerce and the responsible collecting societies and was thus able to close all pending proceedings in this regard.

Other provisions
Other provisions mainly relate to audit and consulting fees, commissions, taxes (excluding income taxes), energy and penalties.

(23) Current Deferred Income

in TEUR, at 31 December	2016	2015
Unearned income	131,799	130,045
Customer loyalty programmes	31,419	31,473
Deferred income, current portion	**163,218**	**161,518**

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.

(24) Long-term Debt

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

		At 31 December 2016				At 31 December 2015			
Currency	Maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds									
TEUR	2016			0	0	fixed	6.375%	750,000	749,910
TEUR	2017	fixed	4.250%	500,000	499,953	fixed	4.250%	500,000	499,312
TEUR	2021	fixed	3.125%	750,000	744,872	fixed	3.125%	750,000	743,828
TEUR	2022	fixed	4.000%	750,000	743,922	fixed	4.000%	750,000	742,764
TEUR	2023	fixed	3.500%	300,000	298,347	fixed	3.500%	300,000	298,093
TEUR	2026	fixed	1.500%	500,000	494,287			0	0
Total bonds				2,800,000	2,781,382			3,050,000	3,033,907
Bank debt									
TEUR	2016–2019			0	0	fixed	4.88%	21,305	21,305
TEUR	2017–2019			0	0	fixed	4.12%	84,000	84,000
TEUR	2016			0	0	fixed	5.41%	50,000	50,000
TEUR	2018	fixed	3.53%	22,000	22,000	fixed	3.22%	200,000	200,000
Total bank debt				22,000	22,000			355,305	355,305
Leases (Note (9))				**144**	**144**			263	263
Financial debt				**2,822,144**	**2,803,526**			3,405,568	3,389,475
Current portion of long-term debt				−500,030	−500,030			−805,353	−805,353
Long-term debt				**2,322,114**	**2,303,496**			2,600,215	2,584,122

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 2016, Telekom Austria Group redeemed 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 were 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.

On 7 December 2016, Telekom Austria Group issued a bond with a face value of TEUR 500,000, a maturity of ten years and a coupon of 1.5%. Discount and issue costs of TEUR 5,752 are amortised over the related term.

Bank debt

In 2016, bank debt amounting to TEUR 330,642 was redeemed prematurely. In 2015, no bank debt was redeemed prematurely.

(25) Deferred Revenues and Other Non-current Liabilities

in TEUR, at 31 December	2016	2015
Cash deposits received	810	819
Other non-current financial liabilities	19	20
Non-current financial liabilities	**829**	**839**
Long-term incentive programme	2,400	1,166
Other non-current non-financial liabilities	7,621	9,461
Deferred revenues, other	9,149	11,338
Non-current non-financial liabilities	**19,170**	**21,965**
Deferred revenues and other non-current liabilities	**20,000**	**22,804**

Other non-current non-financial liabilities include liabilities for pension contributions. Regarding the long-term incentive programme see Note (30). Other deferred revenues mainly relate to rental revenue.

(26) Employee Benefits

in TEUR, at 31 December	2016	2015
Service awards	67,294	70,408
Severance	132,964	119,316
Pensions	5,994	6,825
Long-term employee benefits	**206,251**	**196,550**

Actuarial assumptions

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

	2016	2015
Discount rate service awards	1.00%	1.25%
Discount rate severance	1.75%	2.25%
Discount rate pensions	1.50%	1.25%
Rate of compensation increase – civil servants	4.40%	4.90%
Rate of compensation increase – other employees	3.00%	3.00%
Rate of compensation increase – civil servants released from work	3.90%	4.50%
Rate of increase of pensions	1.60%	1.60%
Employee turnover rate*	0.0%–1.88%	0.0%–2.06%

* Depending on years of service.

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

Life expectancy in Austria is based on 'AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler'. The obligation relating to the international subsidiaries was measured on 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 specific legal regulations 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	2016	2015
At 1 January	**76,176**	77,491
Service cost	2,351	2,162
Interest cost	923	1,501
Actuarial gain/loss based on experience adjustment	–1,324	–1,496
Actuarial gain/loss from changes in financial assumptions	357	1,621
Recognised in profit or loss	**2,306**	3,789
Benefits paid	–5,665	–5,188
Change in reporting entities	–1	83
Foreign currency adjustments	0	2
Other	**–5,666**	–5,104
Obligation at 31 December	**72,816**	76,176
Less short-term portion	–5,522	–5,768
Non-current obligation	**67,294**	70,408

Of the defined benefit obligations for service awards, less than 1% relate to foreign subsidiaries as of 31 December 2016 and 2015, respectively.

As of 31 December 2016 and 2015, the weighted average duration of the obligation for service awards amounted to 6.4 and 7.0 years, respectively.

Severance

Defined contribution plans

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 2,028 and TEUR 1,976 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2016 and 2015, respectively.

Defined benefit plans

Severance benefit obligations for employees hired before 1 January 2003, excluding civil servants, 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	2016	2015
At 1 January	**119,886**	123,091
Service cost	5,209	5,736
Interest cost	2,681	2,438
Recognised in profit or loss	**7,890**	8,174
Actuarial gain/loss based on experience adjustment	–185	–295
Actuarial gain/loss from changes in demographic assumptions	–556	–387
Actuarial gain/loss from changes in financial assumptions	9,836	–6,868
Recognised in other comprehensive income	**9,095**	–7,550
Benefits paid	–2,439	–4,122
Change in reporting entities	7	295
Foreign currency adjustments	–6	–2
Other	**–2,438**	–3,829
Obligation at 31 December	**134,433**	119,886
Less short-term portion	–1,469	–570
Non-current obligation	**132,964**	119,316

Approximately 2% and 3% of the defined benefit obligations for severance relate to foreign subsidiaries as of 31 December 2016 and 2015, respectively.

As of 31 December 2016 and 2015, the weighted average duration of the severance benefit obligations was 15.8 years and 16.7 years, respectively.

