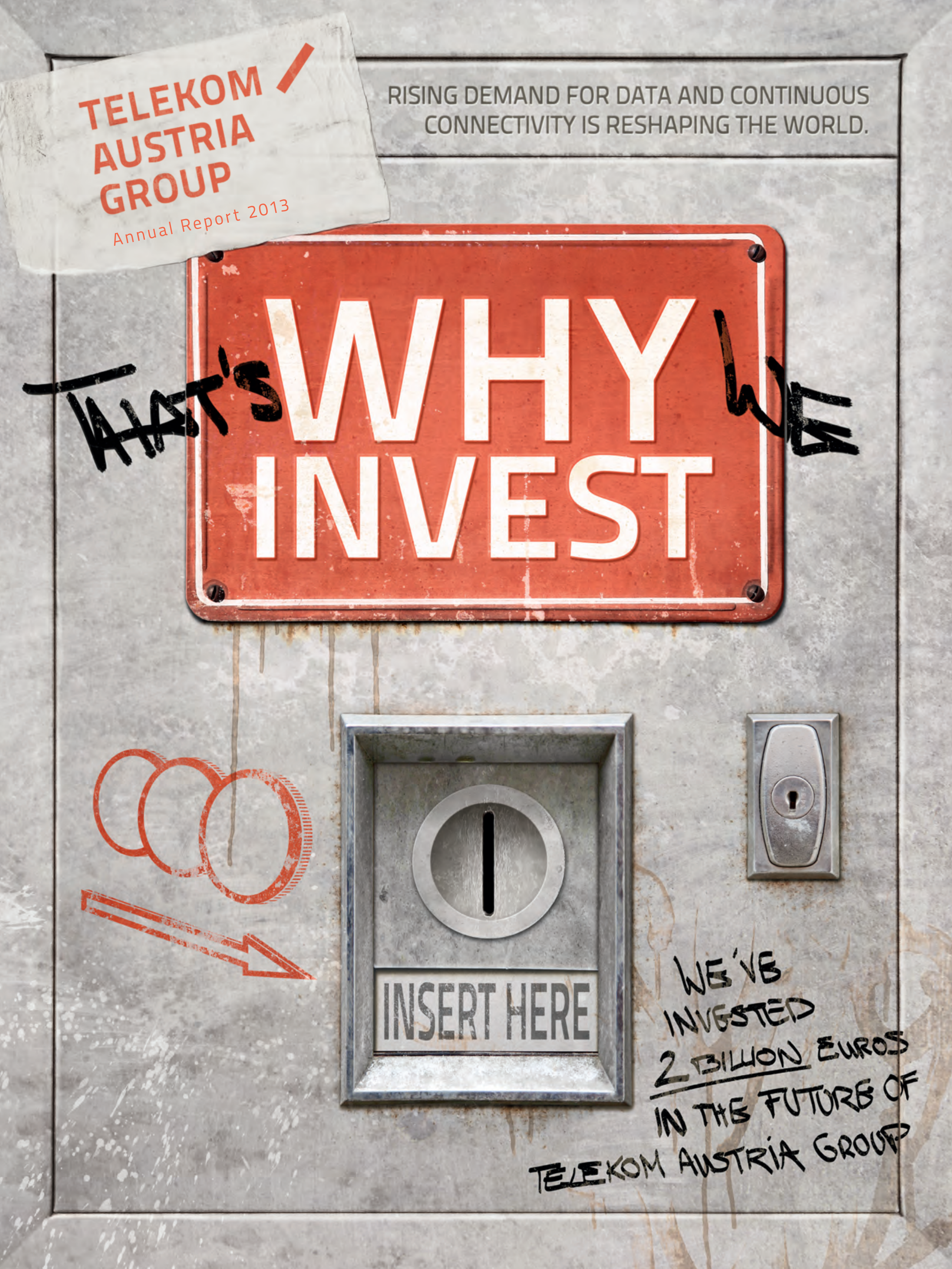

TELEKOM AUSTRIA GROUP
Annual Report 2013
RISING DEMAND FOR DATA AND CONTINUOUS CONNECTIVITY IS RESHAPING THE WORLD.
THAT'S WHY WE INVEST
INSERT HERE
WE'VE INVESTED 2 BILLION EUROS IN THE FUTURE OF TELEKOM AUSTRIA GROUP

INVEST

in a fast-changing industry which is transforming and enriching our daily lives.

in technologies which drive the digital economy and are fundamental to society.

in a company with the vision to rise to the challenges and fully realise the potential of the telecoms market.

Key Figures of the Telekom Austria Group

	2013	Change in %	2012[1]	2011
Fixed Access Lines (in '000)				
in Austria	2,283.9	0.1	2,282.3	2,336.2
in Bulgaria[2]	159.9	1.4	157.6	128.8
in Croatia	193.1	18.4	163.0	143.7
Total Fixed Access Lines	**2,636.9**	**1.3**	**2,602.9**	**2,608.7**
of which broadband lines in Austria	1,390.2	5.9	1,312.1	1,273.4
of which broadband lines in Bulgaria[2]	155.0	2.0	152.0	123.1
of which broadband lines in Croatia	109.2	25.9	86.8	68.6
A1 TV customers	235.7	7.7	218.8	198.6
Mobile Communication Customers (in '000)				
in Austria[3]	5,714.5	10.3	5,179.2	5,271.2
in Bulgaria[2]	4,181.5	–7.4	4,515.6	5,501.4
in Croatia	1,843.8	–4.0	1,921.0	2,018.0
in Belarus	4,947.4	3.1	4,800.4	4,620.4
in Slovenia	679.2	2.5	662.6	639.7
in the Republic of Serbia	2,017.7	8.5	1,859.9	1,642.7
in the Republic of Macedonia	629.7	–0.4	632.0	566.6
in Liechtenstein	6.4	3.2	6.2	6.2
Total[4]	**20,117.4**	**2.5**	**19,625.6**	**20,266.2**
Employees (full-time equivalent, as of 31 Dec)	16,045	–2.4	16,446	17,217
Key Financial Data (in EUR million)[5]				
Revenues	4,183.9	–3.4	4,329.7	4,454.6
of which generated abroad (in %)	37.2	–	36.7	35.3
EBITDA comparable[6]	1,287.4	–11.6	1,455.7	1,527.3
of which generated abroad (in %)	43.5	–	39.5	37.9
EBITDA comparable margin (in %)	30.8	–	33.6	34.3
EBITDA incl. effects from restructuring and impairment tests	1,242.2	–12.6	1,421.1	1,044.7
Operating income	377.6	–17.4	457.1	–7.6
Net result	109.7	5.5	104.0	–252.8
Free cash flow[7]	–716.7	n.m.	325.4	479.2
Cash flow generated from operations	1,051.6	0.3	1,047.9	1,213.3
Capital expenditures[8]	1,779.1	144.3	728.2	739.0
Net debt	3,695.8	13.8	3,248.9	3,380.3
Equity	1,512.6	84.7	819.1	883.1
Equity ratio (in %)	19.2	–	11.3	11.9
Net debt to EBITDA comparable	2.9×	–	2.2×	2.2×
Return on Invested Capital – ROIC[9] (in %)	3.9	–	3.8	–0.1
Return on Equity – ROE[9] (in %)	9.3	–	12.1	–21.4
Key Share Figures				
Earnings per share (in EUR)	0.20	–16.7	0.23	–0.57
Free cash flow per share (in EUR)	–1.62	n.m.	0.74	1.08
Market capitalisation as of 31 Dec (in EUR billion)	2.4	–4.1	2.5	4.1
Share price as of 31 Dec (in EUR)	5.50	–4.2	5.74	9.24
Share price high (in EUR)	6.75	–27.5	9.31	10.69
Share price low (in EUR)	4.74	4.9	4.51	6.80
Dividend per dividend-bearing share (in EUR)	0.05[10]	–	0.05	0.38

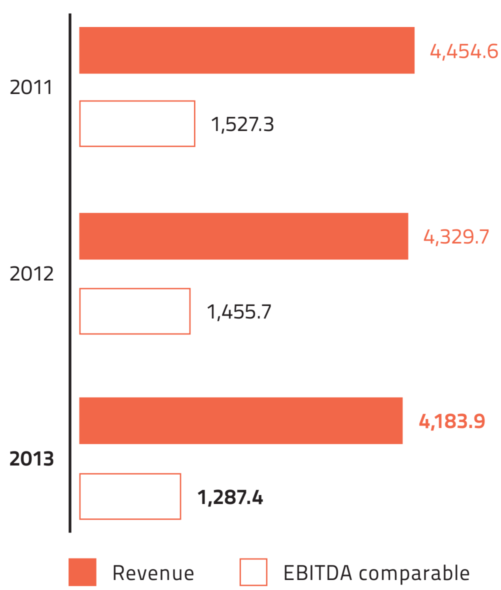
1) As of 1 January 2013 IAS 19 – Employee Benefits (amended) – became effective. Accordingly, the reported results for the interim and full year 2012 were adjusted retrospectively. 2) As of Q4 2013 the methodology for counting subscribers has been changed in Bulgaria. Previous quarters of 2012 and 2013 were adjusted retrospectively. 3) As of Q2 2013 the methodology for counting subscribers has been changed in Austria. Previous quarters of 2012 and 2013 were adjusted retrospectively. 4) The difference between the individual segments and the total is due to the business segment M2M. 5) The consolidated financial figures in 2011, 2012 and 2013 include effects from the application of hyperinflation accounting pursuant to IAS 29. 6) Defined as EBITDA, excluding effects from restructuring and impairment tests. 7) Defined as cash flow generated from operations minus capital expenditures in existing business areas. 8) Excluding additions to asset retirement obligations. 9) For definitions see glossary. 10) Proposal to the Annual General Meeting on 28 May 2014.

Telekom Austria Group

As a leading telecommunications provider, the Telekom Austria Group serves almost 23 million customers in eight countries across Central and Eastern Europe.

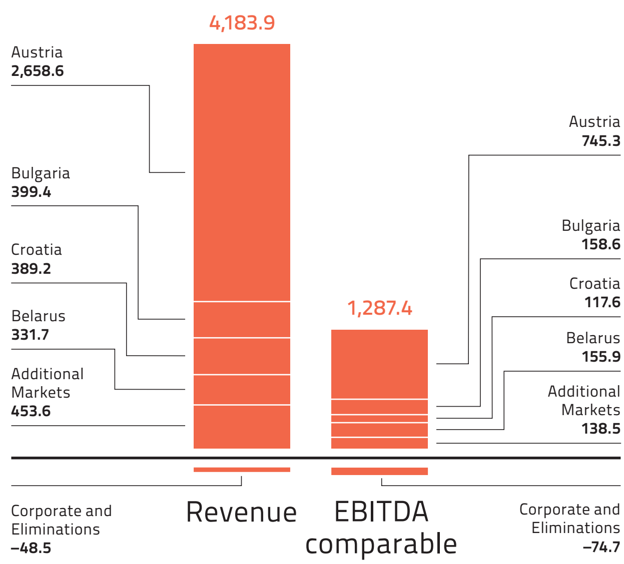
Revenue and EBITDA comparable

in EUR million



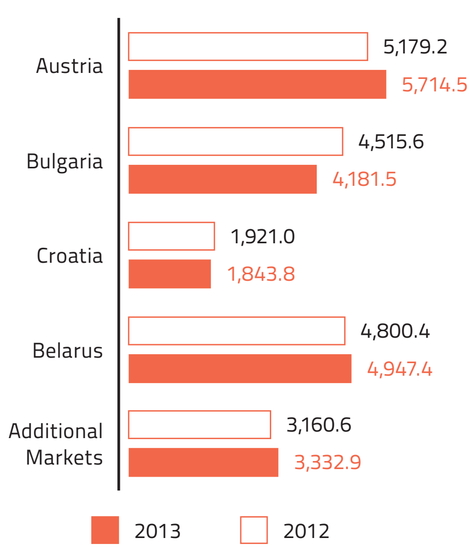
Revenue and EBITDA comparable by segment

in EUR million / in 2013



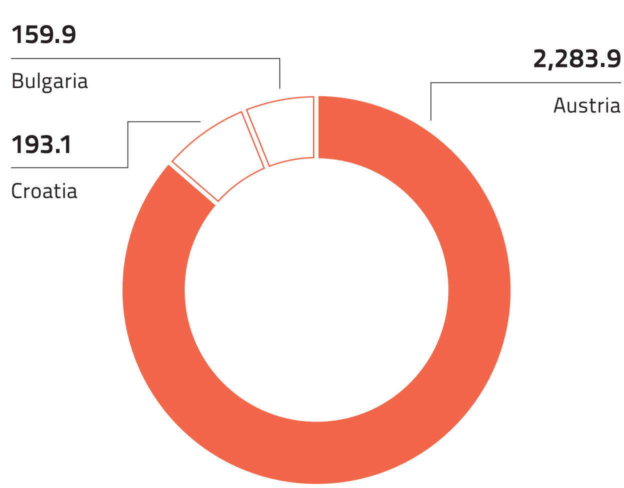
Mobile communication customers by segment

in '000 / as of 31 Dec



Fixed access lines by segment

in '000 / as of 31 Dec 2013



That Is Why We Invest

What are the motivations or convictions behind our concentrated investment activity over the past financial year? Why do we believe in a positive outlook for markets that are both highly competitive and subject to negative external influences? Dear readers, you have surely asked yourselves questions such as these – which is precisely why this Annual Report has the title it does, and why its content provides the answers.

In the first section of this new Annual Report structure, British journalist David Pringle outlines the status quo as well as the potential future value drivers and global trends in the world of information and communication technology. The second section presents Telekom Austria Group's operational highlights in the year under review. This is followed by a summary of the underlying corporate strategy by means of which we address the heterogeneous requirements of our eight CEE markets. For example, by pursuing a systematic approach to selectively address 'high-value' customers in our mature markets – or by pursuing our successful convergence strategy in three of our markets. We also describe how we intend to fully leverage the growth potential of our mobile-only markets.

In the fourth section we answer questions concerning our operational alignment and the concrete measures with which we address the respective challenges posed by our market environment. The following chapters contain an overview of key facts and figures for various Group sections (Investor Relations, Corporate Sustainability, Compliance, Employees, Innovation and Technology, Wholesale) and the Group Management Report as well as the Consolidated Financial Statements of the Telekom Austria Group.

All in all, we carried out important strategic groundwork in the 2013 financial year with a view to ensuring that we are ideally positioned to satisfy growing needs for 'permanent connectivity', a megatrend, and to monetise rapidly growing demand for data communications as described in the ICT market chapter, as well as with respect to our focus on the premium customer segment. And our extensive investments in high-capacity infrastructure and future-proof frequencies should also be viewed in the light of the solid foundations they will provide for the successful development of the Telekom Austria Group.

Hannes Ametsreiter, Chairman of the Management Board, Telekom Austria Group

Hans Tschuden, Vice Chairman of the Management Board, CFO, Telekom Austria Group

Günther Ottendorfer, CTO, Telekom Austria Group

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Connectivity Will Be King

An overview of the European telecoms sector and the markets it serves

By David Pringle[1)]

The anytime, anywhere internet

Connectivity is being woven into the fabric of daily life. Mass-market smartphones and tablets are putting the entire internet at the fingertips of people across the globe. Contacts, friends, entertainment and, crucially, information are now just a couple of clicks away.

Smartphones already account for 25%–30% of existing global mobile subscriptions.[2)] This means more services and more activity. In a matter of minutes, consumers with smartphones can find products, compare prices and make purchases, almost anywhere at any time.

1) Please see note on the author on page 13.

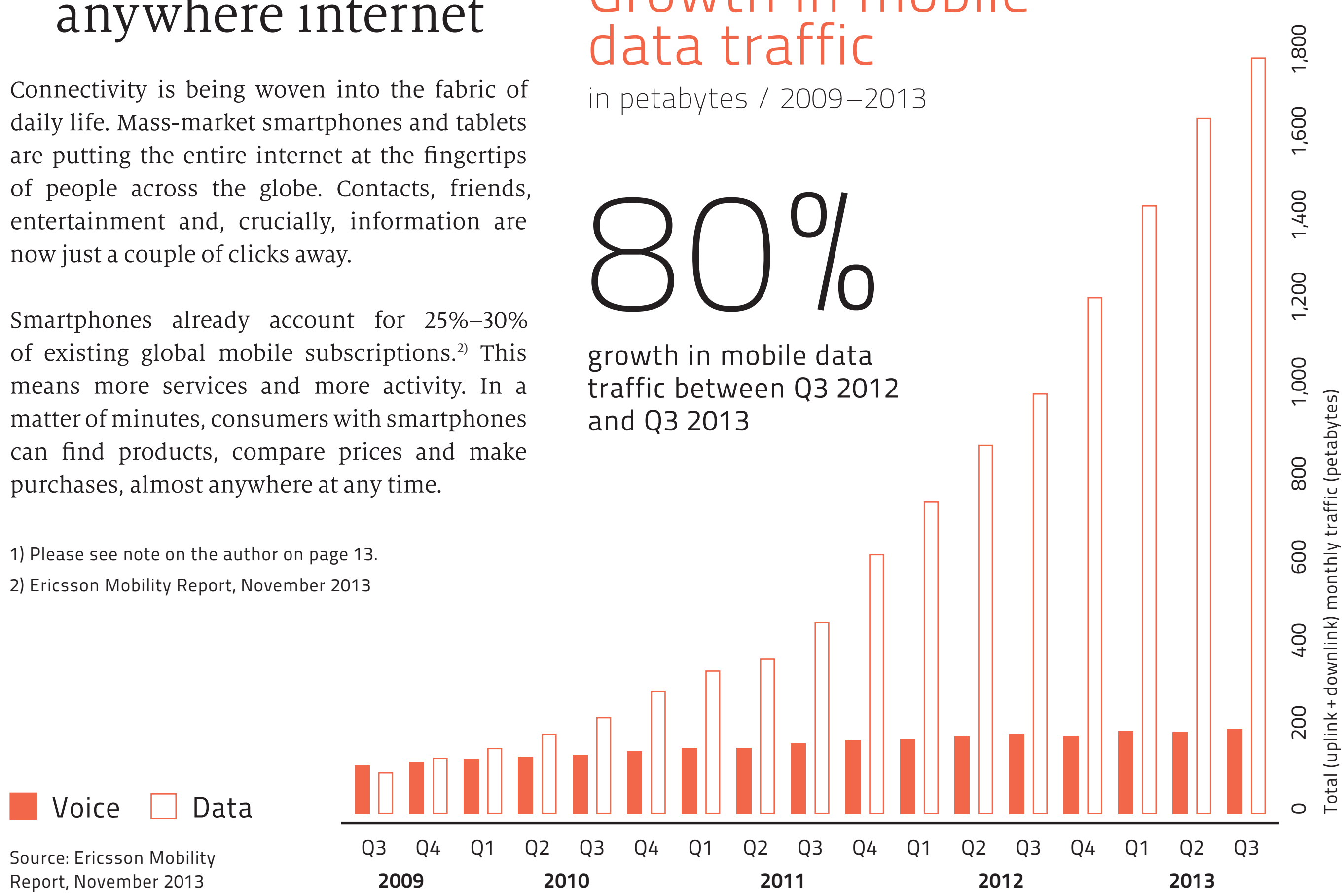
2) Ericsson Mobility Report, November 2013

Growth in mobile data traffic

in petabytes / 2009–2013

80%

growth in mobile data traffic between Q3 2012 and Q3 2013



Source: Ericsson Mobility Report, November 2013

Yet the explosive rise of smartphones is only half the story. An array of new devices, machines and vehicles are connecting to the internet. Televisions, games consoles, cars, lorries, utility meters, cameras and many machines now ship with built-in connectivity. There are already around 30 million connected televisions in homes in western Europe compared with less than 20 million at the end of 2012.[3)]

Worldwide IP traffic more than doubled between 2010 and 2012.

Why is connectivity in demand? Connected devices can share information, content and services, making them far more useful to individuals and businesses. A connected car can automatically call the emergency services in the event of a collision, while a connected sensor can alert a water company to a leaking pipe.

Connected devices can even be controlled remotely. Householders can turn on the heating as they head home, and farmers can remotely activate irrigation systems with the flick of a switch. It will not be long before an electronic device that cannot connect to the internet is either broken or obsolete.

What does all this mean for investors? Connectivity will be king and telecom providers will be at the heart of an increasingly digital, data-driven economy. Their networks are already seeing a tidal wave of traffic. Worldwide traffic using the Internet Protocol (IP) more than doubled between 2010 and 2012 and has been predicted to rise by another 27% in 2013, as more people get online and HD video becomes commonplace.[4)] On mobile networks the advance is even more dramatic, with the proliferation of smartphones driving 80% growth between 30 September 2012 and 2013.[5)]

Cast-iron, secure and private connectivity is fundamental to modern business.

The data tsunami reflects the fact that the global economy now revolves around information. Access to the right data at the right time has become critical for many companies as they strive to serve increasingly savvy consumers. Fashion retailers need to continually monitor how new lines are selling, while supermarkets' supply chains need to respond rapidly to shifts in demand. Cast-iron, secure and private connectivity is fundamental to modern business.

3) ScreenDigest via the European Commission, June 2013
4) Cisco® Visual Networking Index, May 2013
5) Ericsson Mobility Report, November 2013

30

million connected TVs in homes in Western Europe

Ferocious competition

There is fierce competition to provide this connectivity, particularly in Europe. There are more than 100 telecommunication and cable companies operating across the continent; they compete with media companies and even supermarkets. The U.S. connectivity market, by contrast, is dominated by four major telecom operators and two major cable companies, while just three players share the spoils in China.

At the same time the lines between the telecoms sector and other industries have blurred. In some countries, such as the U.S., Spain and Portugal, cable operators or satellite broadcasters vie to provide pay television services to householders. In Austria, the U.K. and some other European countries, free terrestrial or satellite television services provide robust competition to the IP-based television services offered by telecom operators.

The fundamental structure of a market, and its competitive intensity, has a direct impact on the prices paid by consumers. In Europe mobile broadband services cost an average of EUR 10.1 per gigabyte, whereas in North America they cost EUR 15.6 per gigabyte – 50% more.[6)]

In Austria prices are low even by European standards. Until 2013 four mobile operators were competing vigorously in a market of 8.5 million people, some of them living in mountainous or sparsely populated terrain that can be expensive to cover with mobile networks. In January 2013 Hutchison 3G Austria acquired Orange Austria, while Telekom Austria Group acquired YESSS! from Orange Austria, cutting the number of players in the market to three, bolstering the business case for Investment in spectrum and network infrastructure.