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 2016 and 2015, 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 38,373 and TEUR 38,481 in 2016 and 2015, 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 11,874 and TEUR 12,624 in 2016 and 2015, 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	2016	2015
At 1 January	**7,483**	7,494
Interest cost	89	143
Recognised in profit or loss	**89**	143
Actuarial gain/loss based on experience adjustment	–225	16
Actuarial gain/loss from changes in financial assumptions	–151	490
Recognised in other comprehensive income	**–376**	506
Benefits paid	–601	–660
Obligation at 31 December	**6,595**	7,483
Less short-term portion	–602	–658
Non-current obligation	**5,994**	6,825

As of 31 December 2016 and 2015, the weighted average duration of the pension benefit obligations was 9.4 and 9.8 years, respectively.

Sensitivity analysis

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

in TEUR, at 31 December	2016	2015
Service awards	72,816	76,176
Severance	134,433	119,886
Pensions	6,595	7,483

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 2016	0.5 percentage point decrease	0.5 percentage point increase
Service awards	2,354	–2,243
Severance	10,839	–9,844
Pensions	308	–283
in TEUR, at 31 December 2015		
Service awards	2,677	–2,543
Severance	10,053	–9,115
Pensions	364	–334

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 2016	1 percentage point decrease	1 percentage point increase
Service awards	–3,919	4,293
Severance	–18,738	22,225
Pensions	–549	635
in TEUR, at 31 December 2015		
Service awards	–4,832	5,236
Severance	–17,399	20,761
Pensions	–645	750

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 2016	0.5 percentage point decrease	0.5 percentage point increase
Service awards	54	–2,325
Severance	3,300	–5,665
in TEUR, at 31 December 2015		
Service awards	60	–2,638
Severance	2,863	–5,122

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

(27) 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, remeasurement of defined benefit plans, available-for-sale reserve, hedging reserve and translation reserve.

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

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.

Share capital

As of 31 December 2016 and 2015, 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 2016 and 2015, América Móvil directly and indirectly holds 51.00% and 59.70%, respectively, free floated shares including treasury shares amount to 20.58% and 11.88% respectively, and ÖBIB holds a stake of 28.42% on both reporting dates.

On 23 April 2014, ÖBIB entered into a syndicate agreement, effective since 27 June 2014, with América Móvil B.V., Netherlands (América Móvil B.V., previously Carso Telecom B.V.) and América Móvil, by which the parties have agreed to jointly pursue a long-term policy with regard to the management of Telekom Austria Group, by exercising voting rights on a concerted basis. 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 consists of ten shareholder representatives, eight of which are nominated by América Móvil B.V. and two are nominated by ÖBIB. ÖBIB has the right to nominate the chairman of the Supervisory Board. América Móvil B.V. has the right nominate the deputy chairman.

On 24 July 2015, the function of the Chief Executive Officer of Telekom Austria AG was transferred to a management board member nominated by América Móvil B.V., 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.

According to the Austrian Banking Act and the Capital Requirements Regulation, a regulation for banks by the European Union, the subsidiary paybox Bank AG has to fulfil regulatory minimum equity requirements regarding bank-related risks, notably credit risk and operational risks as well as liquidity coverage requirements. On 31 December 2016 and 2015, these requirements were fulfilled.

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

At 31 December	2016	2015
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.

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:

	2016	2015
Date of Annual General Meeting	25 May 2016	27 May 2015
Dividend per share in Euro	0.05	0.05
Total dividend paid in TEUR	33,204	33,204
Date of payment	3 June 2016	3 June 2015

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

	2016	2015
Net income	802,919	384,941
Release of reserves reported in retained earnings	0	314,500
Allocation to reserves reported in retained earnings	−649,286	−406,670
Profit carried forward from prior year	259,568	1
Unappropriated retained earnings	**413,200**	292,772

In accordance with section 268 (3) UGB, the financial statements 2015 were changed after the preparation and submission of the audit report.
The unappropriated retained earnings before the change amounted to TEUR 33,242, the net income remained unchanged.

The unappropriated retained earnings according to Austrian GAAP are not subject to a dividend limitation apart from the restrictions of Section 235 (2) UGB relating to deferred tax assets recognised. 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 0.20 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 empowered to:
(a) use these treasury shares to settle obligations under the share-based compensation plans described in Note (30) 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	2016	2015
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.

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, based on its conditions, is 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 effected in February 2016 and 2015 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 Comprehensive Income 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 2016 and 2015.

Other comprehensive income (loss) items (OCI)

The other comprehensive income (loss) contains the remeasurement of severance and pension obligations, the available-for-sale reserve, the hedging reserve as well as the translation reserve. Their development is presented in the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Stockholders' Equity. The foreign currency translation adjustment mainly relates to the consolidation of velcom in Belarus and Vip mobile in the Republic of Serbia.

(28) Income Taxes

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

in TEUR	2016	2015
Current income tax	27,790	62,615
Deferred income tax	–81,305	–38,787
Income tax	**–53,515**	23,829

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

in TEUR	2016	2015
Continuing operations	–53,515	23,829
Income tax on realised result on hedging activities*	1,460	1,460
Income tax on unrealised result on securities available-for-sale*	47	–89
Income tax on realised result on securities available-for-sale*	20	–3
Income tax on remeasurement of defined benefit obligations*	–2,154	1,843
Tax benefit relating to hybrid capital**	–8,438	–8,438
Total income tax	**–62,580**	18,602

* Recognised in other comprehensive income (OCI)
**See Note (27).

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	2016	2015
Income tax expense at statutory rate	89,922	104,151
Foreign tax rate differential	–3,692	–17,019
Tax-non-deductible expenses	4,183	7,165
Tax incentives and tax-exempted income	–7,190	–7,644
Tax-free income (loss) from investments	–496	–95
Change in tax rate	–576	0
Tax benefit/expense previous years	–8,268	28
Changes in deferred tax assets not recognised	–89,307	–164,261
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	–38,060	101,456
Result from changes in reporting entities	0	–118
Other	–31	166
Income tax	**–53,515**	23,829
Effective income tax rate	–14.88%	5.72%

In 2016 and 2015, 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 to research, education and investment incentives and other government grants.

The change in tax rate relates mainly to an increase of the corporate tax rate from 17% to 19% in Slovenia, starting 2017, partly compensated by the reduction of the corporate tax rate from 20% to 18% in Croatia, starting 2017.

The tax benefit for prior periods recognised in 2016 results mainly from the final tax calculation 2015 in Austria.

The result from changes in reporting entities in 2015 relates to the gain resulting from the sale of GPS Bulgaria.

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	2016	2015
Deferred tax assets		
Deferred deduction for impairments of investments in subsidiaries	135,612	128,612
Loss carry-forwards	149,888	71,972
Accounts receivable: subscribers, distributors and other	7,510	6,855
Deferred income and other liabilities	658	677
Other current assets and prepaid expenses	1,480	821
Provisions, long-term	72,497	60,306
Employee benefit obligations	28,480	26,484
Property, plant and equipment	2,838	2,654
Other	8,635	8,702
Deferred tax assets	**407,598**	**307,082**
Deferred tax liabilities		
Property, plant and equipment	−37,371	−23,259
Other intangible assets	−133,644	−140,563
Provisions	−10,551	−5,769
Write down of treasury shares for tax purposes	−1,427	−1,427
Other	−1,246	−772
Deferred tax liabilities	**−184,240**	**−171,791**

in TEUR, at 31 December	2016	2015
Deferred tax assets	286,431	206,719
Deferred tax liabilities	−63,073	−71,427
Deferred taxes, net	**223,358**	**135,292**

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

Amortisation of tax goodwill according to Section 9 (7) KStG is treated as a temporary difference on investments in subsidiaries for tax purposes. According to IAS 12.39, no deferred tax liabilities are recorded in that case, thus there is no difference in 2016 and 2015.

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	2016	2015
Net operating loss carry-forwards	463,469	483,584
Temporary differences related to impairments of investments in consolidated subsidiaries	139,443	166,885
Deferred tax assets not recognised	**602,911**	**650,469**

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 2016, the loss carry-forwards and the years these will expire are the following:

Year	in TEUR
2017	88,288
2018	102,686
2019	115,872
2020	45
2021	7,277
Carry forward indefinitely	2,433,534
Total	**2,747,702**

The loss carry-forwards expiring in the years listed above mainly relate to the Republic of Serbia. Due to tax relief according to Article 50a of the Serbian Corporate Tax Act, the tax rate applicable at 31 December 2016 amounts to 1.6%.

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.

Income tax receivables relate to fiscal years not yet assessed. As of 31 December 2016, income tax receivables mainly relate to Austria and Slovenia; in 2015, they mainly related to Austria and Croatia. As of 31 December 2016 and 2015, income tax payables mainly relate to foreign subsidiaries.

(29) 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 well as finance lease contracts (see Note (14)) as of 31 December 2016 are:

in TEUR	Other finance leases	Operating leases
2017	78	65,821
2018	55	44,698
2019	13	24,687
2020	0	20,317
2021	0	17,389
After 2021	0	31,423
Total minimum lease payments	**147**	**204,334**
Less amount representing interest	–3	
Present value of lease payments	144	
Less current portion	–77	
Non-current lease obligations	**67**	

In 2016 and 2015, the rental and leasing expenses recognised in the Statement of Comprehensive Income amount to TEUR 165,318 and TEUR 169,743, respectively.

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 and, at 31 December 2016, they amount to:

in TEUR	Operating leases
2017	7,800
2018	2,924
2019	1,446
2020	1,094
2021	766
After 2021	605
Total minimum lease payments	**14,635**

Telekom Austria Group leases indefeasible rights of use in dark fibre under finance lease contracts, which have a term until 2033. As of 31 December 2016, the future minimum lease payments for these transactions amount to:

in TEUR	Finance lease
2017	311
2018	302
2019	292
2020	282
2021	273
After 2021	2,367
Total minimum lease payments	**3,827**
Less amount representing interest	–1,247
Present value of finance lease receivables	**2,580**
Less current portion	–161
Non-current finance lease receivables	**2,419**

(30) 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 fictitious bonus shares granted is calculated based on the average Telekom Austria stock price for a defined period. The performance period for meeting the performance targets was determined to be three years.

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), fictitious bonus shares are allocated to the participants and will be settled in cash. If the targets are fully met, fictitious bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, additional fictitious bonus shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of fictitious bonus shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no fictitious bonus shares will be allocated. For LTI 2013, the actual performance and the bonus shares allocated are summarised in the subsequent table.

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), fictitious bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, fictitious bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, proportionally additional fictitious bonus shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of fictitious bonus shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no bonus shares will be allocated.

On 1 September 2016, the seventh tranche (LTI 2016) was granted. Return on Invested Capital (ROIC) and the market revenue share of Telekom Austria Group (weighted with 50% each) 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), fictitious bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, fictitious bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, proportionally additional fictitious bonus shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of fictitious bonus shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no bonus shares will be allocated.

The following table summarises the significant terms and conditions for each tranche not yet settled:

	LTI 2016	LTI 2015	LTI 2014	LTI 2013
Start of the programme	1 January 2016	1 January 2015	1 January 2014	1 January 2013
Grant date	1 September 2016	1 September 2015	1 July 2014	1 September 2013
End of vesting period	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Vesting date	1 September 2019	1 September 2018	1 July 2017	1 September 2016
Personal investment at grant date	204,334	240,835	299,239	343,738
Personal investment at reporting date*	200,834	214,907	229,654	247,960
Expected performance**	126.00%	104.80%	55.40%	54.90%
Expected bonus shares***	488,764	426,196	254,456	0
Maximum bonus shares***	702,919	752,173	803,787	0
Fair value of programme in TEUR	2,558	2,315	1,332	0
Allocated bonus shares	0	0	0	224,676
Average stock price at end of vesting period in Euro	0	0	0	5.23
Share-based compensation in TEUR	0	0	0	1,175

* For LTI 2013, personal investment at the end of the vesting period.
** For LTI 2013, actual performance at the end of the vesting period.
*** Taking into account the allocation of fictitious bonus shares equal to the double personal investment.