In Austria, the European Commission forecast GDP climbed just 0.4% in 2013, down from 0.9% in 2012. GDP is forecast to have risen 2.5% in Macedonia, 2.0% in Serbia and 0.5% in Bulgaria in 2013, but economic output was forecast to have fallen 0.7% in Croatia and 2.7% in Slovenia. The World Bank is expecting the economy of Belarus to have expanded 1.0% year-on-year in 2013. (see also Group Management Report, pp 78–104)

Population decline, caused by low birth rates and net emigration, is also taking its toll on some of the countries in which Telekom Austria Group operates. Bulgaria's population was forecast to decline 0.81% in 2013, while Croatia is likely to see its population shrink by 0.11%. In Austria, which accounts for two-thirds of Telekom Austria Group revenues, the population is fairly stable and set to rise by 0.02% in 2013.[9)]

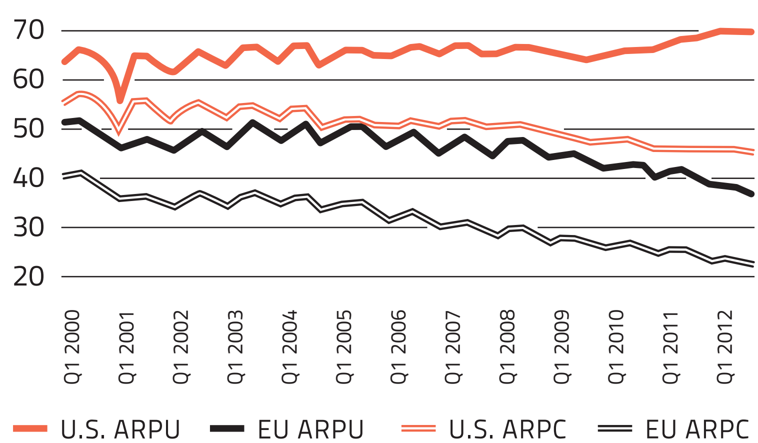
How low can prices go?

Low prices tend to mean low revenues per customer for Europe's telecom companies. Between 2000 and the end of 2012 the average revenue per connection (ARPC) in the EU's mobile sector fell by 45% to just over USD 22 per month, while ARPC in the U.S. fell by 18% to USD 45 over the same period.[7)] Across Europe, competition, regulatory measures and the economic slump, together with a trend towards multi-device and multi-SIM ownership, have driven mobile ARPUs (Average Revenue per User) down by an average of 5–6% over the past six years.[8)]

Of course, the depth of the recession caused by the financial crisis and its impact on disposable income varies dramatically across Europe. Whereas consumer spending has held up fairly well in much of Northern and Central Europe, many households in Southern and Eastern Europe have really had to cut back. The recovery in Telekom Austria Group's footprint is patchy.

Monthly wireless ARPU and ARPC, U.S. and EU

in USD / 2000–2012



Source: GSMA Intelligence, May 2013

6) Quantum Web via the European Commission, June 2013

7) Mobile wireless performance in the EU & the U.S., GSMA Intelligence, May 2013

8) Mobile Economy Europe 2013 report, GSMA Intelligence, September 2013

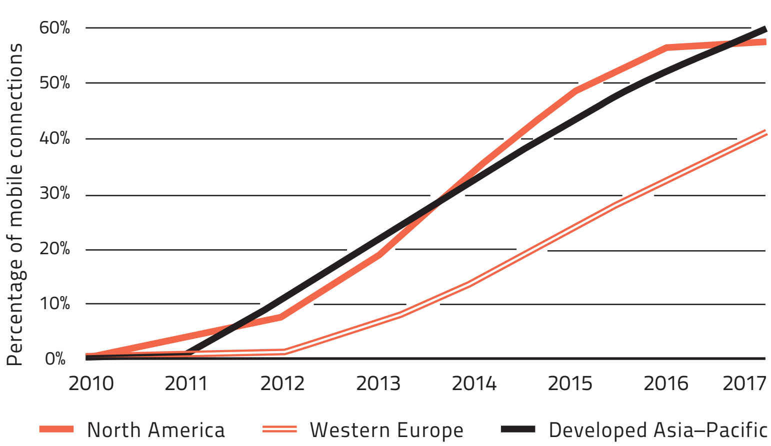
9) CIA Factbook, December 2013

However, other factors also determine the health of Europe's telecoms industry. A highly-interventionist and consumer-centric approach to regulation is one of the reasons for the low ARPUs in Europe. Whereas the U.S. Federal Communications Commission has allowed the market to set prices, European regulators have intervened to bring down both retail and wholesale prices for roaming services, while also progressively cutting mobile termination rates – the wholesale fee that the calling party's operator pays the receiver's operator for terminating a call on a mobile network.

More regulation is in the pipeline. The European Commission is proposing to scrap charges for receiving a call when travelling in another EU country from July 2014. It also wants telecom operators to offer 'roam like at home' packages that apply across the EU, or allow consumers to use a separate roaming provider without changing their SIM card. In response, the European Parliament has called for all end-customer mobile roaming fees for calls, texts and data to be abolished by 2016. These measures may lead to an increase in the usage of roaming services; nevertheless, the elimination of roaming fees is likely to hurt not only the top line of telecom operators. One thing is for sure: Roaming regulation will have the biggest impact on telecom operators in the Mediterranean and Alpine countries of Southern Europe where many mobile base stations have been installed primarily to serve tourists.

LTE connections

in % of mobile connections,
selected regions / 2010-2017



Source: Analysys Mason, July 2013

»Onerous regulation, intense competition and economic turmoil have taken their toll on Europe's telecom operators.«

Downward pressure on revenues and Investment

The combination of onerous regulation, intense competition and economic turmoil has taken its toll on the health of Europe's telecom operators. The European telecoms sector saw overall revenues slip 1.1% in 2012, in stark contrast to the U.S., where revenues for telecoms services rose 5.1%, and the rest of the world, which enjoyed a 5.8% rise.[10] 2013 was even worse. The industry body ETNO estimates telecoms service revenue fell by almost 3% in 2013 in major European countries, wiping EUR 7.1 billion off the top line of the sector.[11] Across Europe as a whole, ETNO estimates revenues fell by 3.7% in 2013. As a result, most European telecom operators have either cut or suspended dividends to conserve cash.

The downward pressure on revenues explains why some European telecoms operators have been relatively slow to deploy next-generation networks that can carry data at very high speeds. While the high performance 4G mobile technology, LTE, is widely available and used in the United States, Japan and Korea, only a small minority of Europeans use LTE. At the end of

Regulatory considerations can have a major impact on investment decisions.

2012 just 0.3% of mobile devices in Europe were connected to LTE networks, compared to 11% in the U.S. and 28% in South Korea.[12] While Europe begins to adopt LTE, South Korea is already moving on, deploying LTE Advanced networks. In November 2013, SK Telecom demonstrated an LTE Advanced network supporting download speeds of up to 225 Mbps – that is fast enough to download an 800 MB video, i.e. one that plays for around 3 hours, in less than 30 seconds.

A further deterrent to investment in European mobile infrastructure is the limited lifespan of spectrum licenses: A European mobile operator typically has to hand back its license after 15 or 20 years and then participate in another auction to try and secure the frequencies on which its mobile business depends. Naturally, this weakens the business case for investment in network infrastructure that depends on ongoing access to specific spectrum.

Fixed lines do not need mobile spectrum, but they are expensive to lay – roads need to be dug up and buildings rewired. Regulatory considerations can also have a major impact on investment decisions in the fixed-line market. The case for building fibre networks is weakened in Europe by a regulatory requirement that the infrastructure owner has to open up the network to competitors at a wholesale price established by regulators.

In the fixed-line sector, Japan and South Korea lead the world in the deployment of fibre connections – in both countries more than 60% of broadband lines are based on fibre technology, rather than traditional copper wires.[13] Less than 15% of European premises had fibre connectivity at the end of 2012, while about 25% had VDSL connectivity (VDSL is a technology that enables traditional copper wires to deliver speeds of up to 52 Mbps downstream and 16 Mbps upstream).[14] Europe is now playing catch up. Austria, at least, is seeing rapid growth in fibre deployment, albeit from a low base. The number of fibre connections in the country rose by 194% in 2012.[15]

10) EITO via the European Commission, June 2013
11) The Financial Times, November 2013
12) Mobile Economy Europe 2013 report, GSMA Intelligence, September 2013
13) OECD broadband statistics update, July 2013
14) Point Topic via the European Commission, June 2013
15) OECD broadband statistics update, July 2013

Rapidly growing data traffic requires an increasingly more efficient network infrastructure. Fibre networks are central to this development.

By means of a number of regulatory provisions, the European Commission exerts great influence over the business models of telecommunication companies.

A change of mood?

The telecoms industry is encouraging the European Commission and national governments to adopt a more pro-investment regulatory regime, while also calling for policymakers to allow more in-market mergers and acquisitions so as to enable telecom operators to generate economies of scale. A more relaxed approach to consolidation could change the way investors view the telecoms sector. “Regulation is a game changer when it comes to convincing investors that they should bet on EU telecom operators”, Luigi Gambardella, Chairman of industry body ETNO, told the Financial Times. “It’s fundamental to continue sending the right signals in order to increase confidence in EU markets.” [16)]

Gambardella was alluding to a growing sense among policymakers that Europe has lost its way in the digital economy. The continent used to lead the world in the adoption of mobile communications – GSM was first developed and deployed in Europe. Europe’s sluggish adoption of LTE, however, underlines how the region has let that lead slip away, falling behind North America and developed Asia.

The European Commission is looking to make it easier for telecom operators to work across European borders by removing the need for separate formal authorisations to work in each country. The Commission also wants to make it easier for telecom operators to bid for spectrum licenses across countries.

Drawn by some of the lowest valuations in the world, there are also signs that telecom operators in other regions see Europe’s telecoms industry as an attractive investment opportunity. Mexico-based América Móvil, for example, has invested in both Telekom Austria Group and KPN of the Netherlands.

Reinventing telecoms

It is not just the regulatory climate that may be changing. The nature of telecoms itself is also evolving in ways that could change the underlying economics of connectivity.

One key trend is convergence, at many different levels, of mobile and fixed networks. A decade ago it was accepted wisdom in the telecoms industry that mobile networks would be far more valuable than fixed networks – the thinking was that consumers and business people would use mobile networks more and more, relying less and less on fixed networks.

Ten years later, the reality is very different. Although more and more voice calls are made over mobile networks, the telecoms industry is increasingly dependent on fixed networks to meet the vast demand for data services. Once mobile-only players are now buying fixed-line operations, to bolster their capacity and provide customers with a broader bundle of services.

At the same time both fixed-line and mobile networks are becoming 'all IP' in the sense that all the traffic they carry will eventually use the Internet Protocol – voice calls will be just another IP service, rather than requiring dedicated circuit-switched connections. As well as simplifying their networks and cutting telecom operators' costs, this fundamental change makes it easier to combine the core infrastructure behind mobile and fixed-line networks, generating economies of scale and a more seamless experience for telecom customers.

From a consumer perspective, convergence means something different. Consumers now want to be able to access the same content and services across many different devices and different networks. If they have bought a film or a music video, they may want to watch it on both their television at home and their tablet on a car journey. Video already accounts for 35% of mobile data traffic.[17]

Moreover, many people want the convenience of buying mobile and fixed-line connectivity from the same supplier – there has been strong demand for the bundles of mobile and fixed-line services offered by Telekom Austria Group and other telecom operators.

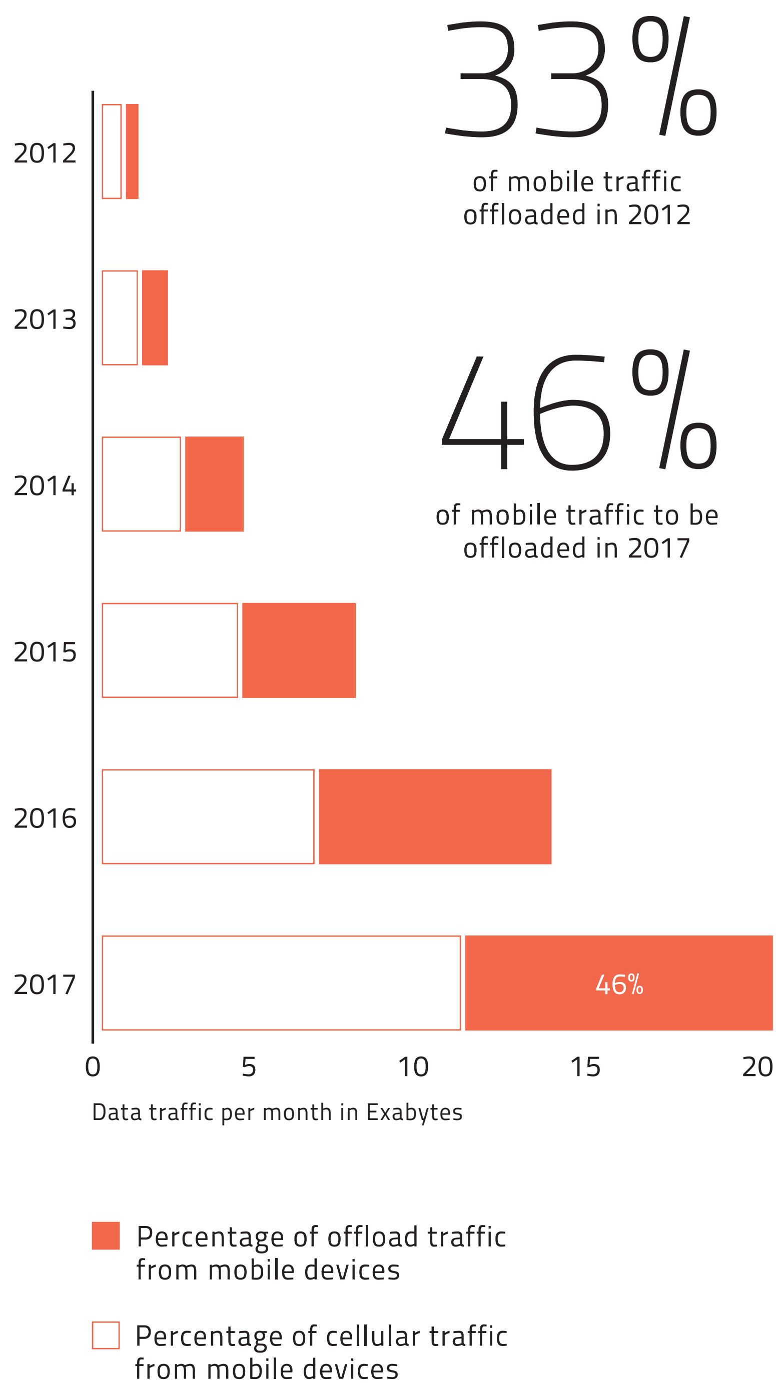
»Consumers want to access the same content and services across different devices and networks.«

16) The Financial Times, 25 November 2013

17) Ericsson Mobility Report, November 2013

Global mobile data traffic and offload*

Exabytes per month / 2012–2017

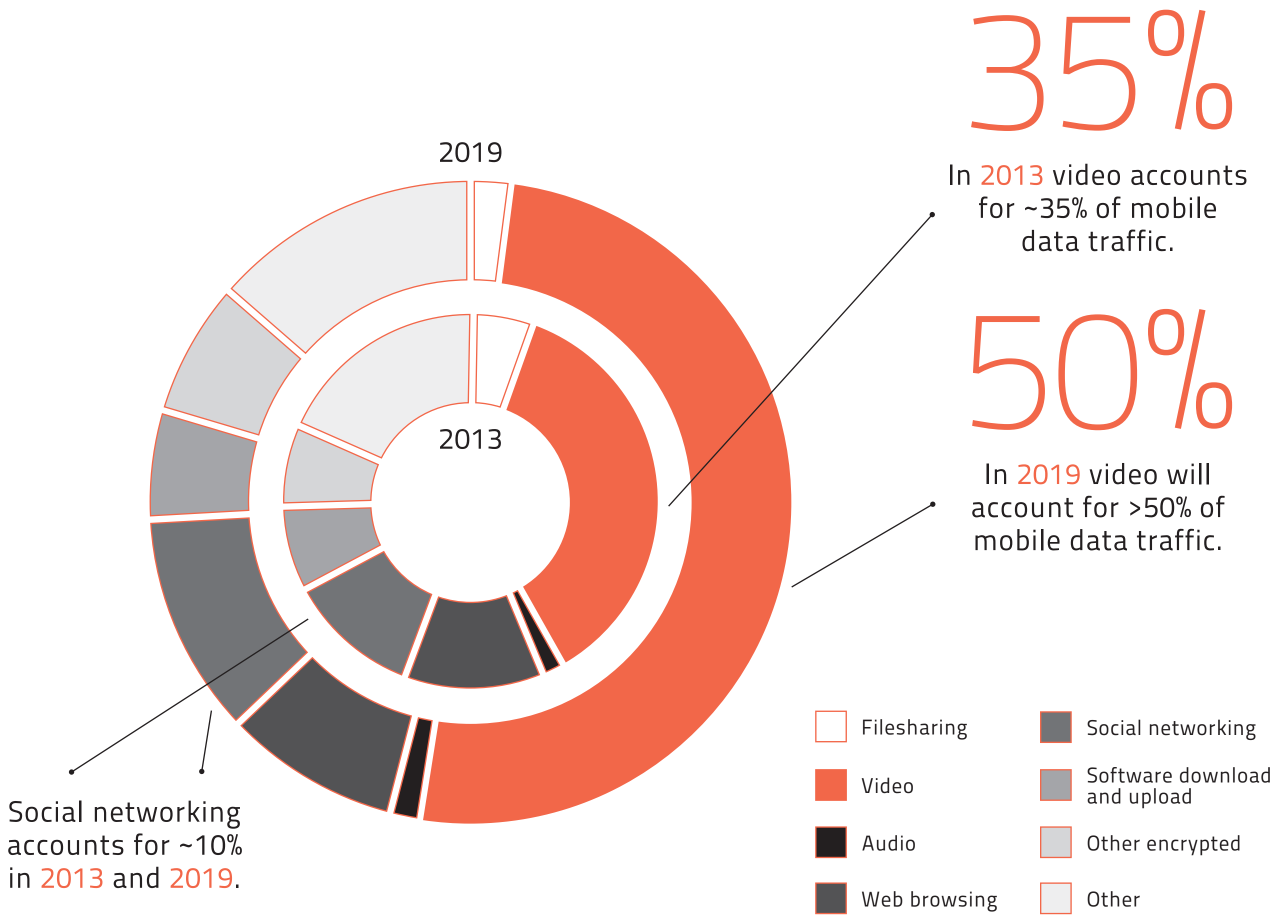


* Data offload refers to data traffic generated by mobile devices that is carried over Wi-Fi networks rather than conventional cellular networks.

Source: Cisco VNI Global Mobile Data Traffic Forecast, 2012–2017

Global mobile data traffic

Breakdown of traffic types / 2013 and 2019



Source: Ericsson Mobility Report, November 2013

Monetising demand

As consumers become accustomed to high-speed connectivity in the home, they also demand it on the move and vice-versa. Rather than substituting each other, mobile broadband and fixed broadband appear to be complementary, each driving demand for the other. Once people have a high-speed, low-latency connection, they use it more. LTE users consume 1.5 GB of data per month on average across all devices – almost twice the average volume consumed by non-LTE users.[18)]

Now that telecom operators are offering tiered data plans (rather than flat-rate plans) in which customers pay for what they use, they should be able to better monetise the rapid growth in data traffic. Moreover, LTE is an all-IP technology, which makes very efficient use of spectrum, potentially lowering the cost of delivering data.

The fundamentals of the telecoms industry should also be boosted by the proliferation of connected devices, machines and vehicles. The so-called 'Internet of Things', or the 'Industrial Internet', could dramatically improve

Average global data traffic per mobile device

	2012	2017
	MBs per month	
Non-smartphone	7	31
M2M	64	330
Smartphone	342	2,660
4G smartphone	1,302	5,114
Tablet	820	5,387
Laptop	2,503	5,731

Source: Cisco VNI Global Mobile Data Traffic Forecast, 2012–2017

the efficiency and effectiveness of a wide range of economic sectors from healthcare over transport to utilities. The condition of patients with chronic diseases could be continuously monitored by connected sensors rather than via regular trips to see a clinician. Similarly, connected lorries could signal when they need a service, rather than breaking down en-route. All told, the Industrial Internet could add EUR 2.2 trillion to European GDP by 2030, according to industrial conglomerate GE.[19)]

While boosting the economy, the Internet of Things could also yield major environmental benefits by cutting waste and reducing the need for people to travel. Although many industrial applications will not involve large volumes of traffic, the sheer number of connections should make the Internet of Things a major growth engine for telecom operators. Similarly, the rapid adoption of cloud services, in which consumers and companies use software running on remote computers, is also driving demand for more connectivity.

So, Europe's telecoms companies have plenty to play for. Their greatest challenge will be to ensure they can fully monetise the rapid growth in data traffic and generate the cash flow necessary to invest in even faster, more efficient, networks. A change in the regulatory climate could improve the investment case, as will any further in-market consolidation.

With demand for connectivity surging, the fundamentals of the telecoms industry are still strong. In an information-driven economy, connectivity will be king and telecom operators will surely be at the coronation.

18) GSMA Intelligence, Global LTE network forecasts and assumptions, 2013–2017, November 2013

19) GE Minds + Machines, July 2013

About the author

A former business journalist, David Pringle is a London-based consultant, writer and editor working with organisations in the telecoms, media and technology sectors. Between 2000 and 2005, David Pringle was the European technology and telecommunications correspondent for The Wall Street Journal. Prior to joining the WSJ, he served as deputy editor of Information Strategy, a pan-European title owned by The Economist Group.

Investing In The Future

In 2013 Telekom Austria Group made significant investments, targeting a medium-term business turnaround

Introducing Telekom Austria Group

As a leading provider of fixed and mobile telecommunication services in Central and Eastern Europe, the Telekom Austria Group offers 23 million retail customers in eight countries products and services ranging from voice and data to IPTV and multimedia solutions. The company has a multibrand portfolio, including 'no-frills' products for price-sensitive customers as well as premium offers depending on the positioning and the maturity level of its markets. High-speed options cater especially to growing data demands. The company also focusses on bundling services so customers can benefit from tailored solutions, including the combination of fixed and mobile services in three of its markets. In addition to its retail customers, the Group provides more than a wide range of companies with solutions including connectivity and network & IT outsourcing. Its wholesale arm supplies roaming, voice, data, mobile and satellite solutions.

The commercial success of the Group depends on state-of-the art fixed and mobile networks.

The commercial success of the Group depends on the development and maintenance of state-of-the art fixed and mobile networks, which necessitates ongoing infrastructure investments. The mobile network of A1 Telekom Austria AG (hereafter 'A1') has long been regarded as the premium Austrian network by consumers: No other operator has ranked top in the 'connect' magazine network test as often. This test is the largest and most significant mobile network test in the German-speaking area. A1 took the top spot again in 2013. The test conclusion emphasised excellent sound quality, reliability and the short time to establish a call, as well as the provision of fast and reliable data services, with the highest measured data speed of 96 Mbps. The quality of its network underpins the company's position as the leading provider of premium products and services in its home market.

Telekom Austria Group markets

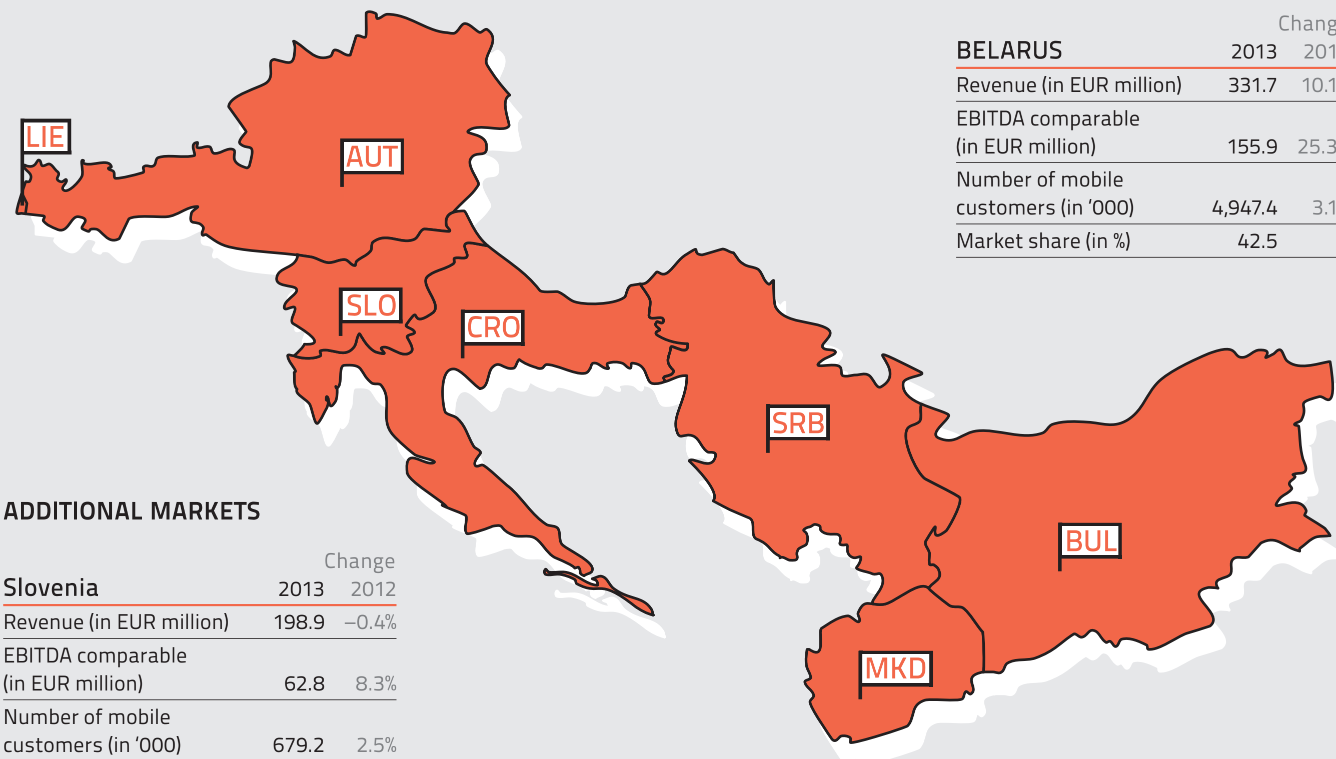
Besides its home market Austria, the Telekom Austria Group has been operating in selected international markets for about 15 years.

AUSTRIA	2013	Change 2012
Revenue (in EUR million)	2,658.6	–4.6%
EBITDA comparable (in EUR million)	745.3	–17.5%
Number of mobile customers (in '000)	5,714.5	10.3%
Market share (in %)	42.6	–
Fixed access lines (in '000)	2,283.9	0.1%

BULGARIA	2013	Change 2012
Revenue (in EUR million)	399.4	–14.8%
EBITDA comparable (in EUR million)	158.6	–23.5%
Number of mobile customers (in '000)	4,181.5	–7.4%
Market share (in %)	39.0	–
Fixed access lines (in '000)	159.9	1.4%

CROATIA	2013	Change 2012
Revenue (in EUR million)	389.2	–7.4%
EBITDA comparable (in EUR million)	117.6	–13.9%
Number of mobile customers (in '000)	1,843.8	–4.0%
Market share (in %)	37.3	–
Fixed access lines (in '000)	193.1	18.4%

BELARUS	2013	Change 2012
Revenue (in EUR million)	331.7	10.1%
EBITDA comparable (in EUR million)	155.9	25.3%
Number of mobile customers (in '000)	4,947.4	3.1%
Market share (in %)	42.5	–



ADDITIONAL MARKETS

Slovenia	2013	Change 2012
Revenue (in EUR million)	198.9	–0.4%
EBITDA comparable (in EUR million)	62.8	8.3%
Number of mobile customers (in '000)	679.2	2.5%
Market share (in %)	30.0	–

Republic of Serbia	2013	Change 2012
Revenue (in EUR million)	182.6	13.9%
EBITDA comparable (in EUR million)	64.0	30.6%
Number of mobile customers (in '000)	2,017.7	8.5%
Market share (in %)	21.1	–

Republic of Macedonia	2013	Change 2012
Revenue (in EUR million)	64.9	7.5%
EBITDA comparable (in EUR million)	14.7	21.4%
Number of mobile customers (in '000)	629.7	–0.4%
Market share (in %)	28.0	–

Liechtenstein	2013	Change 2012
Revenue (in EUR million)	6.5	–3.3%
EBITDA comparable (in EUR million)	0.6	–47.6%
Number of mobile customers (in '000)	6.4	3.2%
Market share (in %)	16.1	–

Group markets and status quo

Telekom Austria Group strategy differentiates between the mature markets Austria, Bulgaria and Croatia where the company has fixed and mobile operations, and the mobile-only markets Belarus, Slovenia, the Republic of Serbia, the Republic of Macedonia and Liechtenstein. The company has seen a gradual decline in revenues and EBITDA in recent years. In 2013 Group revenues fell by 3.4% and EBITDA by 11.6%, mainly driven by price competition and regulatory effects in the mature markets Austria, Bulgaria and Croatia. Political and macroeconomic headwinds negatively affected operations in the CEE countries, especially Bulgaria, Croatia and Slovenia in 2013. FX volatility which has in the past negatively impacted Belarus and the Republic of Serbia was relatively benign in 2013. Please see the Group Management Report for segment reporting (pp 78–104).

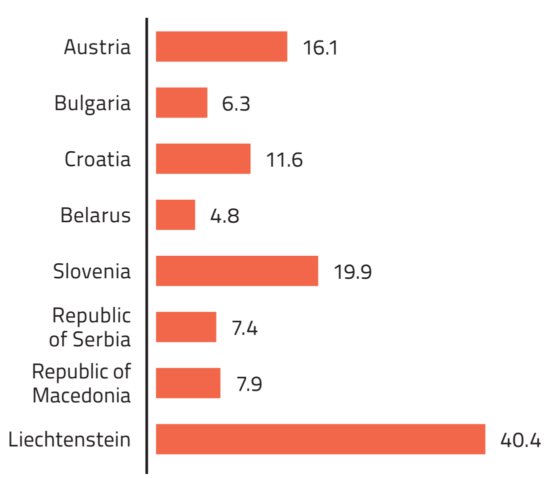
»Operationally the Group markets are at very different developmental stages.«

From an operational point of view the eight markets of the Telekom Austria Group are at very different developmental stages. Mobile penetration rates are high at around 160% in the home market Austria and over 140% in Bulgaria, but range from 100–130% in the other markets. Similarly, differing levels of average mobile revenues per user per month (ARPU) can indicate revenue growth potential. Despite similarly high levels of mobile penetration, Bulgaria e.g. has an ARPU of only EUR 6.3 versus EUR 16.1 in Austria. In contrast, Slovenia has the second highest ARPU in the Group at a penetration rate of only 108.5%.

Despite the above-mentioned headwinds and the differing developmental stages of its segments, the Group continued to grow in 2013. Its mobile customer base increased by 2.5% to 20.1 million in 2013. The number of fixed access lines grew by 1.3% to 2.6 million in 2013, with access line growth in Austria, Bulgaria and Croatia.

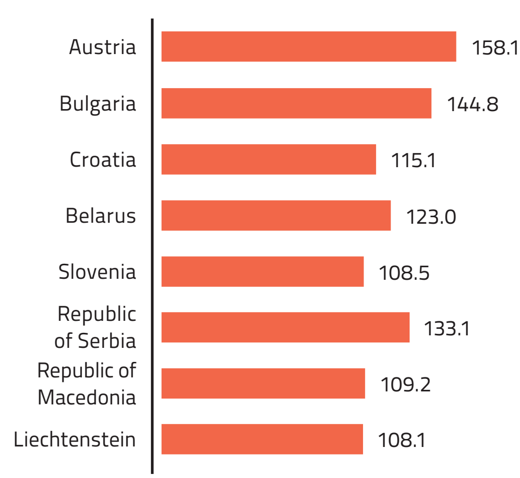
Average revenue per mobile customer (ARPU)

in EUR / per month in 2013



Mobile market penetration

in % / as of 31 Dec 2013



Portfolio history and positioning

In the last fifteen years Telekom Austria Group has transformed from the Austrian incumbent into a leading international player. It is now the number one mobile operator in Austria and Bulgaria, and number two in all its other markets bar the Republic of Serbia. Austria is the Group's convergent home market, contributing 63% in revenues and 57% EBITDA comparable in 2013 from fixed and mobile operations.

The intention behind the international expansion of the Group was to seek out growth opportunities in the CEE markets and diversify away from its dependence on the home market. Croatia was the first international greenfield operation. Having started mobile operations there in 1999, Vipnet became an integrated provider in 2011 through the acquisition of the country's largest cable operator B.net, and has since successfully developed the fixed business with further satellite and cable purchases in 2013. The Group also entered Bulgaria in 2005 by acquiring 100% of the shares in the country's leading mobile provider Mobiltel. The purchase of two fibre-optic/LAN operators in 2010 made the Group convergent in Bulgaria too. However, regulatory cuts and the effects of the economic slowdown overshadowed the underlying operational achievements of this segment this year.

Belarus joined the portfolio in 2007 through Telekom Austria Group's purchase of 70% of local mobile operator velcom. The remaining shares were bought in 2010, and Belarus is now one of the most dynamic mobile-only segments with strong smartphone and data growth. The subsidiaries of the 'Additional Markets' segment were partly the result of greenfield efforts (Republic of Serbia in 2006 and Republic of Macedonia in 2007) and partly acquired (Liechtenstein in 2000, Slovenia in 2001). In the Republic of Macedonia the Group became the number two mobile provider in just five years, while the Republic of Serbia has had a particularly strong year 2013, with 14% revenue growth.

Over EUR
2 billion
invested in 2013

Over
490,000
net mobile customer additions in 2013

The investment story

Despite the negative impact from external factors such as price competition, regulation and the macroeconomic environment, Telekom Austria Group saw significant operational achievement in 2013. The company invested EUR 650 million in regular CAPEX in 2013 as well as over EUR 400 million for the acquisition of assets, primarily mobile operator YESSS! in Austria.[1] Moreover, EUR 1.03 bn were invested in Austrian mobile spectrum to secure A1's prominent position as the premium provider with the best network.

These investment decisions are in alignment with Group strategy as outlined at the beginning of the year 2013. The four pillars of this strategy are core business optimisation, pursuit of convergence, operational excellence and the leveraging of strategic opportunities (see chapter 'Our Strategic Roadmap' for details). While growth remains the primary objective in the mobile-only markets, achieving a business 'turnaround' in the medium-term is the central element of the strategy for the mature markets. A focus on the high-value customer is part of this strategy, so as to stem the reduction in average mobile revenues per user. Resulting from higher subsidies, this approach has an adverse effect on margins in the short term; nevertheless, it forms the basis for stabilising the operational performance going forward.

1) Reported CAPEX of EUR 1,779.1 mn does not include assets which were acquired through business combinations.

Austria

Amidst a period of intense price competition, the Austrian market saw in-market consolidation in 2013, in the form of the takeover of Orange Austria by Hutchison 3G Austria in January. As part of this transaction A1 acquired frequencies, base stations, mobile phone operator YESSS! Telekommunikation GmbH and certain intangible assets from Orange Austria for a price of approximately EUR 400 million (after purchase price adjustments). A1 thus leveraged a strategic opportunity to acquire approximately 670,000 new customers complementary to its existing portfolio.

Furthermore, in 2013 A1 also introduced new tariffs across its product range, including not only the premium brand but also no-frills operators bob and the recently acquired YESSS!. The new tariff structure follows a 'more for more' approach aimed at generating value by offering more content while at the same time improving price differentiation. In the premium segment e.g. the company introduced the new A1 GO! tariffs, offering unlimited voice and text but moving away from throttling data speeds. Instead, the customer is given the opportunity to upgrade to a higher price band when reaching the contract limit. The company thus targets an improved monetisation of the increasing demand for data, while at the same time empowering the consumer by offering clear choices.

With a view towards its 'turnaround' strategy the company also honed in on the high-value segment. High-value customers, i.e. customers buying premium products, make up approximately 50% of the Austrian subscriber base but generate approximately 80% of the customer margin in Austria. The company focussed on defending its positioning with this customer base by maintaining higher handset subsidies throughout the year, leading to an increase in material expenses and margin pressure. Meanwhile, positive take-up of new tariffs in the premium segment indicates that the new structure does indeed satisfy consumer demands.

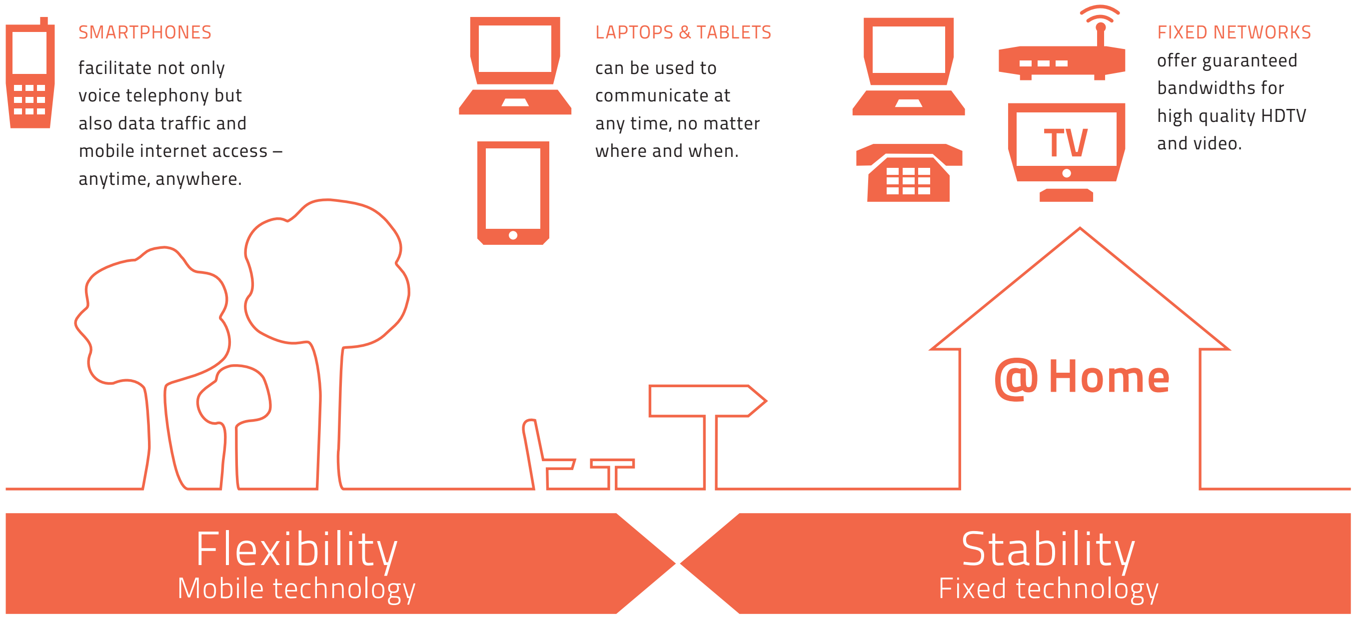
In addition, the company continues to push convergent products such as 'Kombinieren & Sparen' ('Combine & Save'), which e.g. offer a fixed client a mobile discount or vice versa. Historically, fixed-to-mobile substitution, i.e. the cannibalisation of fixed-line by mobile products, eroded fixed-line profits. In response A1 focusses on product bundles combining fixed and mobile offerings, in order to reduce churn and increase customer value. This approach, together with subscriber base growth in IPTV and fixed-line broadband, has helped stabilise the Austrian fixed-line business. Few operators in Europe have been able to do the same.

Coverage and speed, reception and call stability: in 2013 the A1 mobile network again met the highest quality standards and won the connect network test 2013, which honours the best network in the German-speaking areas.

»EUR 1.03 bn investment in Austrian mobile spectrum secured premium network position.«

The Group targets an improved monetisation of the increasing demand for data.

Convergence offers superior customer experience



The company even saw a slight increase in access lines in 2013 versus 2012. Even so, growing TV and broadband revenues cannot quite compensate for the steady decline in voice minutes resulting from fixed-to-mobile substitution, leading to lower fixed service revenues. The fact that roughly 85% of all voice minutes are already mobile is, however, encouraging.

International markets

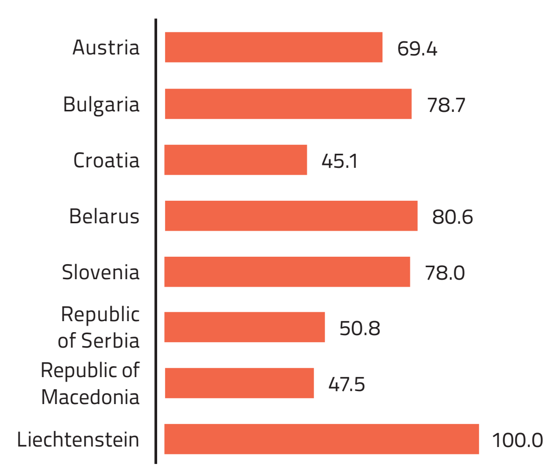
In Bulgaria and Croatia management has also focussed on implementing the high-value approach through value-based management and brand positioning. In the first quarter of the year both introduced new, value-focussed tariffs aimed at improving customer segmentation, in order to increase the efficiency of subsidies.

Convergent positioning in Bulgaria and Croatia is bearing fruit.

The convergent positioning in Bulgaria and Croatia is also bearing fruit: while pricing and macroeconomic pressures continue to impact fixed and mobile revenue development, access line growth continues at 1.4% and 18.4% respectively. In Croatia Vipnet bought satellite TV provider Digi TV, as well as four regional cable network providers to further strengthen its fixed network. New CRM systems and the successful integration of different access technologies aid the consolidation process. Convergent products are now on sale in all of the Group's mature markets, and the number of bundles is on the rise.

Contract share

of total mobile subscribers in % / 2013



In its mobile-only markets the Telekom Austria Group successfully leveraged data demand and implemented its Group-wide value focus via an increase of its contract customer share. In Belarus inflation was more benign in 2013 and the company was able to counteract a potential revenue fallout by implementing tariff adjustments. Data growth and a strong demand for smartphones and tablets drove revenue growth of around 30% in local currency in 2013. Management teams in Slovenia, the Republic of Serbia and the Republic of Macedonia also succeeded in growing their postpaid customer base, thus securing more predictable revenue streams. Contract shares as a percentage of total subscribers increased by 1.5 / 3.6 / 5.7 percentage points respectively.

Hot topic 2013: Network investments

In 2013 Telekom Austria Group continued to build a state-of-the-art fixed and mobile network suited to carrying the huge volumes of data traffic expected in the future (see chapter 'Connectivity Will Be King' for details). While the purchase of the Austrian mobile spectrum was the biggest individual investment, the Group also pushed the development of fixed and mobile networks at Group-level.

Mobile networks

A1's voice network currently covers 99% of the population via the 900-MHz frequency band, with the 1,800-MHz band adding capacity in rural areas. The company also offers 3G broadband via the 2,100-MHz band to 92% of the population. 4G/LTE is currently available to 35% of the population via the 2,600-MHz band, primarily in urban areas.

The Austrian multiband auction, which took place in September/October 2013, yielded 140 MHz (2 x 70 MHz uplink and downlink) of spectrum in the new 800-MHz and the re-auctioned 900-MHz and 1,800-MHz frequency bands for A1, at a price of EUR 1.03 bn. While the investment outflow was unexpectedly high, the auction result reinforced the company's position as highest quality mobile network provider for the foreseeable future (see spectrum auction special on pp 26–29). Particularly the acquisition of 2 x 20 MHz in the new 800-MHz band is hugely significant, in that it will enable Telekom Austria Group to roll out LTE nationally.