As of the reporting date, a liability measured at fair value for the portion of the expected future expense of the LTI programme, which has already vested, has been 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 (21) and (25)). The following personnel expense is recognised in the Consolidated Statements of Comprehensive Income (negative values indicate income):

	2016	2015
Personnel expense LTI	2,583	955

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 2016	488	–489
Fair value of LTI 2015	426	–426

A change of five percentage points in the EBITDA applied would result in the following changes in fair values (negative values indicate a reduction):

in TEUR, at 31 December	5 percentage points increase	5 percentage points decrease
Fair value of LTI 2015	139	–137
Fair value of LTI 2014	228	–154

A change of 0.1 percentage point in the market revenue share applied would result in the following changes of fair values (negative values indicate a reduction):

in TEUR, at 31 December	0.1 percentage point increase	0.1 percentage point decrease
Fair value of LTI 2016	152	–153

(31) Cash Flow Statement

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

in TEUR	2016	2015
Capital expenditures paid	**816,463**	731,140
Reconciliation of additions in accounts payable	–52,377	53,327
Total capital expenditures	**764,086**	784,467

Reconciliation of additions in accounts payable include the adjustment of capital expenditures of current period not yet paid as well as capital expenditures of prior periods paid in the current period in accordance with IAS 7.43.

Total capital expenditures include interest capitalised (see Note (7)), but do not include additions related to asset retirement obligations. At 31 December 2016 and 2015, TEUR 125,840 and TEUR 187,025, respectively, of the additions to intangible assets and property, plant and equipment of the current year are unpaid (see Notes (14) and (15)).

The dividends received in 2016 and 2015 and recognised in the financial result (see Note (7)) had already been settled in cash as of 31 December and are reported in cash flow from operating activities. In 2016 and 2015, dividends paid include dividends paid to the non-controlling interests of subsidiaries in the amount of TEUR 288 and TEUR 163, respectively (see Note (33)).

In 2016 and 2015, cash and cash equivalents acquired totalled TEUR 720 and TEUR 3,518, respectively, and in 2015, cash and cash equivalents of TEUR 129 were disposed of due to the sale of subsidiaries (see Note (33)).

(32) 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.

Telekom Austria Group neither holds nor issues derivative financial instruments for trading or speculative purposes.

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 the policies of which are laid down in the Treasury Guidelines.

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. 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). Investments and fundings are 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 only in financial instruments and with counterparties approved by the Management Board of Telekom Austria Group. Counterparties must have 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 compared to prior years.

Funding sources

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 bank loans and capital markets. For details of outstanding long-term debt and a description of the different classes of the debt as of the reporting date, see Note (24).

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 2016 and 2015, no multi-currency notes were issued.

As of 31 December 2016 and 2015, 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 2016 and 2015, no variable interest-rate liabilities existed. Foreign currencies were translated at the rates valid on the reporting date.

in TEUR	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 years
At 31 December 2016						
Bonds	3,266,917	551,250	41,438	71,438	964,313	1,638,479
Bank debt	23,724	608	198	22,918	0	0
Accounts payable – trade	553,806	533,449	12,080	3,586	4,181	510
Lease obligations	147	53	34	47	13	0
Other financial liabilities	172,006	46,489	124,089	593	0	836
At 31 December 2015						
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
Lease obligations	265	111	8	80	67	0
Other financial liabilities	150,702	34,450	111,545	2,807	927	973

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. The payment of the purchase price liability of ONE depends on the exercising of the option by Telekom Slovenije (see Notes (21) and (33)).

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 in accordance with the Treasury Guideline. At 31 December 2016 and 2015, Telekom Austria Group held no derivative financial instruments.

The calculation of fair values 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 compared to prior years.

Interest rate risk

Since all of Telekom Austria Group's long-term debt has 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 related to investment activities is considered low due to the short-term nature of financial assets.

For details of the risks related to long-term financial liabilities, see Note (24).

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
2016			
Fixed rate financial liabilities	2,822,000		
Sensitivity at 4.478%		–126,369	126,369
2015			
Fixed rate financial liabilities	3,405,305		
Sensitivity at 4.044%		–137,711	137,711

Cash flow sensitivity analysis for variable-rate financial instruments

Since all of Telekom Austria Group's long-term debt has fixed interest rates at 31 December 2016 and 2015, 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 is 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 2016 and 2015, of all accounts receivable: subscribers, distributors and other, net as well as accounts payable trade, only the following are denominated in a currency other than the functional currency of the reporting entities (for foreign exchange rates, see Note (3)):

in TEUR, at 31 December	2016			2015		
Denominated in	EUR	USD	Other	EUR	USD	Other
Accounts receivable: subscribers, distributors and other, net	1,867	7,617	6,312	13,822	973	13,553
Accounts payable trade	62,945	12,204	3,754	54,414	7,665	15,568

In 2016 and 2015, a change of 10% in the exchange rate of the Euro to the currencies listed below (see Note (4)) would increase/decrease foreign exchange rate differences as follows:

in TEUR	2016	2015
Croatian Kuna (HRK)	2,739	1,661
Serbian Dinar (CSD)	1,655	1,191
Belarusian Rouble (BYR/BYN)*	577	367

* For the redenomination of the Belarusian Rouble, see Note (4).

No sensitivity analysis was performed for other accounts receivable or for accounts payable 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 and investment activities.

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 compared 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 (3)). 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.

Financial investments and cash and cash equivalents
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 (see also Exposure to liquidity risk). Therefore, the exposure to any significant credit risk is low.