»New 800-MHz spectrum acquired in Austria facilitates national LTE roll-out.«

Telekom Austria Group already offers 3G/HSPA+ services with speeds of up to 42 Mbps in all its markets, except for Liechtenstein. In 2013 Telekom Austria Group also bought 800-MHz and 1,800-MHz spectrum in the Republic of Macedonia, with a view towards offering LTE/4G services there also. In 2012 the Group already acquired 2 x 10 MHz of LTE frequencies in Croatia. In 2013 it bought another 2 x 5 MHz in the 800-MHz band and now provides access to a range of high-speed products for its customers. In 2014 there will most likely be a spectrum prolongation in the 900-MHz and 1,800-MHz bands in Bulgaria, and a multiband auction in Slovenia.

LTE offers new customer experiences with mobile bandwidths of up to 150 Mbps.

Fixed networks

Vectoring and G.fast raise the bar for technical innovation in the fixed-line business.

Strong networks form the basis for a successful implementation of Telekom Austria Group's convergence strategy, so in 2013 the company raised the bar for technical innovation in its fixed networks as well. In Austria A1 focussed on balancing enhancement of its existing copper network with extensions of the fibre network, so as to extend the life of copper and improve CAPEX efficiency.

Vectoring, which reduces interference on existing copper lines and thus recovers up to 90% of lost bandwidth, has been successfully trialled and its deployment will start as soon as all the necessary technical and regulatory pre-conditions are met. The Group is also testing the feasibility of the new transmission technology G.fast, which achieves data rates of up to 1 Gbps per household via copper. G.fast is particularly well suited for short loops and multi-dwelling units. It would enable A1 to offer customers a premium broadband service via existing copper lines within buildings. Meanwhile, the fibre rollout is also continuing on a demand-driven basis. Including vectoring, Telekom Austria Group's 'Next Generation Access' (NGA) infrastructure already has a household coverage of 56% in Austria.

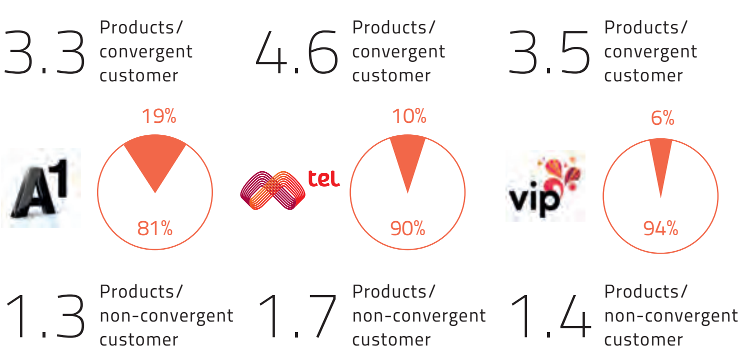
Moreover, A1 has successfully completed the transformation of its traditional voice network from the 'Public Switched Telephony Network' (PSTN) to 'Voice over IP' (VoIP), or internet telephony, in 2013. The project 'Next Generation Network Voice' was started in 2009 and involved the migration of 1,481 exchanges and 2.3 million access lines, as well as the creation of a central VoIP platform. Telekom Austria Group is also considering the possibilities of replacing currently existing network elements with virtualised solutions, which would further enhance operational and cost efficiency.

Bulgaria and Croatia also continued to improve their fixed networks and leverage technological synergies. Croatian Vipnet this year broke the world record in fixed data transfers on its hybrid fibre coaxial (HFC) network with a speed of 5 Gbps. The Group has also recently extended its multimedia business in CEE by partnering with Eutelsat to create a new 'direct2home' B2B platform for satellite pay TV. Existing TV offers based on IPTV and cable can now be supplemented by satellite technology, taking convergence to a new level. Croatian Vipnet is already using the new direct2home platform so as to migrate acquired subscribers and improve their range of services and image quality. This new wholesale-product is available in markets in Eastern Europe as well as in wider regions of Western Europe.

Wholesale backbone

In August 2013 Telekom Austria Group entered into a partnership with Dutch carrier KPN International to establish one of Europe's largest infrastructure backbones, covering 35 countries. The two companies are leveraging their experience and local know-how in a partnership deal. Various data services are being made available for international wholesale carriers as well as large business customers.

Outside Austria convergence is taking off as well – Significantly more products per stand-alone customer



Convergent customers   Non-convergent customers

Source: Analysis by Telekom Austria Group Controlling; Data from 11/2013

Highlights 2013

- Mobile customer growth of 2.5% to over 20.1 million across the Group
- Fixed lines up 1.3% to over 2.6 million across the Group
- Fixed access line growth in Austria, Bulgaria and Croatia
- Acquisition of mobile spectrum to shore-up competitive position in Austria
- Successful convergence strategy in Austria, Bulgaria and Croatia
- Demand-driven roll-out of hybrid network in Austria
- Conception and implementation of a clearly-defined sustainability strategy

Operational excellence

In order to counteract negative external influences and alleviate the cost effects of higher investments in the premium segments, the company continued to focus on a strict management of its cost base in 2013, as well as the leveraging of synergies and operating efficiencies. Gross cost savings of EUR 118.1 million were generated at Group level, almost 20% ahead of the original target of approximately EUR 100 million. In Bulgaria and Croatia management also achieved a net reduction in operating expenditure, amounting to EUR 16.1 mn and EUR 8.4 mn respectively.

In terms of the ongoing restructuring effort in Austria, A1 offered 431 full-time employees social plans or transfers into government service, thus reducing employee costs in the long term. The company also signed a new agreement to give 400 additional Austrian civil servants the opportunity to move from A1 and Austrian Post AG across to government ministries.

Moreover, Telekom Austria Group regularly executes cost benchmarking studies, which have repeatedly shown that it is among the most cost-efficient companies in its peer group.

Almost
EUR
120
million gross cost savings

Compliance management

High ethical standards, abidance with the law and an active stance against corruption are prerequisites for sustainable business development. In order to actively promote a culture of integrity and prevent misdemeanours, the Telekom Austria Group implemented a sophisticated Compliance Management System from 2010 to 2013. The system consists of the three building blocks strategy, prevention and reaction, and is subject to ongoing adaptation and improvement.

Over the period October 2012 to September 2013 the Compliance Management System was audited by experts from PricewaterhouseCoopers, who concluded that it is in alignment with the high standards of the IDW PS 980, as well as the Transparency International Business

Clear message to all stakeholders: integrity is the foundation of our business.

Principles for Countering Bribery.[2)] Details of the Compliance Management System can be found under www.telekomaustria.com/en/group/compliance.

The implementation of this system sends a clear message to all stakeholders: integrity is the foundation of our business. To underpin this message, 16,000 employees have to date been trained in compliance rules. In 2013 alone 9,400 employees of selected target groups took part in compliance classroom training as well as related e-learning sessions.

Furthermore, the Telekom Austria Group won the Austrian VIKOM Communication Excellence Award from the association for integrated reporting this year, which honours the company's reputational gains through compliance communication.

The year 2013 also saw the fortification of the Telekom Austria Group set-up relating to data protection. In Austria A1 now has two dedicated sections for data privacy and information & data security, reporting to the Management Board. The Information Security Policy and the supplementary Information Security Standards apply throughout the Group. At A1 e.g. 2,000 selected employees participated in e-learning and classroom training sessions on data privacy.

Corporate sustainability: RE.THINK

Telekom Austria Group has devoted great efforts to improving sustainability for many years. As with compliance, the Group Communication & Sustainability team reports directly to the Management Board. The latter believe that, in addition to economic indicators and goals, ecological and social aspects play a key role in securing long-term business success.

In 2013 the Telekom Austria Group sustainability effort reached new levels. Already in 2012 the company kick-started the initiative 'RE.THINK', which entailed a materiality analysis focussed on social and environmental aspects across the value chain and core business. This analysis was performed in cooperation with stakeholders and resulted in the definition of four central areas of activity: providing sustainable products, living green, empowering people and creating equal opportunities. A total of 22 targets and key indicators have been set across all four areas and form an extensive programme.

An example for ways to create equal opportunities is the 'A1 Internet for All' initiative, which was started in 2011 to help those who were previously excluded from entering the digital world. Since then, individuals of all age groups have taken part in free workshops at sites in Vienna, Klagenfurt, Salzburg and at partner institutions. More than 3,200 internet training sessions have been attended by approximately 43,000 people. The programme was nominated for the TRIGOS 2013 award.

Efficient environmental management systems ensure that environmental aspects are captured, planned measures implemented and the potential for further improvements uncovered. In 2013 environmental KPIs were defined and gathered for the first time at all Group subsidiaries as part of the 'TAGreen' project and reported in the Corporate Sustainability Report 2012/13: www.telekomaustria.com/sr/2013

Telekom Austria Group is widely recognised for its sustainability effort, including winning the ASRA (Austrian Sustainability Reporting Awards) for the above-mentioned report. The company has e.g. been listed in the FTSE4Good Index since 2001, which recommends companies with a strong sense of corporate responsi-

»Ecological and social aspects also play a key role in securing long-term business success.«

2) IDW = Institute of Public Auditors in Germany, PS 980 = Principles of Proper Auditing of Compliance Management Systems

The balancing of economic, ecological and social aspects is a central element of sustainable business management.

bility. Moreover, the Munich based rating agency oekom research awarded Telekom Austria Group Prime Status in 2012, with an overall score of C+ (on a scale from D- to A+). In 2013 the company also improved its CDP (Carbon Disclosure Project) rating from E to C, with 74 points out of 100.

Strategic workforce planning

Telekom Austria Group is committed to developing and attracting talented individuals willing to engage and perform, live company values and lead others to do the same. In 2013 the Human Resources team once again demonstrated its ability to spread the values of innovation, quality, diversity, responsibility and integrity across the Group, while ensuring an efficient organisation and supporting the business plan.

The annual 'TAGisfaction' survey, designed to generate feedback from the Group workforce in the areas of leadership, strategy and career development, took place for the second time between 10 June and 1 July 2013. It generated a response rate of 64% versus 57% in 2012. Encouragingly, 90% of employees see themselves staying with the company for the foreseeable future.

Founded in 2010, the TAG Business School continues to function as a central learning facility; it has now run more than 174 training programmes for 2,826 employees. These range from topics such as ICT innovation, corporate sustainability and diversity addressed at more junior levels to marketing, technology and finance modules for management. The Group has also developed an e-learning system, the implementation of which began in October 2013. In sum, the company invested almost EUR 8 million in employee education in 2013, or EUR 491.6 per employee.

Telekom Austria Group also aims to further optimise Group-wide talent deployment. A job market has been set up across the Group; internal qualifications and re-educational programmes are on offer to help put 'the right people in the right places'. The focus of the Group recruiting strategy in 2013 was on hiring extraordinary graduates as trainees and apprentices at entry level. The Group also maintains a 'Top Talent Competition' for selected graduates to support interaction with management and knowledge transfer. Diversity also remains a key focus of the Group strategy going forward: currently women make up an average of 38% of the workforce and hold 32% of management positions, with the aim of reaching 35% in all subsidiaries by 2015.

While the Group is committed to state-of-the-art compensation and benefit processes to drive high performance, the company is also keen on improving efficiencies. The creation of a database of human resource-related indicators was part of the sustainability effort to increase transparency and measurability, and published in the 2012/13 Sustainability Report mentioned above (see chapter 'Facts and Figures' for details).

The Human Resources team spreads the values of innovation, quality, diversity, responsibility and integrity across the Group.

A double-edged sword

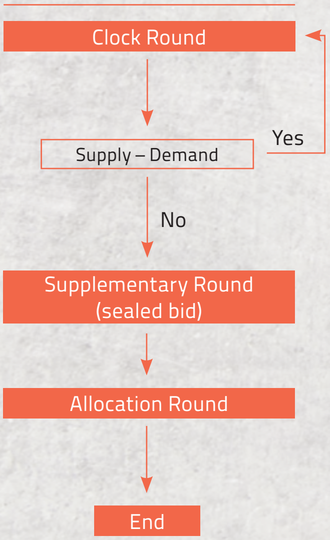
The Austrian spectrum auction cuts both ways

After an extended run-up period, the Austrian multiband spectrum auction finally came to a conclusion in late October 2013.

The Austrian regulator RTR published tender documents as early as March, outlining a complex auction process and format.[1] Through the tender documents RTR offered 280 MHz (2 x 140 MHz uplink and downlink) of spectrum for sale in the 800-MHz, 900-MHz and 1,800-MHz frequency bands. Spectrum in the new 800-MHz band ('digital dividend') was to become available immediately after the auction with an expiry date of year-end 2029. The existing 900-MHz and 1,800-MHz bands would also be re-auctioned, with the resulting redistribution coming into effect only when existing licences expire in 2015, 2017 and 2019. Those licenses would thereafter have a common expiry date of year-end 2034.

A combinatorial clock auction

Process



Description

During clock rounds the auctioneer announces a price per lot for each spectrum category after which the spectrum demand is communicated by each bidder. If the total demand of all bidders in a category exceeds the supply, the auctioneer increases the category price. Throughout the clock phase, a bidder's demand can only be stable or decrease – it can never increase. The clock phase ends when the total demand is lower or equal to the supply.

In the supplementary round, each bidder can submit bids for additional spectrum packages. The maximum possible bid amount for each spectrum package is limited by bidders' behaviour in the clock rounds.

The highest combination of all bids from all bidders is selected as the winning combination.

Interested parties were asked to submit applications by 10 June 2013, with the auction due to take place in September. 2 x 10 MHz or one third of the spectrum in the 800-MHz band was initially reserved for one or several new market entrants, to be sold in a pre-auction. Nothing certain however transpired regarding the pre-auction until the conclusion of the main auction, which showed that there had indeed been no outside applicants.

The auction

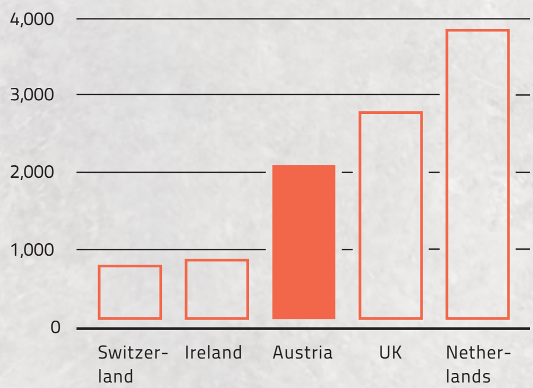
Since there was no new entrant, all 28 blocks of 2 x 5 MHz were offered to existing Austrian operators A1, T-Mobile Austria and Hutchison 3G Austria. The regulator chose a combinatorial clock auction format with three successive rounds. High reserve prices and bid increments, combined with the option to bid for up to 50% of the spectrum (including existing spectrum), quickly raised the stakes. Together with a severe lack of transparency – no aggregate demand overhang was given until bidding reached approximately EUR 1.5 bn – this resulted in the most expensive European auction to date.

As for its bidding strategy, in the first 'clock' round of the auction A1 focussed on the new 800-MHz spectrum as well as on retaining its existing 900-MHz/1,800-MHz voice business. A1 ended the first round with 2 x 50 MHz of spectrum and a total financial exposure of approximately

1) RTR = Austrian Regulatory Authority for Broadcasting and Telecommunications; www.rtr.at/en/tk/multibandauktion

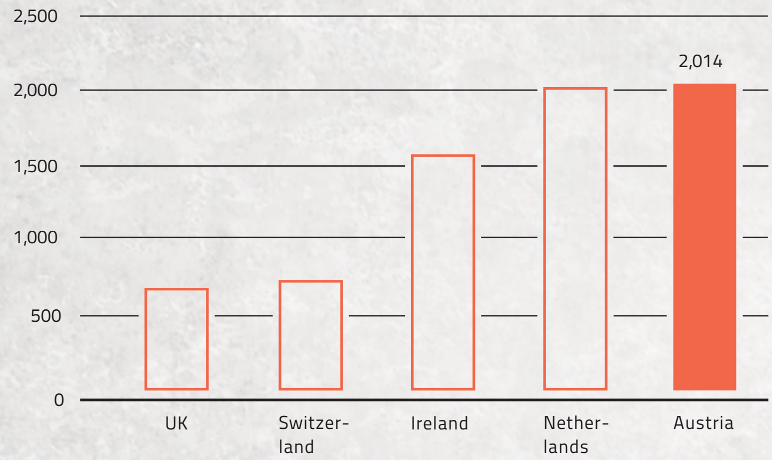
Total costs of European spectrum auctions

in EUR million



Total costs rebased to Austrian framework show Austria was the most expensive auction to date*

in EUR million



* Costs of the other European auctions have been rebased to take into account differences in population, license duration and available spectrum.

EUR 1 bn; four blocks of spectrum remained unsold. By bidding for the unsold spectrum in the second or 'supplementary' round, A1 was able to acquire 2 x 20 MHz of additional spectrum. This 40% increase in spectrum holdings only resulted in a 3% increase in costs for the company.

In the end A1 acquired 2 x 70 MHz or 50% of the total spectrum for sale, including two thirds of the 800-MHz spectrum, for EUR 1.03 bn. Analysts' estimates prior to the auction averaged around a third of that price.

Financing

Thanks to its conservative financial strategy the Telekom Austria Group had sufficient financial flexibility to absorb these exorbitant costs via existing cash and additional debt: on 26 November 2013 the Group capitalised on favourable issue conditions in the debt markets and placed a EUR 750 million bond transaction with an 8-year maturity. An orderbook of approximately EUR 5 bn highlighted the strong demand and resulted in a 3.125% coupon, the lowest in the history of the Group. While the spectrum auctions led to a downgrade by Standard & Poor's and Moody's to BBB- (stable outlook) and Baa2 (stable outlook) respectively, the Group retained its Investment Grade rating, which remains key to the Group's finance strategy. Over the medium term Telekom Austria Group targets a return to its BBB rating by S&P, using operational cashflow for deleveraging.

Conclusions

Though undeniably expensive, the auction yielded strong results for the company. Now in possession of 43% of total outstanding Austrian spectrum, its position as the highest capacity network provider has been reinforced for the foreseeable future. The acquired spectrum will help satisfy growing consumer demand for connectivity and data. The new spectrum distribution may have an impact on the viability of potential new mass market MVNOs ('mobile virtual network operator').

Financial flexibility allowed Group to absorb high auction costs via cash and debt.

Spectrum distribution before and after Austrian multiband auction

	A1			T-MOBILE			DREI		
	Before	After		Before	After		Before	After	
Band		absolute	in %		absolute	in %		absolute	in %
800 MHz	–	2 x 20	67%	–	2 x 10	33%	–	–	0%
900 MHz	2 x 20.2 (until 2015/2017)	2 x 15	43%	2 x 12.8 (until 2015)	2 x 15	43%	2 x 0.8 (until 2017)	2 x 5	14%
1,800 MHz	2 x 15 (until 2015)	2 x 35	46%	2 x 25.4 (until 2015/2019)	2 x 20	27%	2 x 29 (until 2017)	2 x 20	27%
Total MHz	**2 x 35.2**	**2 x 70**	**50%**	**2 x 38.2**	**2 x 45**	**32%**	**2 x 29.8**	**2 x 25**	**18%**

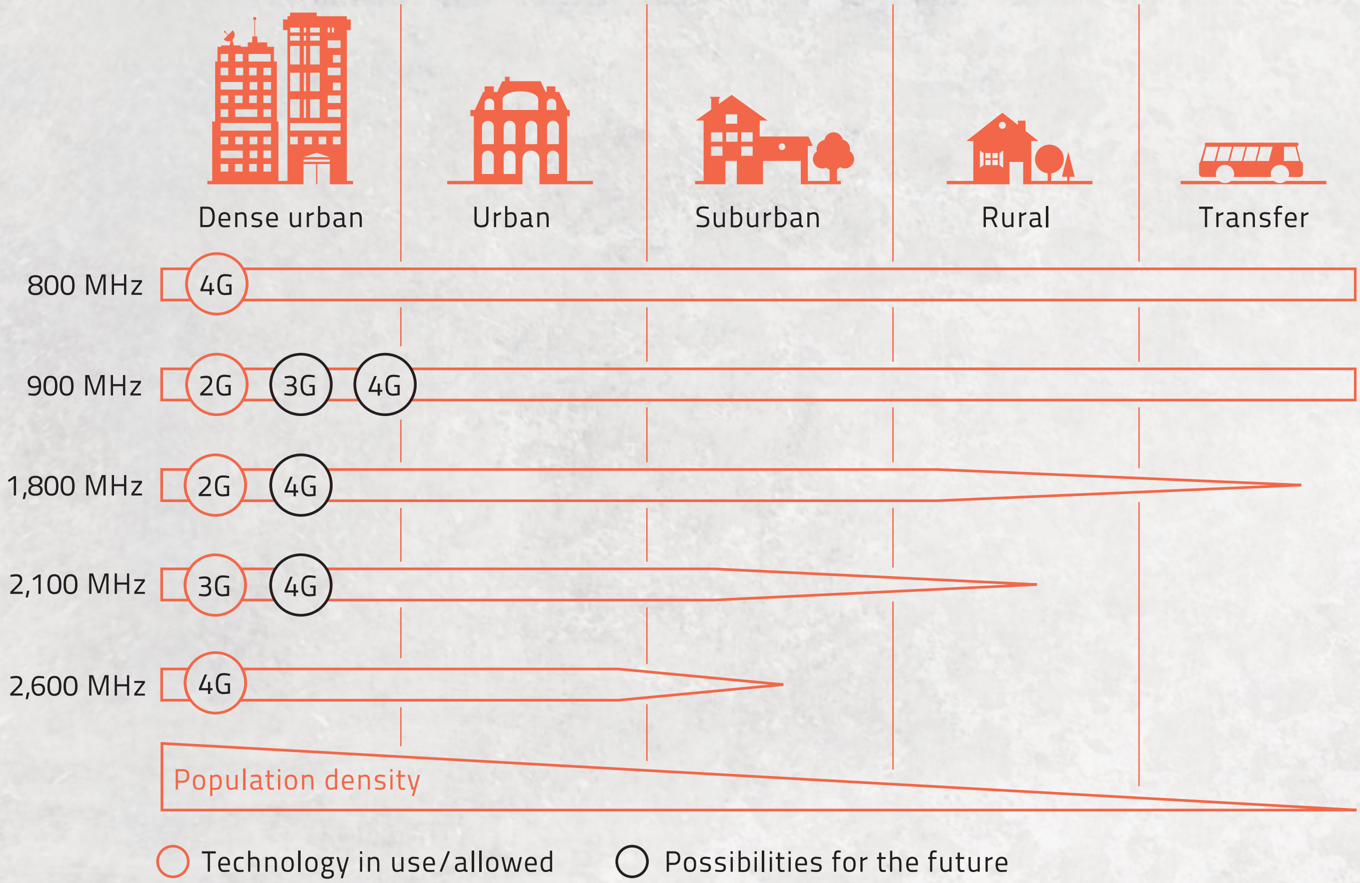
The longwave 800-MHz spectrum will enable the company to roll out LTE in rural as well as urban areas, as fewer base stations are needed compared with the shortwave 2,600-MHz band. Existing towers can be refitted to carry the 800-MHz technology. Where antennas have to be built the focus will be on SingleRAN (Radio Access Network) technology. The extension of the existing footprint will be driven by coverage stipulations as well as market analysis. The focus of the latter is on the potential for winning new customers and reducing churn, inter alia with the aim of defending against revenue loss from fixed-to-mobile substitution. Fast and efficient broadband deployment via LTE will support a continuation of A1's successful convergence strategy, especially in rural areas.