According to the Capital Requirements Regulation, 'Internal Liquidity Adequacy Assessment Process' requirements and contractual obligations to the licensor VISA, the cash and cash equivalents and short-term investments of the subsidiary paybox Bank AG listed in the table below serve as a cash reserve:

in TEUR, at 31 December	2016	2015
Cash and cash equivalents	7,006	15,784
Short-term investments	5,249	0

The carrying amount of financial assets and cash and cash equivalents represents the maximum credit risk exposure (see Notes (9) and (18)):

in TEUR, at 31 December	2016	2015
Available-for-sale investments	13,647	8,884
Financial investments valued at cost	1,468	1,710
Cash and cash equivalents	457,460	909,176
Carrying amount	**472,575**	919,769

Loans and 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.

Within the framework of the applicable legal regulations, each new customer is analysed individually for creditworthiness.

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

The following table sets forth the maximum exposure to credit risk for other financial assets and accounts receivable: subscribers, distributors and other, net, which equals the carrying amount (see Notes (10), (13) and (19)):

in TEUR, at 31 December	2016	2015
Accounts receivable: subscribers, distributors and other, net	636,474	624,635
Financial assets	139,264	116,829
Carrying amount	**775,738**	741,463

Accounts receivable from related parties are not included.

Telekom Austria Group has no insurance for its accounts receivable because the credit risk is sufficiently diversified due to the large number of customers. However, based on the credit assessment of retail and wholesale customers, Telekom Austria Group requires bank guarantees, warranty and indemnity declarations on behalf of subsidiaries and cash deposits (see Notes (21) and (25)).

in TEUR, at 31 December	2016	2015
Cash deposits	9,520	7,362
Guarantees	9,284	13,234

The following table sets forth the ageing of other financial assets and accounts receivable: subscribers, distributors and other, net:

in TEUR, at 31 December	Gross 2016	Allowance 2016	Gross 2015	Allowance 2015
unbilled & not yet due	675,065	12,181	675,114	12,296
Past due 0–30 days	52,286	3,384	40,697	3,865
Past due 31–60 days	22,986	4,751	13,403	3,788
Past due 61–90 days	12,119	3,997	8,799	3,888
More than 90 days	238,935	201,342	215,641	188,354
Total	**1,001,392**	**225,654**	953,654	212,190

in TEUR, at 31 December	2016	2015
Financial assets past due, gross	326,327	278,540
Allowance financial assets	−213,473	−199,895
Financial assets past due, net	112,854	78,645

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

in TEUR	2016	2015
At 1 January	212,190	183,456
Foreign currency adjustment	498	−3,089
Change in reporting entities	110	25,491
Reversed	−3,639	−5,546
Charged to expenses	47,356	45,627
Amounts written-off	−30,861	−33,749
At 31 December	**225,654**	212,190

Telekom Austria Group has grouped accounts receivable according to their exposure to different risks. Corresponding to the risk involved and based on historic experience, a certain percentage of valuation allowance is determined for each category of accounts receivable. All accounts receivable 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.

Impairment losses and reversal of impairment losses for trade and other receivables classified as loans and receivables are recognised in bad debt expenses in selling, general and administrative expenses. Bad debt expenses mainly relate to accounts receivable: subscribers, distributors and other.

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

in TEUR, at 31 December	2016	2015
Domestic	758,242	736,786
Foreign	90,479	88,436
Allowances	−212,247	−200,588
Accounts receivable: subscribers, distributors and other, net	**636,474**	**624,635**
Thereof		
Specific allowance	7,537	13,253
General allowance	204,710	187,335

Accounts receivable: subscribers, distributors and other from Telekom Austria Group's most significant customer amount to TEUR 2,979 and TEUR 10,781 as of 31 December 2016 and 2015, respectively. Thus, no major concentration of credit risk exists.

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 2016	Carrying amount	Fair value 2015
Financial assets				
Cash and cash equivalents	**457,460**	**457,460**	909,176	909,176
Accounts receivable: subscribers, distributors and other, net	636,474	636,474	624,635	624,635
Receivables due from related parties	925	925	878	878
Other current financial assets	93,068	93,068	80,507	80,507
Other non-current financial assets	46,195	46,195	36,322	36,322
Loans and receivables	**776,663**	**776,663**	742,342	742,342
Long-term investments	6,914	6,914	6,525	6,525
Short-term investments	6,733	6,733	2,367	2,367
Available-for-sale investments	**13,647**	**13,647**	8,893	8,893
Investments at cost	**1,468**	**1,468**	1,701	1,701

Cash and cash equivalents, accounts receivable: subscribers, distributors and other, net as well as other current financial assets have maturities shorter 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 stakes in CEESEG AG and CATV-047 d.o.o. Kabelska televizija, see Note (18).

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 2016	Carrying amount	Fair value 2015
Financial liabilities				
Liabilities to financial institutions	35	35	5,087	5,087
Bonds	2,781,382	3,093,835	3,033,907	3,297,392
Other current financial liabilities	162,838	162,846	150,014	150,014
Non-current liabilities to financial institutions	22,000	23,573	355,305	391,617
Lease obligations	144	144	263	263
Other non-current liabilities	829	829	839	839
Accounts payable – trade	553,747	553,747	573,650	573,650
Payables due to related parties	6,418	6,418	1,829	1,829
Accrued interest	49,624	49,624	93,200	93,200
Financial liabilities at amortised cost	**3,577,017**	**3,891,052**	4,214,094	4,513,891

Non-current liabilities to financial institutions include their short-term portion.

Accounts payable 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 2016				
Available-for-sale & other investments	12,725	923	0	13,647
Financial assets measured at fair value	**12,725**	**923**	**0**	**13,647**
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

(33) Companies and Business Combinations

Name and company domicile	Share in capital as of 31 December 2016 in %	Method of consolidation*	Share in capital as of 31 December 2015 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	ME	–	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

Name and company domicile	Share in capital as of 31 December 2016 in %	Method of consolidation*	Share in capital as of 31 December 2015 in %	Method of consolidation*
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
Telekom Austria Group M2M GmbH, Vienna	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	ME	-	100.00	FC
Blizoo Media and Broadband EAD, Sofia	100.00	FC	100.00	FC
Cabletel-Prima AD, Nessebar	51.00	FC	51.00	FC
Citynet TV OOD, Aytos	51.00	FC	51.00	FC
Globo EOOD, Sofia	LIQ	-	100.00	NC
Cable Information System AD, Russe	87.55	NC	87.55	NC
Evrocom Sofia Cable EOOD, Sofia	100.00	NC	100.00	NC
Vereia Cable AD, Sofia	100.00	NC	100.00	NC
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	FC	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
Adelfina Ltd., Minsk	100.00	FC	100.00	FC
Unitary enterprise Solar Invest, Bragin town	100.00	FC	-	-
Limited Liability Company velcom ADC, Minsk	100.00	FC	-	-
Limited Liability Company TeleSet, Gomel	100.00	FC	-	-
Segment Macedonia				
one.Vip DOO, Skopje-Zentar	55.00	FC	55.00	FC
Vip operator uslugi DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
Vip operator prodazba DOOEL, Skopje-Zentar	ME	-	100.00	FC
Astra Plus DOOEL, Kocani	100.00	FC	100.00	FC
Kabel Riz DOOEL, Kocani	ME	-	100.00	FC
Filadelfija –2002 Dooel, Kocani	ME	-	100.00	FC
Studio Andes DOOEL, Radovish	ME	-	100.00	FC
BLIZOO DOOEL, Skopje	ME	-	100.00	FC
Digi plus Multimedia DOOEL, Skopje	100.00	FC	100.00	FC
Segment Serbia				
Vip mobile d.o.o., Belgrade	100.00	FC	100.00	FC
Amis Telekomunikacije d.o.o., Belgrade	100.00	FC	100.00	FC
Segment Slovenia				
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00	FC	100.00	FC
Amis d.o.o., Maribor	ME	-	100.00	FC
TA Mreža d.o.o., Ljubljana	ME	-	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	ME	-	100.00	FC

Name and company domicile	Share in capital as of 31 December 2016 in %	Method of consolidation*	Share in capital as of 31 December 2015 in %	Method of consolidation*
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	ME	-	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	ME	-	100.00	FC
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	ME	-	100.00	FC
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	ME	-	100.00	FC
SB Telecom Ltd., Limassol	100.00	FC	100.00	FC
Amisco N.V., Grimbergen	LIQ	-	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.

On 30 November 2016, Telekom Austria Group acquired 100% of the Belarusian fixed-line operator Atlant Telecom (Atlant) and its subsidiary TeleSet. After the acquisition, Atlant was renamed velcom ACS. Both companies are the leading privately owned fixed-line operators in Belarus offering fixed-line broadband, IPTV and cable TV as well as a video and audio library. The acquisition of Atlant and TeleSet is a further step in Telekom Austria Group's convergence strategy. It allows Telekom Austria Group to develop its Belarusian subsidiary velcom from a mobile-only player into a fully converged operator. The fair values of the assets acquired and liabilities assumed at the acquisition date were determined based on the preliminary allocation of consideration transferred and are reported in the segment Belarus:

Acquisition of Atlant & TeleSet in TEUR	Fair values on acquisition date
Property, plant and equipment	12,226
Intangible assets	9,174
Other assets and receivables	384
Cash and cash equivalents	676
Deferred tax liabilities	−2,736
Accounts payable	−3,749
Net assets acquired	**15,975**
Goodwill	10,768
Consideration transferred	**26,743**
Cash and cash equivalents acquired	−676
Net cash outflow	**26,068**

The final allocation of consideration transferred will be determined once all necessary information regarding identifiable assets is available (IFRS 3.45). The factors contributing to goodwill are expectations of positive returns due to a favourable development of the market share in Belarus and cost synergies. Since the acquisition date, Atlant and TeleSet have contributed revenues of TEUR 1,282 and a net loss of TEUR 18. 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 gross contractual amounts of acquired receivables are TEUR 443. Management's best estimate at the acquisition date of the contractual cash flows not expected to be collected is TEUR 146, thus the fair value amounts to TEUR 297. Acquisition-related costs of TEUR 269 are reported in selling, general and administrative expenses.

On 22 December 2015, Telekom Austria Group acquired 100% of CATV-047 d.o.o Kabelska televizija (CATV) in Croatia. At 31 December 2015, CATV was reported in long-term investments (see Note (18)), as the financial statements as of the acquisition date were not yet available.

The initial consolidation of CATV took place in the first quarter 2016. The fair values 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 CATV in TEUR	Fair values on acquisition date
Property, plant and equipment	123
Intangible assets	410
Other assets and receivables	39
Cash and cash equivalents	44
Deferred tax liabilities	–82
Accounts payable	–110
Net assets acquired	**423**
Goodwill	410
Total purchase consideration	**833**
Debt paid on behalf of CATV	91
Cash and cash equivalents acquired	–44
Net cash outflow	**880**

On 28 September 2015, Telekom Austria Group acquired 100% of Bultel Cable Bulgaria EAD (Blizoo Bulgaria). In 2016, the final purchase consideration was determined. The following table provides the change in the allocation of the purchase consideration.

Acquisition of blizoo Bulgaria in TEUR	preliminary 2015	adjustment	final 2016
Gain resulting from bargain purchase	–845	–196	–1,041
Total purchase consideration	**–845**	**–196**	**–1,041**

On 1 October 2015, Vip operator, a Macedonian subsidiary of Telekom Austria Group, was merged with Telekom Slovenije's subsidiary ONE, both operating in 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 purchase consideration includes the fair value of the option (see Notes (21) and (7)). Based on the put options and the exclusion of Telekom Slovenije from dividend rights, no non-controlling interest is recorded. In 2016, the final purchase consideration was determined. The following table provides the change in the allocation of the purchase consideration.

Acquisition of ONE in TEUR	preliminary 2015	adjustment	final 2016
Goodwill	21,090	–421	20,669
Other liabilities	–8,085	421	–7,664

(34) Commitments and Contingent Assets and Liabilities

Non-deductible interest on debt in accordance with Section 12 (1) No. 9 Austrian KStG for the years 2011 to 2013 was not included in taxable income, since there are justified doubts regarding the legality of the tax regulation. However, in some decisions in 2015 and 2016 on Section 12 (1) No. 9 KStG, the Constitutional Court of Justice rejected doubts of the illegality of the regulation. A provision was nevertheless not necessary, because the amount of TEUR 67,283 is covered in the loss carryforwards subject to allowance.