»The company's position as the highest capacity network provider has been reinforced.«

While the 800-MHz and 2,600-MHz bands will be used mainly for 4G traffic as described above, the 900-MHz band will continue to carry existing voice traffic, with the possibility to expand data services offered in future. The increased capacity in the 1,800-MHz band allows for service and volume expansion, while the 2,100-MHz band for now remains the main carrier of 3G traffic. Telekom Austria Group has thus created a sustainable basis for the further development of premium and high-speed products and services.

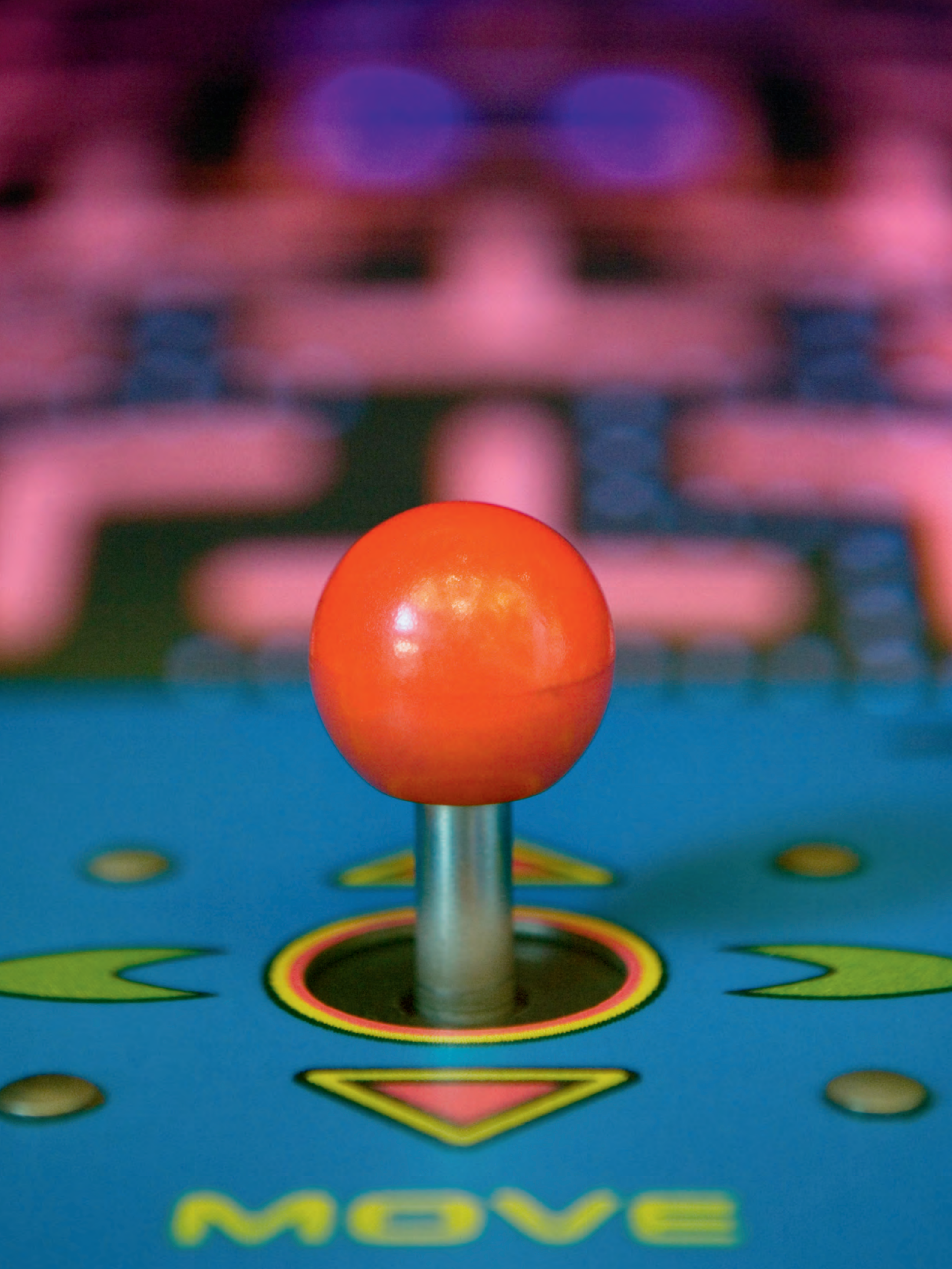
The current LTE offering facilitates data rates of up to 150 Mbps. In the future, the enlarged network might make possible a pooling of frequency bands ('carrier aggregation') in such a way as to allow the implementation of new technologies such as LTE Advanced. Telekom Austria Group already employs 'Multiple Input Multiple Output' (MIMO) technologies, which use multiple transmitters and receivers to transfer more data at the same time, thus improving mobile bandwidth and network efficiency. Combined with LTE Advanced, these could allow a large number of users to simultaneously access high data rates within one mobile radio cell, thus significantly increasing network efficiency and the available bandwidth yet again.

Spectrum portfolio and usage after multiband auction



Mobile communication technologies

1st GENERATION (1G)	2nd GENERATION (2G)	3rd GENERATION (3G)	4th GENERATION (4G)	BEYOND 4G
B-network, C-network, D-network	GSM, GPRS, EDGE	UMTS, HSPA, HSPA+ HSPA+ Dual Cell	LTE	LTE Advanced
1974 – 2001	Since 1994	Since 2003	Since 2010	Timing depends on commercial system and terminal availability
Voice telephony	Voice and first data service	Voice and data service	Voice and broadband data service	Faster broadband: higher bitrate and shorter latency
Voice transmission	Better call quality and stability, standardised services (e.g. text messages)	Variable speeds, asymmetrical up- and downlink	Fast mobile broadband, more efficient use of frequencies	Carrier aggregation
No data transmission	9.6 – 236 Kbps	0.384 – 42 Mbps	Up to 150 Mbps	Several 100 Mbps


MOVE

Our Strategic Roadmap

A letter from the Management Board

Laying the foundations for a return to growth

Our number one strategic priority is to return the Telekom Austria Group to growth, both at the revenue and EBITDA levels. In 2013 we built a strong foundation and we expect to make further significant progress in 2014 by continuing with our existing strategy.

The four pillars of the Telekom Austria Group strategy

This strategy is designed to improve revenues and profits both by providing more services to our existing customers and by attracting new high-value customers. We also continue to exploit specific opportunities in the markets in which we operate, while ensuring our operations are lean and efficient.

As outlined in chapter 'Management Track' Record of this report, this strategy already produced positive results in 2013. We achieved double-digit revenue growth in Belarus and in the Republic of Serbia, and single digit growth in the Republic of Macedonia. Although our revenues declined in Austria, Bulgaria and Croatia, we have also significantly strengthened our strategic position in these three markets.

In January 2013 we expanded our operations in Austria through the acquisition of YESSS!. In the autumn, we participated in Austria's pivotal spectrum auction of both new and existing frequencies. Although we had to pay an exorbitant price, we secured 50% of the auctioned spectrum, including a major tract of strategically important 'waterfront' spectrum in the 800-MHz band. Like waterfront property, spectrum in the low bands is scarce and highly sought after.

As a result, we are now ideally positioned to provide clearly-differentiated, high-quality mobile communications services, particularly indoors and in rural areas. Our holdings in the 800-MHz band will enable us to cost-effectively deploy high performance LTE networks across Austria. Our success in the frequencies auction in Austria means that we can now provide even more compelling propositions to our customers, particularly in the high-value segment, in a market that generates over 60% of Group revenues.

In Bulgaria we have taken steps to improve our performance in a harsh economic climate by continuing to reduce operational costs and installing a new management team that can realise the full potential of our convergent proposition.

In Croatia we also acquired further 800-MHz spectrum and four regional fixed-line operators as well as one satellite TV provider, supplementing our existing convergent offering in that market. These investments have created a solid foundation on which to base the implementation of our strategy.

Telekom Austria Group has invested heavily into its own future.

A market-by-market approach

While leveraging Group synergies, we continue to tailor our approach to the maturity of each individual market. In the mature markets of Austria, Bulgaria and Croatia, we are focused on maintaining and increasing our share of the high-value customer segment, which generates the lion's share of our EBITDA margin. In Austria we have tailored our premium offering to customers looking for sophisticated, integrated communications solutions and the ability to send and receive large volumes of data traffic. Similarly, in Bulgaria and Croatia our strategy is to create value through innovative and convergent products, and to differentiate our services.

The Management Board of Telekom Austria Group (from left to right): Hans Tschuden (CFO), Hannes Ametsreiter (CEO), Günther Ottendorfer (CTO)

In our mobile-only markets, we continue to focus on growth opportunities. In Belarus we believe there is considerable scope to increase revenues from data services as we roll out attractive products and services, leveraging demand for smartphones and data. In Slovenia we continue to improve our share of contract customers and to strengthen our position in the small and medium-size business segment, while upgrading network capacity to meet growing demand for mobile broadband and smartphones. In the Republic of Serbia and in the Republic of Macedonia, where our operations are now six years old, we continue to target contract customers to develop a robust base for high-value products.

Up to

80%

churn reduction among convergent customers

Monetising traffic growth – 'more for more'

In 2013 we further refined our offerings to customers. While unlimited data tariffs played a key role in seeding greater demand for connectivity, they have now largely been replaced with tiered tariff structures that reflect the customers' actual usage of the networks. The next task is to refine these tiered tariff structures so that they both appeal to customers and enable Telekom Austria Group to generate a return on our investments in network infrastructure.

To that end, in Austria we have deployed new tariff plans, which provide more value for money. These tariff plans have been well received, strengthening our position at the high-end of the market. By providing 'more for more', these new tariffs are designed to help us monetise the rapid traffic growth on our networks.

We have followed a similar approach in our other mature markets, such as Croatia and Bulgaria. Here we have also simplified and refined our propositions to improve customer segmentation, while at the same time up-selling customers to smartphone tariff plans. In our mobile-only markets Slovenia and the Republic of Macedonia, we also adjusted our offering to focus on customer segmentation and value generation.

Convergence – a competitive differentiator

Our strong spectrum portfolio in Austria complements our extensive domestic fixed-line infrastructure. Our ability to offer customers bundles of mobile and fixed-line services is a clear competitive differentiator that has broad appeal for both individuals and business customers. The level of churn among customers with a mobile and fixed-line bundle is up to 80% lower than among customers who only have a mobile service. In the Austrian fixed-line business we saw access line growth in 2013, ahead of most other established telecoms operators in Europe.

We are following a similar bundling strategy in Bulgaria and Croatia, where we also have mobile and fixed-line networks. In both countries our fixed-line customer base continues to grow, providing a robust platform for our convergent offerings in these markets. In Croatia growth in fixed-line revenues has already partially offset a decline in mobile revenues, and we expect to also benefit increasingly in Bulgaria as our new management team refines our offering in that market.

Customers find it convenient to buy mobile and fixed-line services from one supplier and pay via one bill. In this respect, we still have considerable scope to cross-sell and up-sell our services, so as to counteract the impact of regulatory

We have deployed new tariff plans, which provide more value for money.

»Our ability to offer customers bundles of mobile and fixed-line services is a clear competitive differentiator.«

intervention on roaming charges and interconnection fees.

There are also other dimensions to convergence: Rather than having to use a specific device for a specific service, customers increasingly want to be able to access services and content across multiple devices. We are endeavouring to meet this demand.

At the same time, telecoms operators across Europe are rediscovering the merits of owning both mobile and fixed-line networks. Although voice traffic continues to migrate away from fixed-line networks to mobile networks, there is a growing recognition among mobile operators that they also need to utilise fixed-line broadband networks to meet the extraordinary demand for data traffic.

As one of the leading communications companies in Central and Eastern Europe, we endeavour to offer all our customers secure and reliable voice, broadband and television services. We have set ourselves a range of targets to achieve this. For example, we plan to achieve 2G population coverage of at least 99% and 3G coverage of at least 90% by 2015 in the markets in which we operate, with the exception of the Republic of Serbia where our operation is still relatively young.

A step change in network performance

LTE provides a step change in network performance, dramatically improving the customer experience.

The growing demand for data and the success of our convergence strategy in Austria, Bulgaria and Croatia, strengthen the case for investment in high-speed mobile and fixed-line networks.

LTE provides a step change in network performance, dramatically improving the customer experience. In Austria we enlarged our LTE footprint in urban areas in 2013, and plan to begin rolling out LTE in rural areas in 2014. In Croatia and Slovenia we are also offering LTE and extending our coverage.

As LTE makes more efficient use of spectrum than 3G, it enables us to carry data traffic at a lower cost per bit, reducing our operational costs. LTE is also designed to support the end-to-end transmission of IP (Internet Protocol) traffic, making LTE networks easier to integrate with our fixed-line infrastructure and eliminating the costs associated with converting traffic between IP and circuit-switched formats.

We have also made major investments in high-bandwidth fixed-line infrastructure. 56% of the households in Austria are already covered by our Next Generation Access network.

We are also judiciously deploying fibre-to-the-curb (FTTC), and fibre-to-the-home (FTTH) connections, prewiring these technologies into new buildings in urban areas. Moreover, the application of innovative technologies, such as vectoring, allows us to enhance the speed of existing copper lines while at the same time applying CAPEX efficiently.

The combination of state-of-the-art technologies in fixed and mobile will give us a significant competitive advantage, while lowering both capital and operating costs (see page 35 for more on the potential of LTE and fibre).

In the wholesale market, we are moving to fully benefit from the soaring demand for data traffic. During 2013 we forged an important partnership with KPN International in the wholesale sector. The combination of two regionally complementary infrastructures is enabling both companies to make more efficient use of their networks and ultimately strengthen their service offering.

In pursuit of operational excellence

As well as investing in new network infrastructure, we continue to pursue operational excellence, optimising the efficiency of our existing

How new technologies are transforming telecoms

Günther Ottendorfer joined Telekom Austria Group as Chief Technology Officer on 1 September 2013. Here Mr Ottendorfer explains Telekom Austria Group's network strategy.

The extent to which we are able to surf the big data wave will define whether we will be successful five years from now. In order to fully capitalise on this wave, Telekom Austria Group needs to have the most modern and efficient networks.

In the mobile world we have two 'horses'. The bulk of our customers use 3G, which is a strong and reliable workhorse. With our LTE services we are also introducing a racehorse. Over time, the racehorse will become the new workhorse.

By providing a much bigger 'pipe', LTE offers far faster throughput than 3G, enabling us to transfer large amounts of data at lower costs per bit. With LTE there is also much lower latency, so the responsiveness of the whole system is much better, which is important when there is a need for real-time control of a remote machine or sensors. Low latency is also important in the conduct of complex database queries, which require continuous communication between the computer server and the client.

LTE networks only carry Internet Protocol (IP) traffic, so there is no need to convert traffic between formats, which makes the infrastructure simpler and cheaper to operate. Eventually, we will have an all-IP world and voice calls will be just another IP data service. LTE's spectral efficiency is also better than its predecessors', further reducing the cost per bit.

LTE has the potential to lift the top line, but it might take time. We have found in the past that we cannot predict which new services will really catch fire with customers, but there are several new concepts, such as wearable computing and new machine-to-machine applications, that have potential. I see a world of opportunity with LTE.

Although wireless technologies in unlicensed spectrum, such as Wi-Fi, will also play a role, interference and coverage issues mean Wi-Fi needs to be combined with a really powerful mobile network.

In the fixed-line world we need to both push the limits of copper lines and deploy fibre to meet demand for high-definition (HD) video streams and, in the future, for video streams with 4K resolution. At Telekom Austria Group we have conducted one of the world's first trials of vectoring, which makes possible the transmission of data over short distances at several hundred megabits on a copper line.

This innovation on the copper platform will help us roll out more high-speed broadband: If we bring our fibre network close to the street cabinet, we can then use enhanced copper lines to cost-effectively connect the fibre network to the individual buildings. We will also continue to roll out fibre, but only when the economics make sense.

We also need to get our platforms and systems ready to make them scalable for this new world of data. Over the next five to six years, network virtualisation technology will enable us to move to a new flexible hardware platform, further lowering our network costs.

In summary, we are in the midst of a technological transformation that will radically change both the services we can offer and the fundamental economics of the telecoms business.

ABOUT GÜNTHER OTTENDORFER

Before joining Telekom Austria Group as CTO, Günther Ottendorfer spearheaded the introduction of LTE at Optus Singtel in Australia. During a successful 20-year international career in the telecoms sector, Mr Ottendorfer served as COO and CTO for T-Mobile Austria, as CTO for T-Mobile Germany and as European Technology Director at Group-level for T-Mobile International.

operations. By harnessing the collective expertise and buying power of the Group, we have made major progress in reducing both our procurement costs and improving our day-to-day efficiency.

In 2013 our cost-cutting programmes partly offset the impact of regulation and the competitive headwinds on revenue. We met and exceeded our initial cost reduction target of approximately EUR 100 million, saving almost EUR 120 million in 2013, and have reinvested those savings back into strengthening our position in the high-value segment, particularly of the Austrian market – a strategy that is likely to reap major financial benefits in the years to come.

Contributing to society

The Telekom Austria Group plays an important role in the lives of our almost 23 million customers and the smooth running of thousands of organisations. In fact, our company and our staff are deeply embedded in the society in which we operate and we have a responsibility to contribute where we can to socio-economic progress and the protection of the environment.

To that end, we are seeking to use new technologies to open up opportunities for people across society, while simultaneously using the natural resources of our planet as effectively as possible. In 2013, we continued to execute the sustainability strategy we defined in 2012. The strategy encompasses four central areas of activity:

/ 'Providing responsible products' – develop products in a future-oriented and responsible way: We are developing innovative applications that will have a positive impact on the environment and society. One of our goals is to promote innovative and climate-friendly products and solutions, for example through the use of Machine-to-Machine (M2M) communications.

/ 'Living green' – manage resources in an efficient and sustainable way: We continue to take steps to reduce the ecological footprint of the Telekom Austria Group. One of our targets for 2015 is to increase the Group's energy efficiency by 20%.

/ 'Empowering people' – systematically promote employees skills and utilising them: We provide education and professional training, as well as a healthy work-life balance for employees, while also fostering diversity and a corporate culture of responsibility and integrity. One of our targets is to increase the proportion of women in the workforce and in management positions to 35% across the Group by 2015.

/ 'Creating equal opportunities' – creating equal opportunities in the digital society: We foster education and media literacy to ensure equal access to information, education and knowledge across society in an increasingly digital world. One of our targets is to reach 100,000 participants in media literacy classes by 2016.

We have set key indicators and further targets for all four areas of activity. For more information, please see the Telekom Austria Group 2012/13 Sustainability Report:

www.telekomaustria.com/sr/2013

»As well as investing in new network infrastructure, we continue to pursue operational excellence.«

By centralising procurement, we have negotiated lower prices for the individual operators within the Group across a wide range of sectors, including devices and network equipment. By continuing to improve demand specifications, we expect to generate further savings in future, helping to safeguard cashflow.

Maintaining financial flexibility

Our conservative financial strategy provided the financial flexibility we needed to strengthen the business through the acquisition of YESSS! from Orange Austria, as well as to absorb the costs of the Austrian multiband auction in 2013 through cash and additional debt.

Despite the unexpectedly high costs of the Austrian spectrum auction, two rating agencies continue to rate Telekom Austria Group investment grade, with a stable outlook.

The Group's fundamentally robust financial position was underlined by our successful launch of a benchmark bond with a volume of EUR 750 million in December 2013. There was strong demand for the coupon of 3.125% per annum (significantly below the Group's average cost of debt), generating an order book amounting to around EUR 5 billion. The proceeds were used to help finance the EUR 1.03 billion payment for the spectrum we acquired in October 2013.

Our medium-term target is to rebuild the desired financial buffer and to return to a rating of BBB (stable outlook) with Standard and Poor's. We will use operational cashflow to deleverage the Group. Should we decide to pursue further strategic opportunities, such as strengthening our convergent offerings, we would consider external financing options.

Summary

In 2013 we laid solid foundations for executing a business turnaround of the Telekom Austria Group. Although further regulation could significantly impact our performance, there are tentative signs that some regulators are beginning to put more emphasis on network investments, as well as price cuts.

In 2014 we will continue to focus on improving the revenue and EBITDA performance of the Group. As we begin to harvest the seeds we have sown, we expect to see further significant progress in the year ahead.

We believe our strategy will ultimately deliver a robust return on the investments made by the Group.