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 2016, the total amount of the tax claim including accrued interest amounts to TEUR 22,674.

On 26 October 2015, the administrative court decided in favour of Mobiltel. On 13 November 2015, the tax authorities appealed to the Supreme Administrative Court (SAC). The tax case is therefore assigned to the highest administrative court as the final instance. Mobiltel has issued a bank guarantee covering up to TEUR 22,804 to secure a possible tax claim. The first SAC sitting is scheduled for 8 February 2017.

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 21,329 including interest up to 31 December 2016. 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. Currently, Mobiltel has two active further bank guarantees covering up to TEUR 21,347 to secure the possible tax claim for 2008.

On 17 October 2016, the tax authorities issued a third tax assessment act, identical to the previous ones and concerning tax treatment of the amortisation of the brand name and the customer base. The assessment is related to the financial year 2009 and amounts to TEUR 18,160 including interest up to 31 December 2016. As proceeded with the previous tax assessments, Mobiltel appealed to the highest Bulgarian tax authority, along with an official request for suspension of the administrative appealing procedure until the highest administrative court has reached a final decision relating to the financial year 2007. As expected, the request for suspension was answered positively. The obligation of the third tax assessment is covered by one bank guarantee for the amount of TEUR 18,407 to secure the possible tax claim for 2009.

Moreover, a subsequent tax audit covering the years 2010 to 2013 is currently ongoing, the results of which are hard to estimate because the outcome is dependent on the decision of the highest administrative court. The deadline for the appeal decision is 1 August 2017.

In case of an unfavourable outcome of the court proceedings, Mobiltel might face a further potential additional claim for the years 2010 to 2012 of up to TEUR 44,885 including penalty interest (as of 31 December 2016).

Mobiltel expects the court decision to be in its favour due to the fact that Mobiltel followed the approach confirmed by the Minister of Finance and two consecutive tax audits in the past. Mobiltel has already issued bank guarantees covering up to TEUR 62,558 to secure the possible tax claim.

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 2016. 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 Board and Supervisory Board

As of 31 December 2016, 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 has been a member of the Management Board and, since 1 August 2015, CEO. Since 1 June 2014, Siegfried Mayrhofer has been a member of the Management Board.

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

in TEUR	2016	2015
Basic remuneration (fixed salary incl. remuneration in kind)	1,026	1,489
Variable remuneration	1,214	1,695
Share-based compensation (Long Term Incentive Program)*	263	29
Total	**2,503**	3,213
Severance and termination expenses	0	3,472
Compensation Supervisory Board	204	235

* See Note (30)

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, the variable remuneration in 2016 includes the payment of variable remuneration for the year 2015 until the resignation amounting to TEUR 208 as well as the share-based compensation for LTI 2013 of TEUR 104 and, in 2015, termination expenses of TEUR 290 and severance expenses of TEUR 1,114.

Günther Ottendorfer's CTO contract with a term until 31 August 2016 was prematurely terminated as per 5 March 2015. The table above includes, in 2016, share-based compensation for LTI 2013 of TEUR 98 and, in 2015, termination expenses of TEUR 1,757.

Hans Tschuden's CFO 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. The share-based compensation for LTI 2013 of TEUR 96 paid in 2016 is not included in the table.

(36) Employees

The average number of employees during the years 2016 and 2015 was 17,717 and 16,471, respectively. As of 31 December 2016 and 2015, Telekom Austria Group employed 18,203 and 17,673 employees (full-time equivalents).

(37) Subsequent Events

On 8 December 2016, Telekom Austria Group agreed to acquire 100% of Metronet telekomunikacije via its Croatian subsidiary Vipnet. Metronet is a leading alternative fixed business solutions provider in Croatia and delivers a diverse product offering, focussed on delivering services to the business segment. The transaction is subject to merger control clearance. The closing is expected for the first quarter 2017.

On 19 January 2017, Telekom Austria Group entered into three new credit lines with a total volume of TEUR 250,000 and a term of one year, which had not been utilised until the date of release for publication of the Consolidated Financial Statements by the Management Board.

(38) Release for Publication

On 25 January 2017, 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 2017

CEO and COO Alejandro Plater

CFO Siegfried Mayrhofer

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

AUDIT OPINION

We have audited the consolidated financial statements of

Telekom Austria Aktiengesellschaft,Vienna,

and of its subsidiaries (the Group) comprising the consolidated statement of financial position as of December 31, 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2016 and its financial performance for the year then ended in accordance with the International Financial Reportings Standards (IFRSs) as adopted by EU, and the additional requirements under Section 245a Austrian Company Code UGB.

BASIS FOR OPINION

We conducted our audit in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing. Our responsibilities under those regulations and standards are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements' section of our report. We are independent of the Group in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

1. Valuation of property, plant and equipment and intangible assets, including goodwill
2. Revenues and related IT systems
3. Restructuring accruals
4. Valuation of deferred tax assets

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

Description

Telekom Austria Group shows significant amounts of goodwill (mEUR 1,241.8), intangible assets (mEUR 2,321.4) and property, plant and equipment (mEUR 2,550.8) in its consolidated financial statements as of December 31, 2016.

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

Telekom Austria Group's disclosures about goodwill, intangibles assets and property, plant and equipment and related impairment testing are included in Note 4 (Significant Accounting Policies), Note 14 (Property, plant and equipment), Note 15 (Intangibles) and Note 16 (Goodwill) in the consolidated financial statements.

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

How our audit addressed the matter

Our audit procedures included, among others, the following:

We assessed the design and implementation of the controls over the impairment testing process.

We evaluated the composition of cash generating units (CGU's) and the assets allocated to each CGU.