Hannes Ametsreiter, Chairman of the Management Board, Telekom Austria Group

Hans Tschuden, Vice Chairman of the Management Board, CFO, Telekom Austria Group

Günther Ottendorfer, CTO, Telekom Austria Group

Hannes Ametsreiter

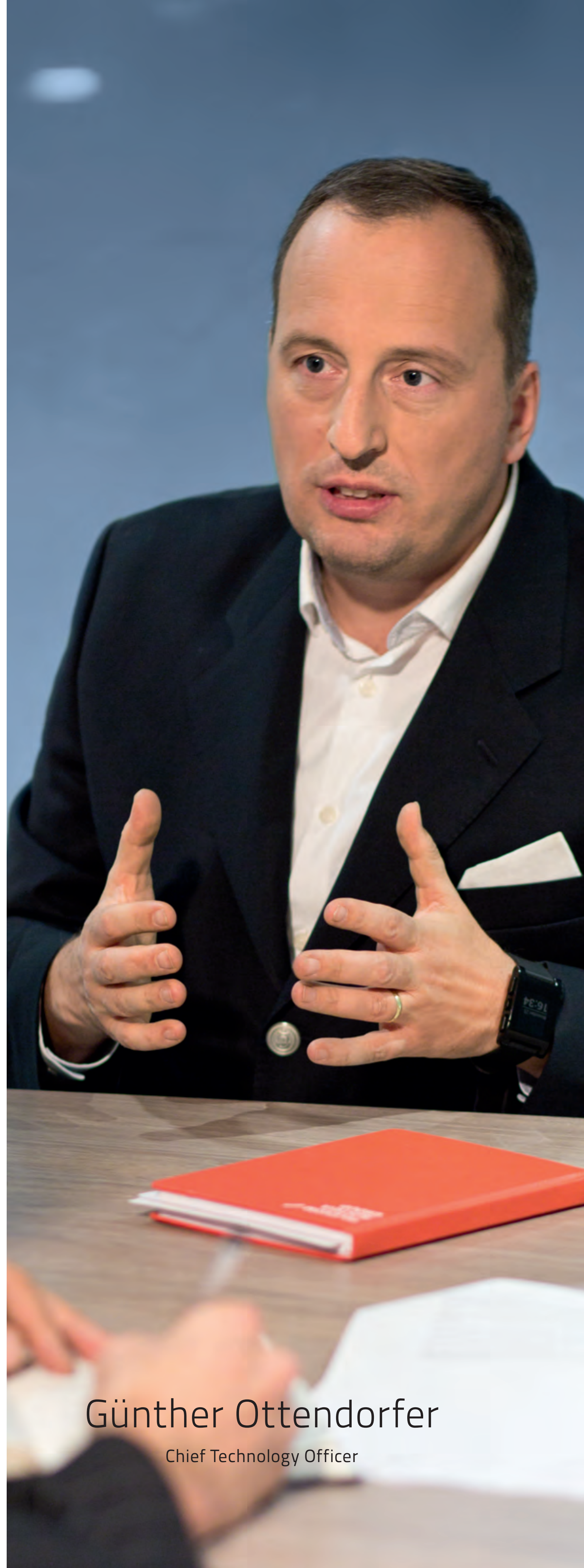
Chief Executive Officer

Hans Tschuden

Chief Financial Officer

Why Do We Invest?

The Management Board of Telekom Austria Group answer key questions posed by British journalist David Pringle*



Günther Ottendorfer

Chief Technology Officer

* Please see page 13 for information about David Pringle.

Reflecting on 2013

How would you characterise the business year 2013?

Hannes Ametsreiter: 2013 was an important year, because we laid the foundation for future developments through several major projects. One was the spectrum auction in Austria. Another was the acquisition of YESSS!. And we also acquired five companies in Croatia.

You can see the impact of these projects on the balance sheet, but operationally they have taken the company in the right direction. The acquisitions and the result of the frequency auction provide a great foundation for the future.

What were the most important influencing factors, general conditions and associated challenges?

Hannes Ametsreiter: Regulation is significantly impacting our operations and the rest of the industry. Roaming, for example, was a major source of returns, which have been substantially diminished by regulation. There will be some negative impact from regulation going forward, but hopefully to a much lesser extent than in the past.

At the same time, the business climate in each of our markets is a major factor. In Austria, a lot has changed in the past year. After the merger of Hutchison 3G Austria with Orange Austria, there are now three operators in the market, instead of four. In Belarus, the Republic of Serbia and the Republic of Macedonia, our successful operations are growing consistently. By contrast, there is a very negative economic development in Bulgaria.

What measures did you take to deal with the above factors?

Hans Tschuden: We have taken measures to mitigate the impact we have seen on the revenue side from regulation and competitive headwinds. We had a target to reduce our cost base by EUR 100 million, which we have overperformed by almost 20%. At the same time, we spent more

»If Europe wants to have the best network infrastructure, then it needs to have clear concepts and consistent regulation.«

Hannes Ametsreiter

in 2013 than in 2012 to address and capture the high-value part of our customer base. For this purpose, we introduced new tariff schemes that aim to monetise data growth.

When you look back at 2013, were there any external factors that surprised you?

Hannes Ametsreiter: What surprised us was the discussion about roaming. In just a few months, the roaming proposals changed significantly. Implementing these changes is costly. We need regulators to have longer-term thinking. If Europe wants to have the best network infrastructure, then it needs to have clear concepts and consistent regulation. In other words, it needs an industry policy.

Regulators need to address both consumers' and operators' interests. Operators need to generate revenues so as to be able to afford investments in infrastructure. European telecom companies currently have the lowest EBITDA multiples in the world. European telecoms should be stronger: We really need to achieve a turnaround and grow again.

However, there are smart people in Europe and the European Commission who realise that change is needed.

Günther Ottendorfer: At a European level, regulation has become fixated on creating affordable services for the consumer and has left out other policy elements. Regulators should give the telecommunication industry and infrastructure more weight in the next 10 to 20 years, so that the leading technologies of the future could again come out of Europe, as GSM did.

It is understandable that the European Commission wants to make roaming more affordable. But roaming traffic is mostly seasonal traffic, which requires investments in base stations that are only used for a few months of the year, such as those in resorts in Croatia or skiing areas in Austria. Regulators need to enable us to make a return on these investments.

We now have an excellent frequency situation. It is crucial to have this kind of asset in this dynamic market.

Did Telekom Austria Group pay too much in the spectrum auction in Austria? How can you make a return on that investment?

Hannes Ametsreiter: We have to. It is a long-term investment for the next 20 years. We now own two-thirds of the 800-MHz band, the most valuable spectrum available. In total, we have an excellent frequency situation. It is crucial to have this kind of asset in this dynamic market.

However, we paid the highest price in Europe (per MHz per head of population). We could see the danger at the very beginning of the process, but could not change the format of the auction.

Hans Tschuden: What's the alternative? If you are in a process where the alternative is to have no frequency, it is obviously important to get a sizable amount of spectrum in order to be in the market for the coming 20 years. In that sense, we have achieved our target. Obviously, we would have been pleased if the price had been lower, but it was not to be.

Günther Ottendorfer: We got a really good, future-proof spectrum package. Telekom Austria Group has been strengthened by this spectrum auction because we got the biggest chunk of the low band spectrum, including 2 x 20 MHz of the 800-MHz band, which can be used immediately. In this way, we can deliver an even greater range of services and opportunities to our customers today and in the future.

Indoor coverage for a mobile network has a much higher priority than it used to have. That

is why the low band is so important: Having the high throughput on the low band will provide really good indoor broadband services to our customers.

In rural areas, the low band spectrum makes our roll-out of LTE much more economical. In Australia, where I worked before, we called low frequencies the 'waterfront' of spectrum, comparing it to waterfront land in the property market. It is very rare, scarce spectrum.

Financial strategy

How can you justify ongoing investment in view of declining revenues and EBITDA, the low price levels and the competitive pressures?

Hannes Ametsreiter: We have a product that is very much in demand. Everybody wants to consume more data: Data traffic is close to doubling every year. But there is a clear mismatch between the pricing/revenue development and the need for investment. We need to get the business basics right and that needs to happen across Europe. We have been regulated heavily, which needs to change. I am optimistic that this change will happen sooner or later.

Hans Tschuden: It is a question of long-term strategy. We could cut back on our ongoing investments if necessary, but that would risk our market positioning. We have always positioned our brands and our services as premium quality, which requires high quality in terms of network and service. In the long-term, it is a position that will pay off.

Will your convergence strategy lead to higher ARPUs?

Hannes Ametsreiter: There is a good chance it will. If you sell bundled products, there is an opportunity to increase the revenue per household or per user. It is also a good opportunity to bring down churn. Everybody wants broadband, mobile and TV, but not everybody has all three with us. As we can provide all of these services, this represents an opportunity for us.

Did you distribute too much in dividends in the past, thereby constraining your current financial flexibility?

Hans Tschuden: With the benefit of hindsight, it is easy to argue that we should have done something different. At the point in time when we decided on our dividend policy, our prospects and focus were different. We have to adapt to the current environment and financial situation.

Under what conditions could investors anticipate a dividend increase?

Hans Tschuden: Our current focus is on rebuilding a financial buffer. We have invested a lot this year. Consequently, we now intend to focus on deleveraging the company with operational cashflow going forward.

What drives the share price in your opinion?

Hans Tschuden: To a large extent, it is what is going to happen in the Austrian market, which generates approximately 60% of our revenue. The Austrian business is the biggest lever for a Group turnaround, which is what investors want to see. Another factor is speculation about what might happen to our shareholder structure.

In addition, a change in the business climate in the CEE markets would positively affect our results in the medium term.

How would you judge the financial strength and the liquidity of Telekom Austria Group?

Hans Tschuden: The financial situation is reflected in our credit rating. We have an Investment Grade rating, assigned by two rating agencies, with a stable outlook. Going forward, we are going to use excess cashflow to deleverage the company.

How will Telekom Austria Group return to its target credit rating? How important is the rating?

Hans Tschuden: Maintaining our Investment Grade rating remains a key priority and our target is a return to a BBB (stable outlook) rating with Standard & Poor's in the medium term. We will do so by focussing on the business turnaround and cashflow growth.

Do you envisage asset sales?

Hannes Ametsreiter: Not for the time being. The assets we have in our portfolio are performing to our expectations, given the circumstances.

How much more scope does Telekom Austria Group have to cut operating costs?

Hans Tschuden: We have focused on cost cutting for a number of years. In 2014, we will focus on purchasing initiatives on the CAPEX side, among other things. On the price side, we have already achieved major savings.

»Maintaining our Investment Grade rating remains a key priority.«

Hans Tschuden

Looking ahead

Which factors will determine business performance in 2014?

Hannes Ametsreiter: We will have a strong focus on the Austrian and Bulgarian markets. In Austria in 2014 we expect to see some benefits from the policy we adopted this year. In Bulgaria we aim to stabilise our operation by providing attractive convergent products and service. At a macroeconomic level, we will likely see the trends we have seen in 2013 continuing into 2014.

Can we expect a turnaround in the Austrian mobile market in the near future?

Hannes Ametsreiter: We promised a turnaround in fixed-line and we have achieved that. It is also necessary to turn around the mobile market, so we will focus on that. When exactly it will happen I cannot say, but I am optimistic that it will happen.

Hans Tschuden: We have a high quality network and data is a growing business. Our task is to adapt our products and tariffs so that we can monetise this data growth going forward.

The competitive environment determines the extent to which it is possible to change the tariff structure. In the Austrian market, for example, our packages have a certain amount of data included, so you effectively get what you pay for. This is a change from the past, where data speeds were throttled when the customer went over a certain threshold, but the connection was not cut off.

If trends in the Austrian mobile market are changing, there is a lot of potential going forward.

We have seen major headwinds in Austria in the past couple of years. If trends are changing, there is a lot of potential going forward.

What is your feeling about the macro-economic picture in CEE? Where is that region going from an economic point of view?

Hannes Ametsreiter: We are very confident that the Eastern European countries will return to growth. They were hit hard by the economic crisis. It very much depends on the country. Some governments have invested in infrastructure, such as roads, tunnels and public transportation: They understand what is necessary to develop their country.

»We promised a turnaround in Austrian fixed-line and we have achieved that. It is also necessary to turn around the mobile market.«

Hannes Ametsreiter

How do you view the political, macro and foreign exchange risks in the Eastern European markets?

Hans Tschuden: At the moment, currencies and inflation seem to be stable in the countries where we have foreign exchange-rate risk. In any case, we know how to deal with these risks. Having a combination of an operation that is based in a very strong and stable country, such as Austria, and an opportunity to grow in emerging markets is a nice situation.

What are the factors driving your performance in Bulgaria?

Hannes Ametsreiter: In Bulgaria the population is declining, impacting every industry in the country. Regulation has also had a big impact on the results of our company. However, we also need to do better as a company, which is why we have a new management team in place, bringing new momentum.

Can your strong operating performance in Belarus and the Additional Markets continue?

Hannes Ametsreiter: Yes. The 2013 trend should continue in 2014.

How much future expansion can we expect?

Hannes Ametsreiter: We see a lot of potential in our markets, but there is also a lot of pressure still on the mobile industry in Europe. We, as managers and investors, wish to see that we are on track to generate growth in the markets in which we are active. We know we need to prove that in 2014. If we see that we are on the right track, then there is more flexibility.

What are the most exciting sources of future growth?

Hannes Ametsreiter: Clearly, data growth. And in strategic terms, of course, convergence. In the cable sector, there is growth of 5% to 10% year-on-year, which is good. It is also bringing down churn. TV is also very nice, with growth of around

Hannes Ametsreiter

Chief Executive Officer and Chairman of the Management Board of Telekom Austria Group since 1 April 2009, Chief Executive Officer of A1 since 2010

Board responsibilities

- Marketing (Group)
- Human Resources (Group) / Personnel Office
- International Business Development / Group Strategy
- Mergers & Acquisitions
- Regulation & European Affairs
- General Secretariat
- Communication (Group)
- Internal Audit (Group)

Hans Tschuden

Chief Financial Officer of Telekom Austria Group since 1 April 2007 and Vice Chairman of the Management Board since 1 January 2009

Board responsibilities

- Investor Relations
- Controlling (Group)
- Treasury (Group)
- Accounting (Group)
- Purchasing (Group)
- Legal / General Counsel
- Group Compliance*

* Reports to the entire Management Board but organisationally assigned to the CFO

Günther Ottendorfer

Chief Technology Officer of Telekom Austria Group since 1 September 2013

Board responsibilities

- Access & Transport (Group)
- Operations (Group)
- Service Network & IT (Group)
- Technology Strategy (Group)

10% year-on-year. New services, such as managed IT and cloud computing, are also growing rapidly. Another source of growth is machine-to-machine (M2M) connectivity: Connecting everything and everybody to the internet. But these markets don't yet move the needle at Group level. If we can get the business basics right in the telecoms industry, it will also help these new services.

How big is the M2M opportunity?

Hannes Ametsreiter: We will see SIM-card penetration rates of 300% to 400% in the future – that is three or four SIM cards per person. There will be SIM cards in cars, cameras and other digital devices. Connectivity can create a lot of value by enabling the use of open data and information to create new services: We are at the beginning of the development of a big data wave, which needs a platform. Then you need to have intelligent programmes and services to really create value for the consumer.

What is the role of Telekom Austria Group in the cloud (the provision of IT services on demand over a network)?

Hannes Ametsreiter: I think connectivity is the key product we are offering in the cloud services market. But being a service provider is also about being a trusted partner, which means security and privacy. That is a huge market and one which is getting stronger. The more communications services we take over from our customers, the better it is for the customer and also for us.

Technology

Mr Ottendorfer, you have been a member of the Management Board since September 2013. What are your first impressions of Telekom Austria Group?

Günther Ottendorfer: I think the company is an interesting group of operators in different phases – some are closer to start-up than others, while some are very established players. All of them have a big interest in pushing innovation into their markets to differentiate themselves. For all of them, quality is important. There is good co-operation across the Group with the new operations in the Republic of Serbia and in the Republic of Macedonia using systems already developed by the Group.

What are the goals of the CTO? How can you support cost savings and cashflow?

Günther Ottendorfer: We need to make the benefits of innovation tangible for our customers, by pushing all-IP into our architecture. Then we need to implement LTE and new technologies such as vectoring in the fixed-line network, so the customer really gets the benefits of higher bandwidths.

We are intensifying the knowledge exchange with weekly management meetings. If we discover a good development in one market, we quickly transfer that to the other markets.

Increasing the efficiency of our network is also a huge priority for us. We have significant ongoing modernisation programmes in several of our countries that will lower our maintenance and energy costs – two big factors. We are also driving further innovation when it comes to constructing our base stations more efficiently.

At the same time, we are trying to decrease complexity in the network architecture. In the future, so-called 'Self Organising Networks' will have fewer network elements to configure and maintain.

»We need to make the benefits of innovation tangible for our customers.«

Günther Ottendorfer

Is there a difference between your network strategy in Austria and that in the other markets?

Günther Ottendorfer: The actual mix of 3G and 4G networks in the mobile segment, and copper and fibre in the fixed-line segment, will depend on the market, the competitive situation and local needs.

What difference does LTE make to Telekom Austria Group's business performance?

Günther Ottendorfer: LTE provides a world of opportunity. Some of these opportunities might be premium opportunities that bring value to our customers, which they will be willing to pay for.

Even with LTE, we will still have a 2G layer and a 3G layer. The art is to combine these networks to gain the maximum benefit. From a technical point of view, the unit cost will come down, but we still need to monetise the additional capacity and that depends on what the market is willing to pay.

How much impact will free Wi-Fi hotspots have on the demand for LTE?

Günther Ottendorfer: Wi-Fi plays an important role in homes and offices because it is already in most devices. However, to implement a meshed Wi-Fi network of hotspots involves significant economic challenges. At a previous company we did a study for Munich airport and, to cover that airport in its entirety, you would need tens of thousands of Wi-Fi hotspots.

What is Telekom Austria Group's view on network sharing?

Günther Ottendorfer: We are open to it, as we see the long-term benefits of network sharing. But we also know that, in many cases, it requires significant initial investments. We are ready to do that, but we have not found the right partners yet.

Increasing the efficiency of our network is a huge priority for us.

Facts and Figures

Selected Group divisions in the spotlight

Investor Relations

Investor Relations strategy

- Telekom Austria Group pursues a timely, transparent and proactive information policy, intended to enable all stakeholders to make a realistic assessment of the Group

Development of the Telekom Austria AG share price

- After a volatile first half followed by a strong third quarter, the Telekom Austria AG share fell considerably in the latter half of the fourth quarter, eradicating earlier gains and closing the year down 4.1%
- The share's volatility in the first half of 2013 was the result of investor anxiety about the Austrian mobile market, further regulatory cuts as well as political and macroeconomic headwinds in the CEE markets. On 5 July 2013 the share reached its annual low of EUR 4.74 intra-day
- In contrast, a sector rally in the third quarter of the year also lent support to the Telekom Austria AG share, and the latter rose 27.4% between the end of June and September. Moreover, the potential for a recovery of the company's domestic mobile market as well as expectations that no fourth mobile operator would enter the market outweighed fears over an expensive outcome to the spectrum auctions in Austria. In addition, América Móvil's bid for Dutch incumbent KPN, which was later withdrawn, fuelled speculation about the former's intention in Austria and provided a floor at points of weakness in the performance of the share
- The fourth quarter saw Austrian mobile operators pay a combined EUR 2bn for Austrian multiband spectrum, of which A1 acquired 50%. The share nevertheless reached an annual high of EUR 6.75 intra-day on 17 October, but fell away again in December

Development of sector and market

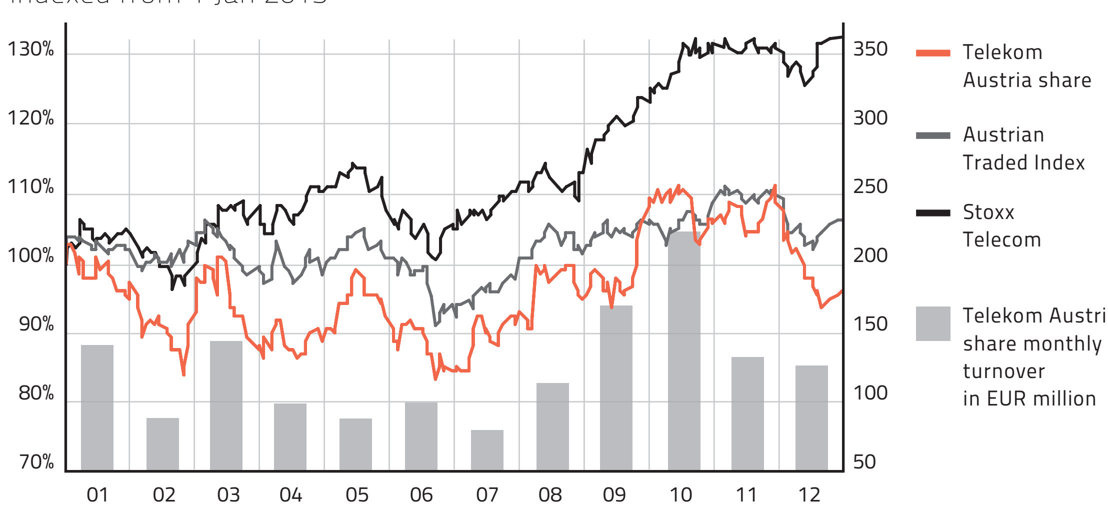
- After a mixed first half of the year, the Stoxx Telecom Index performed strongly in the second half of 2013. Sector M&A as well as the regulatory debate surrounding the EU single market proposal for telecommunication provided momentum. The index finished the year 2013 with a record 32.1% gain
- After being cautiously positive in the first quarter of the year, European capital markets rallied in May, after a number of better-than-expected economic data releases and an ECB interest rates cut. The resulting buoyancy came to an abrupt halt at the end of May, however, when Federal Reserve Chairman Ben Bernanke inferred that the US central bank might begin to taper its bond buying programme. European markets resumed their ascent in early July after reassurance from the Fed, and continued to gain for the remainder of the year bar a few temporary negative spells. Despite political strife in Italy, the Syrian civil war, the US budget crisis and continued tapering fears, the Stoxx 600 index closed the year up 17.4% on 31 December 2013
- The Austrian ATX underperformed other European markets, resulting from a number of weak heavyweight stock performances as well as its exposure to the CEE markets, which are still struggling to recover from the effects of the Euro crisis. The index closed the year up 6.1%

Basic information about the Telekom Austria share

ISIN	AT0000720008
Symbol	TKA
Reuters	TELA.VI
Bloomberg	TKA AV
CUSIP number (Austria)	72000
CUSIP number (Germany)	588811
Listing	Vienna Stock Exchange
American Depositary Receipts (ADS)	1 ADS = 2 ordinary shares

Development of Telekom Austria share price

indexed from 1 Jan 2013



Key figures about the Telekom Austria share

	2013	2012	2011
Share price low (in EUR)	4.74	4.51	6.80
Share price high (in EUR)	6.75	9.31	10.69
Share price as of 31 Dec (in EUR)	5.50	5.74	9.24
Earnings per share (in EUR)	0.20	0.23	–0.57
Free cash flow per share (in EUR)	–1.62	0.74	1.08
Market capitalisation as of 31 Dec (in EUR billion)	2.4	2.5	4.1
Average daily stock market turnover (in EUR million)	6.1	8.8	15.1
Number of shares of common stock	443,000,000	443,000,000	443,000,000
Number of shares outstanding as of 31 Dec	442,584,841	442,563,969	442,563,969
Share capital (in EUR)	966,183,000	966,183,000	966,183,000
ATX weighting (in %)	3.7	4.0	8.5
Stoxx Telecom weighting (in %)	0.9	0.5	0.9

Finance strategy

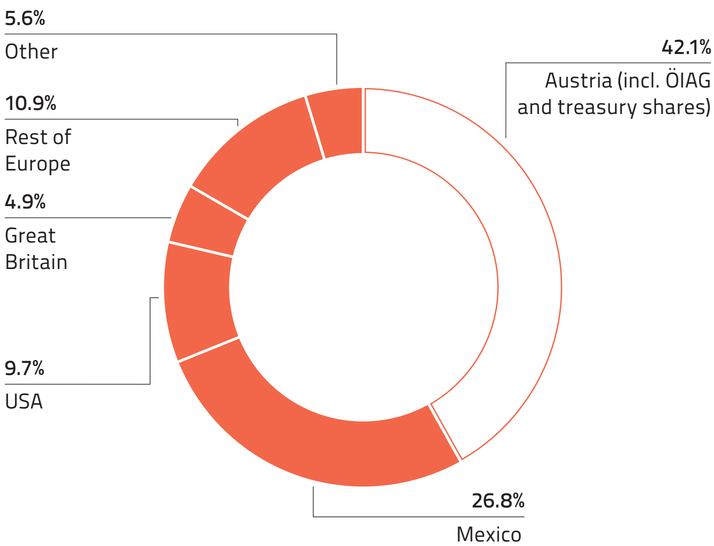
- Telekom Austria Group pursues a conservative financial strategy. Central to this strategy is the Group's Investment Grade rating which ensures constant access to the debt capital markets. In 2013 this conservative financial profile provided the necessary flexibility to absorb the largest investment sum the Group has spent in a single year since 2007. While this resulted in a downgrade to Baa2 (stable outlook) from Moody's and BBB- (stable outlook) from S&P, the Group maintained its Investment Grade rating
- In addition to its regular CAPEX of EUR 650 million, the biggest investments were the acquisition of YESSS! and other assets from Orange Austria for a total consideration of approximately EUR 400 million (after purchase price adjustments), as well as the Austrian spectrum auction, which resulted in a record payout of EUR 1.03 billion for Telekom Austria Group. The entire investment volume of 2013 was funded via cash and additional debt
- In order to stem these investments, Telekom Austria Group accessed a wide range of liquidity pools:
  - In 2012 the management of Telekom Austria Group already decided anticipatorily to cut the dividend to 5 Eurocent to retain cash
  - In February 2013 Telekom Austria Group launched a EUR 600 million hybrid bond transaction, the first of its kind in the European telecom sector. This issue is treated as 100% equity under IFRS and 50% equity by rating agencies Moody's and Standard & Poor's, thus supporting the balance sheet and credit rating at the same time
  - In June the Group launched a EUR 300 million 10-year senior bond transaction which helped to refinance the EUR 750 million bond issue which matured in July
  - The final foray into the international debt capital markets for this year came in December, when Telekom Austria Group placed a EUR 750 million, 8-year bond. The coupon of 3.125% is significantly below the Group's cost of debt and the lowest coupon ever achieved

Shareholder Structure as of 31 Dec 2013

	Number of ordinary shares	Holdings in %
ÖIAG (Republic of Austria)	125,917,735	28.42
América Móvil (direct and indirect)*	104,875,874	23.67
Free float incl. employee stocks and treasury shares	212,206,391	47.90
Total number of shares	443,000,000	100.0

* According to the announcement on 16.01.2014: América Móvil, S.A.B. de C.V., has concluded a conditional purchase agreement with Inmobiliaria Carso, S.A. de C.V. and Control Empresarial de Capitales, S.A. de C.V. to acquire a total of 13,901,000 shares of Telekom Austria AG corresponding to 3.14% of total shares outstanding.

Shareholder structure by country
as of 31 Dec 2013



Financial Calendar

8 May 2014	Results for the first quarter of 2014
28 May 2014	Annual General Meeting
2 June 2014	Ex-dividend date
6 June 2014	Dividend payment date
13 Aug 2014	Results for the first half of 2014
17 Nov 2014	Results for the first nine months of 2014

Telekom Austria Group oustanding bonds
as of 31 Dec 2013 (Issuer: Telekom Finanzmanagement GmbH. Hybrid issued by Telekom Austria AG)

	Term (maturity)	Volume (in EUR million)	Coupon	ISIN
Bond 2005	12 years (27.01.2017)	500	4.25%	XS0210629522
Bond 2009	7 years (29.01.2016)	750	6.375%	XS0409318309
Bond 2012	10 years (04.04.2022)	750	4.0%	XS0767278301
Bond January 2013	perpetual hybrid bond	600	5.625%	XS0877720986
Bond June 2013	10 years (04.07.2023)	300	3.5%	XS0950055359
Bond November 2013	8 years	750	3.125%	XS0999667263

Telekom Austria AG has been subject to regular evaluations by Standard & Poor's Ratings Services and Moody's Investor Service since issuing its first bond. As of 31 December 2013 the company had the following issuer ratings:

External ratings

	Moody's	S&P
Rating	Baa2	BBB-
Company outlook	stable	stable

Corporate Sustainability

Corporate sustainability strategy

- Besides economic considerations, environmental and social aspects play a key role in the corporate management of the Telekom Austria Group
- In 2012 the internal initiative 'RE. THINK' helped define a sustainability strategy based on a materiality analysis in co-operation with major stakeholders
- The following four areas of activity with 22 measurable objectives for 2015 were identified as important to a sustainable development of Telekom Austria Group[1]):

Providing responsible products:
Develop products in a future-oriented and responsible way

Collection and recycling of old mobile phones

Austria	6,300
Bulgaria	959
Croatia	3,746
Belarus	n.a.
Slovenia	2,872
Republic of Serbia	60,000
Republic of Macedonia	n.a.
Telekom Austria Group	**73,877**

Living green:
Manage resources in an efficient and sustainable way

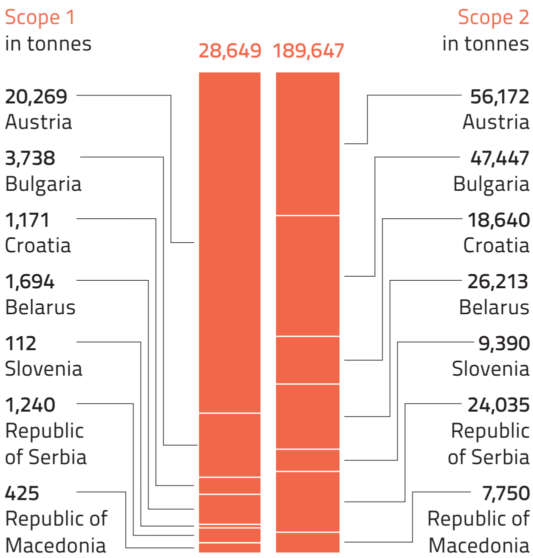
Environmental KPIs Telekom Austria Group

Energy	
Total energy consumption	693,284 MWh
Renewable energies as a proportion of power consumption	56%
Energy efficiency index measured in MWh per terabyte	2.1
Climate-relevant emissions	
CO_2 emissions*	218,296 t
thereof direct CO_2 emissions (Scope 1)	28,649 t
thereof indirect CO_2 emissions (Scope 2)	189,647 t
CO_2 intensity (tonnes per FTE)	13 t
Waste volume	
Absolute waste volume	7,140 t
Recycling rate	55%
Consumption of resources	
Total consumption of paper	1,890 t
Water consumption	292,154 m^3

* Includes Scope 1 and Scope 2 emissions. For definition see page 53.

1) Excerpts from the Corporate Sustainability Report 2012/13, latest available figures are for the FY 2012.

CO_2 emissions of the Telekom Austria Group



Scope 1 contains direct emissions from the burning of fossil fuels for heating, electricity production and mobility, excluding cooling agents.

Scope 2 measures indirect emissions from power consumption and district heating.

Relative indicators

	Share of renewable energy* (in %)	Recycling quota** (in %)	CO_2 intensity (in t/FTE)	Paper consumption (in kg/FTE)
Austria	81	60	8	105
Bulgaria	15	9	19	145
Croatia	45	61	17	145
Belarus	20	23	16	32
Slovenia	33	90	24	275
Republic of Serbia	29	21	29	170
Republic of Macedonia	27	72	26	208
Telekom Austria Group	**56**	**55**	**13**	**115**

	Energy Efficiency Index*** (in MWh per terabyte)	Share of e-billing (in %)	Water consumption (per FTE, in m^3)
Telekom Austria Group	**2.1**	**29**	**18**

* Derived from electricity consumption, values of A1 were calculated, the remaining as measured by the standard national grid factor.

** For recycling provided fractions (non-hazardous waste, electronic waste and batteries) in relation to total waste.

*** Energy Efficiency Index is defined as total electrical energy consumption, divided by total transported data volume of fixed and mobile telecommunication networks.

Empowering people:

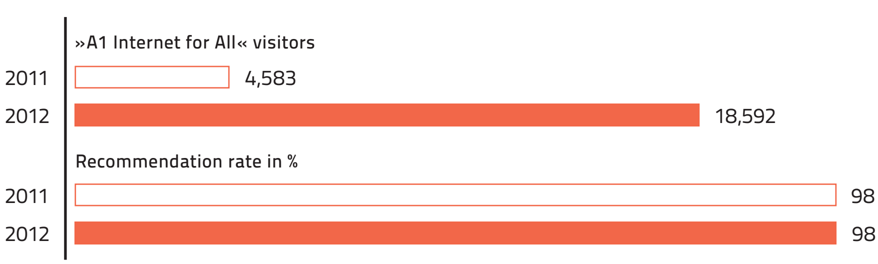
Systematically promote employee skills and utilising them

See HR section page 58-59

Creating equal opportunities:

Creating equal opportunities in the digital society

Training to promote media literacy skills



Environmental management systems

- Environmental management systems ensure that environmental aspects are captured, planned measures implemented and the potential for further improvements identified
- A1's energy management system is certified in line with ISO 14001 and ISO 50001, and is also in compliance with EMAS (EU eco audit)
- Si.mobil in Slovenia is also ISO 14001 certified, and became compliant with EMAS in 2013
- Vip mobile environmental management system in the Republic of Serbia received an award from Ökoprofit

The Sustainability Report 2012/2013 presents the sustainability strategy of the Telekom Austria Group in the form of a 'graphic novel' and has been awarded the Austrian Sustainability Reporting Award (ASRA) 2013.

Highlights 2013

- Austrian Sustainability Reporting Award (ASRA) 2013, Winner in Category Large Enterprises
- Improved assessment of achievements in the area of emission in the CDP ranking (from a score of 54/100 to 74/100), rising from band E to C
- Assurance statement by external auditor on specific content in Sustainability Report 2012/13 based on GRI 3.1 guidelines

Selected targets for 2015

- Products: Develop innovative and climate-friendly products, e.g. increase Group e-billing share to 50% (2012: 29%)
- Environment: 20% increase in energy efficiency (2012: 2.1 MWh/terabyte)
- Employees: 35% of woman in the Group and in management positions in all subsidiaries (2012: an average of 38% in Group, 32% in management)
- Society: 100,000 people trained in media literacy skills by 2016 (2012: 24,292)
- Management: Improvement of reporting systems

Please see Corporate Sustainability Report 2012/13 for a complete set of targets, measures and further information: www.telekomaustria.com/sr/2013

Percentage of female employees of Telekom Austria Group*

	Percentage of female employees (HC in %)	Percentage of female executives (in %)
Austria	25	17
Bulgaria	50	48
Croatia	39	39
Belarus	67	42
Slovenia	48	38
Republic of Serbia	54	38
Republic of Macedonia	55	38
Telekom Austria Group**	**38**	**32**

* Excerpts from the Corporate Sustainability Report 2012/13, latest available figures are for the FY 2012.

** Total Telekom Austria Group includes mobilkom liechtenstein.

Compliance

Compliance strategy

- To not only achieve business goals but to also focus on how they are achieved
- To behave with integrity towards our customers, our shareholders, our creditors, the public and our employees
- To conduct ourselves according to the law, our internal guidelines and in line with high ethical standards – in other words: honest. fair. transparent.

Highlights 2013

Compliance Management System

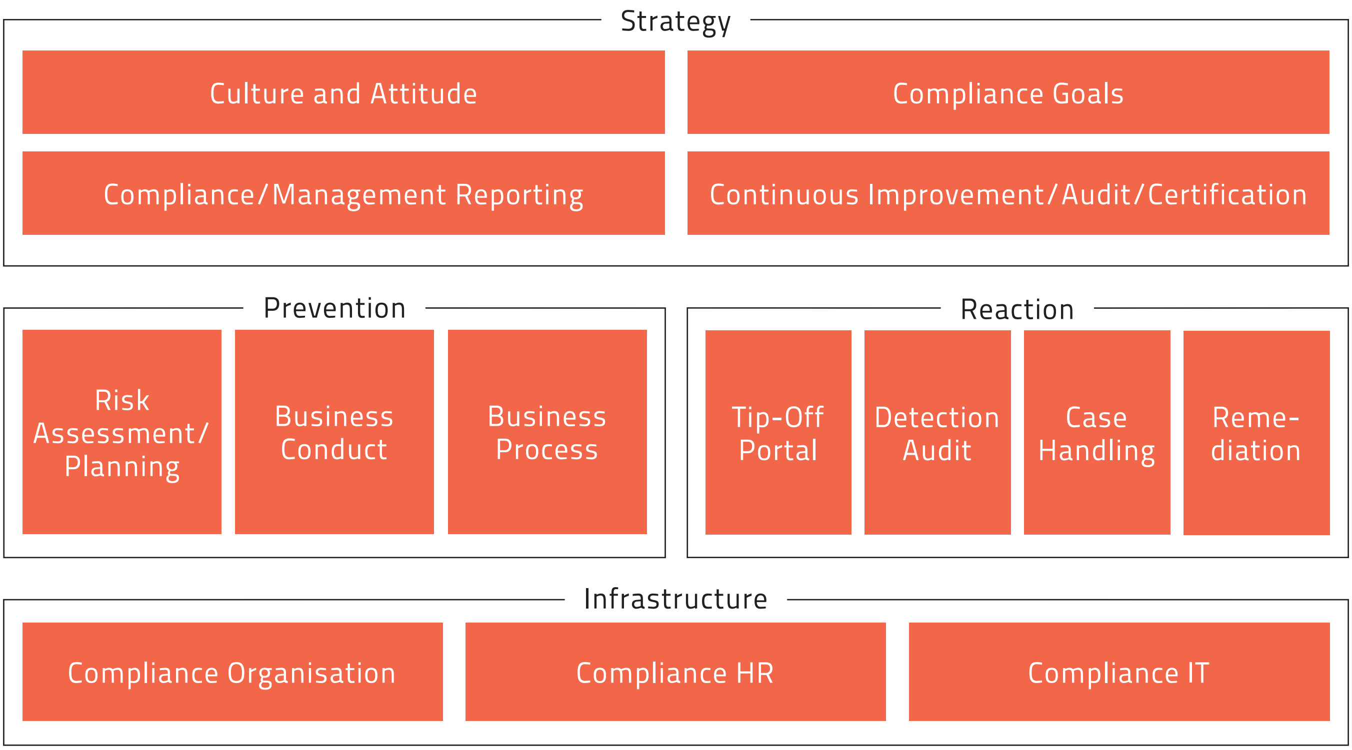
- First Austrian company to have Group-wide Compliance Management System certified by an independent auditor
- Scope of the audit encompassed the Group including all of its major operating subsidiaries
- Auditor PwC issued favourable audit opinion, stating that the system is
  - in accordance with the German IDW PS 980 auditing standard
  - designed and implemented accurately with regard to all material aspects concerning anti-corruption and integrity, capital market compliance and antitrust law
  - in line with all relevant legal provisions and with Business Principles for Countering Bribery issued by Transparency International

»External certification of our Compliance Management System was our top priority for this business year. We were able to reach this goal, which required a tremendous amount of time, personnel and material resources, thanks to the support of the numerous colleagues involved in the process. For the near future, the focus will be on the optimisation of regular compliance operations and the further sustainable embedding of the integrity concept into daily business practices.«

Martin Walter

Director Group Compliance, Telekom Austria Group

Compliance Management System



Other compliance achievements

- 3,800 employees received compliance classroom training in the areas of anti-corruption and integrity, antitrust law, data protection, IT security and capital market compliance
- 5,600 employees took part in e-learning sessions in the areas of anti-trust law, data protection and IT security
- 'Ask-me', the in-house compliance helpdesk, received and answered more than 350 questions from employees
- Telekom Austria Group received the Austrian VIKOM Communication Excellence Award from the association for integrated reporting for sustainable communication in the area of compliance

An information campaign was conducted, raising employee awareness about key compliance principles.

Data privacy and information & data security

- Information Security Policy and supplementary Information Security Standards now apply throughout the Group
- The application of Group guidelines is now monitored by the specialist unit Information Security & Emergency
- All subsidiaries have now appointed information security managers
- A1 and Vipnet subject their hosting services to an annual data protection audit in line with ISO 27001
- New data privacy unit was established at A1 on 1 July

Selected targets

- After achieving certification, the focus going forward will be on improving process efficiency and further integrating the concept of integrity into our daily business
- Maintenance of the highest possible data privacy and data security standards across the Group
- Continuation of the ISO 27001 certification

Employees

Human Resources strategy

- Telekom Austria Group's personnel strategy is based on identifying and fostering talent at an early stage to fill the most important positions with the best people, value-creation through state-of-the-art organisational structures, as well as strong leadership standards
- This strategy is intended to promote a company culture in line with our brand and to drive employee engagement
- Safeguarding competitiveness and earnings power require efficiency and restructuring measures which must be reconciled with employee development

Highlights 2013

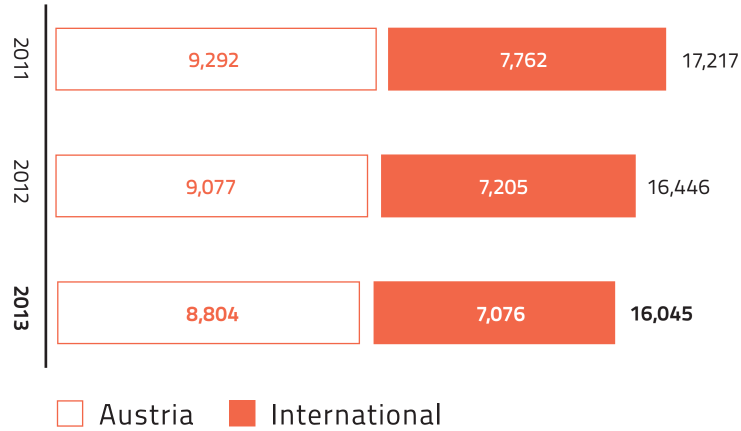
- As central in-house training education, the Telekom Austria Group Business School organised 62 training programmes for approximately 976 employees
- 230 apprentices (16% women) received training: 180 (9% women) in technical courses and 50 (38% women) in commercial courses
- Through its 'x.change' programme Telekom Austria Group offers employees the opportunity to work abroad: 81 employees took part this year (40% women)
- In 2013 Telekom Austria Group conducted the second company-wide employee survey, entitled 'TAGisfaction', with a response rate of 64% (2012: 57%). 90% of employees see themselves staying with the company for the foreseeable future
- Common leadership standards have been rolled out to support human resource development programmes

Key employee figures of the Telekom Austria Group

	2013	Change in %	2012	2011
Full-time employees	16,045	–2.4	16,446	17,217
in Austria	8,804	–3.0	9,077	9,292
international	7,076	–1.8	7,205	7,762
Revenue per employee (in EUR '000)	260.8	–1.0	263.3	258.7
EBITDA comparable per employee (in EUR '000)	80.2	–9.3	88.5	88.7
Spending on further education per employee (in EUR)	491.6	–18.6	604	691
Personnel costs (in EUR million)	845.9	1.5	833.3	805.0

Employee structure: geography*

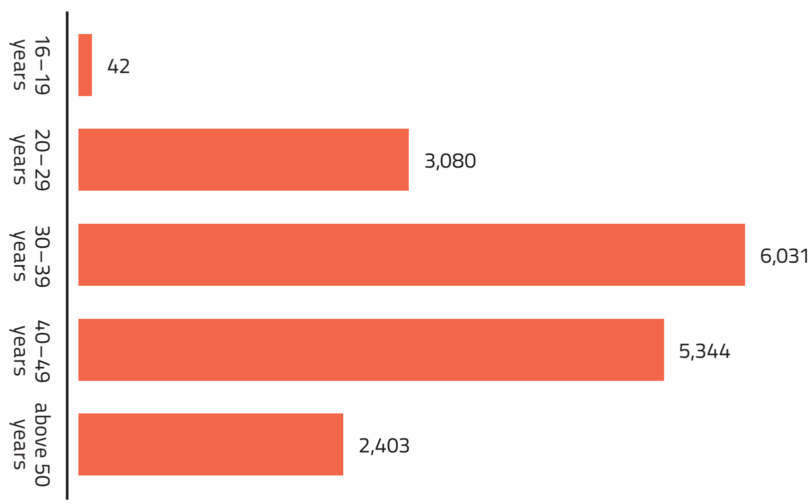
FTE / year-end



* Sums include Segment Corporate.

Employee structure: age*

in headcount / in 2012



* Excerpts from the Corporate Sustainability Report 2012/13, latest available figures are for the FY 2012.