We compared forecasted revenues and EBITDA margins as well as capital expenditure for all CGU's with the Telekom Austria Group plans submitted to the audit committee. We analyzed the main drivers for the future development included in the business plan (revenues, expenses, capex and changes in working capital) to determine the appropriateness of the projections. We also verified the assumptions made in relation to discount rates and growth rates.

We involved EY valuation specialists in our audit procedures relating to impairment.

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

2. Revenues and related IT systems

Description

Telekom Austria Group's revenues in 2016 resulted from various revenue streams and IT systems processing millions of records per day.

Telekom Austria Group's disclosures about revenues are included in Note 4 (Significant Accounting Policies) and Note 5 (Revenues) in the consolidated financial statements.

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

How our audit addressed the matter

Our audit procedures included, among others, the following:

We assessed the accounting policies relating to revenue recognition (including multiple element contracts as well as customer loyalty programs) and the impact of new business models.

We assessed the design and implementation of the controls over the revenue processes including the revenue related IT systems (rating, billing and other support systems) and IT general controls with involvement of EY IT specialists.

We performed substantive audit procedures on revenues to corroborate the results of the design and implementation assessment of controls over revenue related processes and IT systems.

3. Restructuring accruals

Description

Telekom Austria Group shows significant amounts of restructuring accruals (mEUR 613.5 as of December 31, 2016) which consist of accruals for employees, who will no longer provide services but who cannot be laid off due to their status as civil servants, accruals for social plans and accruals for employees transferring voluntarily to the government.

Telekom Austria Group's disclosures about restructuring accruals are included in Note 4 (Significant Accounting Policies) and Note 22 (Accrued liabilities and current provisions, asset retirement obligation and restructuring) in the consolidated financial statements.

We considered restructuring accruals as a key audit matter as the related amounts are significant, the determination process itself requires judgment and a change in the assumptions can have a significant impact on the financial statements.

How our audit addressed the matter

Our audit procedures included, among others, the following:

We assessed the legal and contractual basis for the restructuring accruals.

We assessed the design and implementation of the controls over the determination of the Company's restructuring accruals.

We recalculated the computations of the restructuring accruals and verified the main assumptions (discount rate, rate of compensation increase, participant data as well as employee turnover rate for accruals for employees, who will no longer provide services but who cannot be laid off due to their status as civil servants) used in the calculations.

We involved EY actuaries in our audit procedures relating to restructuring accruals.

We also evaluated the adequacy of disclosures made regarding restructuring accruals and related assumptions.

4. Valuation of deferred tax assets

Description

Telekom Austria group shows significant deferred tax assets (mEUR 286.4 as of December 31, 2016) in its consolidated financial statements, a further amount of mEUR 577.2 has not been recognized as the realization is not probable in the near future according to the assessment of the entity based on its tax planning.

Telekom Austria Group's related disclosures are included in Note 4 (Significant Accounting Policies) and Note 28 (Income Taxes) of the consolidated financial statements. Deferred tax assets and tax loss carryforwards mainly relate to the operations in Austria.

The valuation of deferred tax assets was important for our audit as the assessment process is complex and requires judgement. It is based on assumptions that are affected by future market or economic conditions.

How our audit addressed the matter
Our audit procedures included, among others, the following:

We assessed the design and implementation of the controls over the determination of the Company's deferred tax assets.

We compared forecasted revenue and profit margins as well as capital expenditure for all cash generating units with the Telekom Austria Group plans submitted to the audit committee. We analyzed the main drivers for the future development included in the business plan (revenues, expenses and capex) to determine the appropriateness of the projections. We also verified the treatment of differences between IFRS and tax law in the planning of future taxable income. We assessed whether the deferred tax assets may be recoverable before the tax loss carryforwards expire.

EY tax specialists assisted us in performing the audit procedures relating to deferred tax assets.

We also evaluated the adequacy of disclosures made regarding deferred tax assets and related assumptions.

RESPONSIBILITIES OF MANAGEMENT AND OF THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a Austrian Company Code UGB for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Comments on the Management Report for the Group

Pursuant to Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion

In our opinion, the management report for the Group was prepared in accordance with the valid legal requirements, comprising the details in accordance with Section 243a Austrian Company Code UGB, and is consistent with the consolidated financial statements.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether – based on our knowledge obtained in the audit – the other information is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

Responsible Austrian Certified Public Accountant

The engagement partner on the audit resulting in this independent auditor's report is Mr. Erich Lehner, Certified Public Accountant.

Vienna, January 27, 2017

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Erich Lehner mp
Wirtschaftsprüfer / Certified Public Accountant

Mag. (FH) Severin Eisl mp
Wirtschaftsprüfer / Certified Public Accountant

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

FORWARD-LOOKING STATEMENTS

COMPANY CONTACT DETAILS

Telekom Austria AG
Lassallestrasse 9
1020 Vienna, Austria
Tel.: +43 50 664 0
www.telekomaustria.com

A1 Telekom Austria AG
Lassallestrasse 9
1020 Vienna, Austria
Tel.: +43 50 664 0
www.a1.net

Mobiltel EAD
1, Kukush Str.
1309 Sofia, Bulgaria
Tel.: +359 88 8088088
www.mtel.bg

Vipnet d.o.o.
Vrtni put 1
10000 Zagreb, Croatia
Tel.: +385 1 4691 091
www.vipnet.hr

Unitary enterprise velcom
36–2, Internatsionalnaya
220030 Minsk, Belarus
Tel.: +375 17 330 33 03
www.velcom.by

A1 Slovenija, d. d.
Šmartinska cesta 134b
1000 Ljubljana, Slovenia
Tel.: +386 40 443 000
www.a1.si

Vip mobile d.o.o.
Bulevar Milutina
Milankovića 1ž
11070 Novi Beograd,
Republic of Serbia
Tel.: +381 6 01234
www.vipmobile.rs

one.Vip DOO Skopje
Filip Vtori Makedonski 3
1000 Skopje,
Republic of Macedonia
Tel.: +389 2 311000 77
www.onevip.mk