Selected targets

- Support the business plan through Group-wide and local human resources measures
- Further develop the leadership culture in the Group, strengthen Group values and foster employee commitment
- Promote talent and performance management to create a high-performance culture
- Continue Group-wide employee survey 'TAGisfaction'
- Promote new ways of working in the Group and ensure an efficient organisation taking local factors into account

Innovation and Technology

Innovation and technology strategy

- Research activities of the Telekom Austria Group focus on the market-oriented development of products and services and further technological improvements to its network infrastructure
- To ensure synergies and economies of scale, activities are closely coordinated internally and knowledge is shared across the Group's eight markets

Co-operations

- Telekom Austria Group has research co-operations with partners from academia and industry, including
  - Research Centre for Telecommunications in Vienna
  - The Vienna University of Technology
  - Christian Doppler-Laboratory for sustainable mobility
  - Josef-Ressel Centre for user-friendly secure mobile environments
  - Technical University Sofia

- A1 supports start-ups by offering know-how and infrastructure:
  - In 2013 Doublejack, an archive system for consumers, won the competition to become Austria's 'Next Top Start-up'
  - The company continues to support last year's winner DefectRadar, which runs an application for the management of building defects

Highlights 2013

- A1 was overall winner of the 'connect' network test 2013, the most significant test for mobile networks in German-speaking areas. Results emphasised the excellent data quality and the highest measured data speed of 96 Mbps
- A1 has the largest LTE network in Austria with a population coverage of 35% at year-end 2013; Telekom Austria Group also has a high-speed LTE offering in Croatia and Slovenia
- Successful trials of both vectoring and G.fast technologies: A1 continues to extend its fixed hybrid 'Giganet', combining copper, fibre, vectoring and soon also G.fast, with a current Austrian household coverage of 56%
- Croatian Vipnet this year broke the world record in fixed data transfers on its hybrid fibre coaxial (HFC) network with the speed of 5 Gbps
- Transformation of traditional Austrian voice network from 'Public Switched Telephony Network' (PSTN) to 'Voice over IP' (VoIP). The project 'Next Generation Network Voice' involved the migration of 1,481 exchanges and 2.3 million access lines, as well as the creation of a central VoIP platform
- The Group saw strong demand for private and public cloud services this year: A1, for example, generated over EUR 20 million in revenues from cloud services. Strong growth was achieved particularly in data centre services, highlighting customer requirements for storing data securely and locally

Fixed-line communication technologies

Configurations	Description	Maximum bandwidth
ADSL2+	Asymmetric Digital Subscriber Line, based on copper wire pairs	8 Mbps
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	80 Mbps
FTTH	Fibre to the Home	1,000 Mbps

M2M

- M2M launched a wide range of services for the energy sector in the reporting year, including
  - Network planning
  - Roll-out services
  - 'SMARTify', a cloud based smart metering platform for efficient meter data management

- 'FLEXify', an application enablement platform for the development and implementation of industrial automation solutions
- Range of asset tracking and fleet management services
- The first set of connected consumer gadgets was launched in December, marking the company's market entry into the 'Internet of Things' (Please see page 12 for details regarding the latter)

Selected targets

- Leveraging capabilities and resources to develop new business fields
- Establishing and expanding partnerships to significantly increase the value for the customer
- Promotion of climate-friendly products and solutions
- Development of innovative solutions with added value for society (health, education etc.)
- Ensuring Group-wide mobile network coverage of at least 99% with 2G and at least 90% with 3G (except for the Republic of Serbia)
- 4G/LTE coverage of 50% in Austria by year-end 2014
- Extending 4G/LTE services in international subsidiaries: e.g. Group acquired 2 x 10 MHz of 800-MHz spectrum in the Republic of Macedonia, with the intention of offering 4G services from 2014
- Increase Next Generation Network population coverage in Austria to 62% by the end of 2014

Wholesale

Wholesale strategy

- Telekom Austria Group Wholesale targets a strategic positioning as a full-service provider offering voice, mobile, data, satellite and roaming
- Through its pan-European fibre network, Telekom Austria Group Wholesale provides technology, know-how and field-service, and delivers secure and innovative solutions

Highlights 2013

- Telekom Austria Group and KPN International established a wholesale partnership to create one of Europe's largest fibre networks, covering 35 countries. Thus, both carriers will be able to offer a wide-range of backbone-based services for international wholesale operators and large business customers
- Telekom Austria Group launched 'direct2home', a new satellite TV solution. This platform targets broadcasting and telecommunication companies in Eastern Europe and wider regions of Western Europe. A prerequisite for providing these services, the earth station Aflenz encompasses more than 50 antennas and is embedded in Telekom Austria Group's fibre backbone, addressing a market of 75 million households. Example: the company was responsible for the worldwide distribution of TV signals during the European Football Championship UEFA EURO 2008
- First Austrian provider to offer LTE roaming via its wholesale platform, using its LTE signaling service. Signaling is used by telecoms providers to identify a client, establish a data connection and bill the customer. The TAG IP exchange network has now been technologically equipped to enable LTE signaling, which is expected to grow with increasing LTE data traffic
- First carrier in Central and Eastern Europe to certify its etherlink services with the Metro Ethernet Forum Certificate 2.0. The Group is one of only a few worldwide carriers with this certificate

Satellite TV as the next step to convergence: The high-capacity backbone of Telekom Austria Group in CEE (and together with partner KPN International in Western Europe), as well as the integrated earth station Aflenz in Styria, form the technical basis for the transmission of TV signals and data.

- Telekom Austria Group set up a commercial 100 Gigabit transport network in Central and Eastern Europe, connecting Frankfurt, Vienna, Sofia, Belgrade, Zagreb, Bucharest, Budapest, Ivanice, Salzburg and Frankfurt
- Winner of the Global Telecoms Business Innovation Awards 2013 for SIM Box Detection Service for Fraud Prevention
- Winner of the Capacity Global Carrier Awards in the category ‘Campaign of the Year’ with its SIM Box Detection Service. Nominated in three categories, including also ‘Best Pan-European Wholesale Provider’ and ‘Best Service Innovation’

Selected targets

- Expand our network through organic growth and partnering
- Further optimise our key products with a strict focus on customer orientation
- Strengthen our convergent product portfolio
- Continue to grow our satellite business
- Enhance the wholesale expertise across the Group to leverage synergies

Telekom Austria Group wholesale backbone

The wholesale partnership between Telekom Austria Group and KPN International forms one of the largest fibre backbones in Europe. It offers a large variety of backbone-based services for international wholesale carrier and business customers.

Corporate Governance Report

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

The shares of Telekom Austria AG have been listed on the Vienna Stock Exchange since November 2000, where the Austrian Corporate Governance Code (ACGC) is generally accepted. The current version of this Code 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 the 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 equity, stock exchange and capital market law, EU recommendations and the OECD Principles of Corporate Governance. The Telekom Austria Group has been committed to voluntary compliance with the ACGC since 2003. The Group complies with all the legal requirements set out by the ACGC in what are referred to as the 'L' rules. To explain the deviations from the ACGC's 'C' rules, the Telekom Austria Group has made the following statement regarding Rules 28 and 28a of the ACGC:

- Stock option plans and programmes for the beneficial transfer of shares, including the long-term and sustainable exercise criteria, are decided upon by the Supervisory Board to ensure an optimal alignment with the business plan. A long-term incentive programme was introduced at the Annual General Meeting on 27 May 2010, which replaced the existing ESOP stock option programme as of the 2010 financial year. Details can be found in the consolidated financial statements of the Telekom Austria Group.

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

The Telekom Austria Group participates in the Austrian Working Group for Corporate Governance and is involved in the ongoing development of the standard.

Composition of executive bodies of the company and executive body remuneration

The Management Board

As in the previous year, in the reporting year 2013 the Management Board of Telekom Austria AG consisted of Hannes Ametsreiter, the Chairman, and Hans Tschuden, the Vice Chairman and Chief Financial Officer. Günther Ottendorfer has also been appointed as Chief Technology Officer from 1 September 2013.

Hannes Ametsreiter

Member of the Management Board since 1 January 2009, CEO since 1 April 2009, reappointed/extended as of 1 January 2014 until 31 December 2016 – this appointment will extend until 31 December 2018 if the Supervisory Board does not inform the Member no later than two years after his appointment that his appointment will end after three years.

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

Hannes Ametsreiter has been the Chairman of the Management Board and CEO of Telekom Austria AG since 1 April 2009. Since 2010, Hannes Ametsreiter has also been the CEO of A1 Telekom Austria AG, which was created by the merger of mobilkom austria AG and Telekom Austria TA AG. He has held supervisory board functions outside the Group since 2013 for Wind Hellas Telecommunications (Greece).

In 2008 Booz & Company awarded Hannes Ametsreiter the international marketing award 'CMO of the Year'. At the '40th Extel Awards' in 2013, the international news agency Thomson Reuters named him 'CEO of the Year' in Austria. In addition, he was a member of the international board of the GSM Association between 2009 and 2012.

Board responsibilities of Hannes Ametsreiter

- Marketing (Group)
- Human Resources (Group)/ Personnel Office
- International Business Development/ Corporate Strategy
- Mergers & Acquisitions
- Regulation & European Affairs
- General Secretariat
- Communication (Group)
- Internal Audit (Group)

Hans Tschuden

Chief Financial Officer since 1 April 2007, Vice Chairman of the Management Board since 1 January 2009, reappointed/extended as of 1 April 2012 until 31 March 2015 – this appointment will extend until 31 March 2017 if the Supervisory Board does not inform the member no later than two years after his appointment that his appointment will end after three years.

Hans Tschuden was born in 1958 and is a graduate of the Vienna University of Economics and the International Executive Program (INSEAD) in Paris. Hans Tschuden joined the Wienerberger Group in 1989, first in controlling, then from 1993 onward as head of Wienerberger Rohrsysteme GmbH in Vienna. In 1995 he moved to Keramo Wienerberger in Belgium to take a position as Managing Director and, in 1998, to Steinzeug Abwassersysteme GmbH in Cologne. In 1999 he became a member of the Wienerberger Management Committee and, in May 2001, he was appointed Chief Financial Officer of Wienerberger AG.

Since 1 April 2007 Hans Tschuden has been Chief Financial Officer of Telekom Austria AG. On 1 January 2009 he was appointed as Vice Chairman of the Management Board of Telekom Austria AG. Outside the Group, Hans Tschuden is a member of the Supervisory Boards of APK Pensionskasse AG and HFA Zwei Mittelstandsfinanzierungs-AG. Hans Tschuden was named Austria's best CFO in the Thomson Reuters 'Extel Awards' report twice in a row in 2012 and 2013.

Board responsibilities of Hans Tschuden

- Investor Relations
- Controlling (Group)
- Treasury (Group)
- Accounting (Group)
- Purchasing (Group)
- Legal / General Counsel
- Group Compliance*

* Reports to the entire Management Board but organisationally assigned to the CFO

Günther Ottendorfer

Chief Technology Officer since 1 September 2013, appointed until 31 August 2016 – this appointment will extend until 31 August 2018 if the Supervisory Board does not inform the member no later than two years after his appointment that his appointment will end after three years.

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

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

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

Günther Ottendorfer does not hold any Supervisory Board mandates outside the Telekom Austria Group.

Board responsibilities of Günther Ottendorfer

- Access & Transport (Group)
- Operations (Group)
- Service Network & IT (Group)
- Technology Strategy (Group)

Report on Management Board remuneration

The Remuneration Committee is responsible for structuring the remuneration package awarded to the Management Board. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component was agreed with the members of the Management Board. This performance-based component is contingent upon the achievement of defined targets and is limited to 150% of the base remuneration. The target for the reporting year is divided 50:50 between financial figures (the return on assets in excess of the costs of capital (weighting 15%), operating free cash flow (weighting 15%), net income (weighting 10%) and customer value (weighting 10%)) and strategic objectives. On the basis of the consolidated financial statements and the implementation of strategy, the Remuneration Committee decides on the degree of target achievement and the amount of the variable salary component. 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.

The share-based long-term incentive programme (LTI) introduced in 2010 continued in the reporting year with the issue of the 2013 tranche. The first tranche of the 2010 LTI was paid out in the amount of 41.1% in 2013, following the end of the three-year performance period and the determination by the Remuneration Committee of the degree of achievement. 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 the basic remuneration of members of the Management Board, including remuneration in kind, amounted to EUR 1.118 million in 2013 (2012: EUR 0.959 million), while variable remuneration amounted to EUR 1.349 million (2012: EUR 0.780 million). The expenses for the 2010 LTI amounted to EUR 0.111 million (no expenses in 2012). Comparisons with the previous year are only possible to a limited extent on account of the increased size of the Management Board.

Within the framework of the new LTI tranche launched in September 2013, the members of the Management Board will receive the following number of Telekom Austria shares upon reaching 100% of the targets in 2013: Hannes Ametsreiter 51,348 shares, Hans Tschuden 54,862 shares and Günther Ottendorfer 41,743 shares. Any actual allocation of these shares or cash settlement will occur after the end of the three-year performance period, i.e. not before 1 September 2016, commensurate with the level of achievement of objectives as determined by the Remuneration Committee.

In terms of old-age provisions, the members of the Management Board receive a contribution to their voluntary pension plan, which is paid into a corporate pension fund by the company. For Hannes Ametsreiter this contribution amounts to 10% and for Hans Tschuden and Günther Ottendorfer to approximately 20% of their respective individual fixed salaries. The member will only receive an eventual payout from the corporate pension fund when he is over 55 years of age and no longer in a contractual relationship with the company.

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

In the event that a Management Board member's contract is terminated prematurely due to a change of control, the member Hans Tschuden is entitled to 50% of the contractually agreed benefits and conditions, whereby 12 months of benefits form the minimum level and a change of control has to take place 18 months before the end of the contract. A change of control is deemed to have taken place if an investor holds at least 26% of all Telekom Austria AG shares and more shares than Österreichische Industrieholding AG.

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

Long-term incentive programme

The Telekom Austria Group's share-based long-term incentive programme (LTI) introduced in the 2010 financial year continued in 2013. This incentive scheme, designed for Management Board members, executives and selected employees, has a term of three years for each tranche. Unlike the previous ESOP model, the LTI programme is not based on options but rather

Remuneration of the individual members of the Management Board

Management Board remuneration in EUR '000	Basic remuneration (fixed salary incl. remuneration in kind)		Variable remuneration		Multi-year stock-based remuneration (LTI)		Total remuneration	
	2013	2012	2013	2012	2013	2012	2013	2012
Hannes Ametsreiter	493	488	495	398	55	–	1,043	886
Hans Tschuden	472	471	474	382	55	–	1,001	853
Günther Ottendorfer*	154	–	380**	–	–	–	534	–
Gesamt	**1,118**	959	**1,349**	780	**111*** **	–	**2,578**	1,739

* Appointed as at 1 September 2013

** Upon commencing his role on 1 September 2013, Management Board member Günther Ottendorfer received a one-time payment of EUR 290,330 (of which EUR 114,334 were in the form of company shares (equivalent to 20,872 shares) in compensation for relocating from Australia to Austria and for the loss of benefits acquired through his former employment contract). This payment is included in variable remuneration.

*** Differences in the sums due to rounding on the performance-based allocation of shares. During the programme, participants must invest in Telekom Austria shares, the number of which is determined by the defined number of potential shares for each entitled beneficiary. Any payments are made in cash. The amount of the payment depends on the achievement of targets in the form of key figures defined by the Supervisory Board within a three-year performance period, ranging from 0% to more than 175% of the participant's investment.

Through the LTI programme, Telekom Austria Group conforms to the requirements of the Austrian Corporate Governance Code (C Rule 28). The relevant target performance indicators focus on the long-term development of the company. The targets and key performance indicators are determined by the Supervisory Board at the beginning of each tranche. Each performance period is three years long. Free cash flow (weighting 45%), total shareholder return (weighting 35%) and EBITDA (weighting 20%) were defined as the targets/key performance indicators for the 2010, 2011 and 2012 tranches. The targets for the 2013 tranche were defined as net income (weighting 30%), EBITDA (weighting 35%) and relative total shareholder return (weighting 35%), which will be assessed versus a defined peer group of nine European telecommunication companies.

Three years after having been granted, the first LTI tranche launched on 1 September 2010 was distributed to the entitled employees of the Group in September 2013 after the end of the three-year performance period. The tranche was paid out in the amount of 41.1% in line with the level of performance determined by the Remuneration Committee of the Supervisory Board, at a value of 178,262 bonus shares in total (measured using the average price for the fourth quarter of 2012 of EUR 5.25 and therefore EUR 0.938 million). Hannes Ametsreiter and Hans Tschuden each received 10,552 shares or an equivalent amount of EUR 0.055 million.

A detailed description of the long-term incentive programme can be found in the notes to the consolidated financial statements.

As of 31 December 2013, the members of the Management Board hold the following shares, some of which serve to satisfy LTI programme participation requirements:

Number of Telekom Austria shares held as of 31 Dec 2013

		of which for LTI participation
Hannes Ametsreiter	25,674	25,674
Hans Tschuden	40,000	34,000
Günther Ottendorfer	20,872	20,872

As of 31 December 2013, the members of the Management Board hold the following shares, some of which serve to satisfy LTI programme participation requirements:

In compliance with the relevant statutory provisions, transactions involving Telekom Austria shares conducted by executives, members of the Supervisory Board and related parties are reported to the Austrian Financial Market Authority (see the 'Directors' Dealings' section at www.fma.gv.at).

The Supervisory Board

The Supervisory Board of the Telekom Austria Group comprises ten members who are elected by the Annual General Meeting, four members who are appointed by the Central Works Council of A1 Telekom Austria AG and one member who is appointed 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.

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 interests and thus influence the members' behaviour.

The business relationship with the law firm Cerha Hempel Spiegelfeld Hlawati (CHSH), in which Edith Hlawati, the second Vice Chairwoman of the Supervisory Board, is a partner, was authorised by the Supervisory Board in 2006. Dr. Hlawati left the Supervisory Board of Telekom Austria AG at the 2013 Annual General Meeting on 29 May 2013. The consulting fees charged up to the point when Dr. Hlawati left the Supervisory Board by the law firm Cerha Hempel Spiegelfeld Hlawati (the hourly rates charged are arm's-length prices consistent with the local market) amounted to EUR 0.159 million for the 2013 financial year (2012: EUR 1.679 million). The law firm CHSH has provided written confirmation that Edith Hlawati did not receive any portion of the income the partnership generated from Telekom Austria Group while she was a member of the Supervisory Board of Telekom Austria AG.

Report on Supervisory Board remuneration

The Annual General Meeting on 29 May 2013 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairs and EUR 15,000 for all other members, and was therefore unchanged from the previous year. Remuneration for the Supervisory Board for 2012 was paid out following the approval of the actions of the Supervisory Board members by the Annual General Meeting in May 2013. Until further notice the attendance fee for meetings of the Supervisory Board is EUR 300 per member and meeting. Total remuneration including attendance allowance of EUR 0.220 million was paid to members of the Supervisory Board in the 2013 financial year (2012: EUR 0.192 million). 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 2012 and paid in 2013 (in EUR)	2013 attendance allowances (in EUR)
Rudolf Kemler*	5,737.70	8,100
Markus Beyrer**	24,262.30	300
Ronny Pecik	13,709.02	4,800
Michael Enzinger	–	2,400
Alfred Brogyanyi	–	2,400
Elisabetta Castiglioni	–	1,500
Henrietta Egerth-Stadlhuber	15,000	2,100
Franz Geiger***	15,000	600
Edith Hlawati***	22,500	3,900
Peter J. Oswald	15,000	2,100
Wolfgang Ruttenstorfer	15,000	4,200
Wilfried Stadler***	15,000	1,800
Harald Stöber	15,000	2,700
Oscar Von Hauske Solís	2,868.85	3,000
Walter Hotz	–	6,900
Silvia Bauer	–	3,900
Werner Luksch	–	3,300
Alexander Sollak	–	4,500
Gottfried Zehetleitner	–	2,400

* Supervisory Board remuneration and attendance allowances are paid to the ÖIAG.

** Left Supervisory Board on 31.10.2012 Supervisory Board remuneration and attendance allowance were paid to ÖIAG. The reported remuneration relates to the remuneration granted for 2012 and paid in the 2013 reporting year.

*** Left Supervisory Board on 29.05.2013 The reported remuneration relates to the remuneration granted for 2012 and paid in the 2013 reporting year.

Members of the Supervisory Board

Name (year of birth)	Profession	Other supervisory board mandates and similar functions at other listed companies (as per the ACGC)
Rudolf Kemler, Chairman (1956)	Chairman of Österreichische Industrieholding Aktiengesellschaft	Österreichische Post AG (Chairman), OMV AG (Chairman)
Ronny Pecik, first Vice Chairman (1962)	Businessman	
Michael Enzinger, second Vice Chairman (1959)	Lawyer (law firm Lattenmayer, Luks & Enzinger Rechtsanwälte GmbH)	
Alfred Brogyányi (1948)	Managing Director of OPIKA Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH	
Elisabetta Castiglioni (1964)	Business consultant	
Henrietta Egerth-Stadlhuber (1971)	Managing Director of Österreichische Forschungsförderungsgesellschaft mbH	
Franz Geiger (1950)	CEO of Donau Chemie AG	
Edith Hlawati, second Vice Chairman (1957)	Partner in the law firm Cerha Hempel Spiegelfeld Hlawati	Österreichische Post AG
Peter J. Oswald (1962)	Member of the boards of Mondi plc (UK), and Mondi Ltd (South Africa), CEO of Mondi AG and Mondi Services AG	
Wolfgang Ruttenstorfer (1950)		Vienna Insurance Group AG Wiener Versicherung Group (Chairman), Flughafen Wien AG, CA Immobilien Anlagen AG (Chairman), RHI AG, NIS a.d. Novi Sad
Wilfried Stadler (1951)	Business consultant, bank consultant, honorary professor at the Vienna University of Economics and Business	Österreichische Staatsdruckerei Holding AG
Harald Stöber (1952)	Business consultant	
Oscar Von Hauske Solís (1957)	CEO of Telmex Internacional (Mexico), Chief Fixed-Line Operations Officer at América Móvil, S.A.B. de C.V. (Mexico)	América Móvil S.A. de C.V., Teléfonos de México S.A.B. de C.V., Embratel Participações S.A, Brasil, Telmex Brasil, Telmex Argentina, Telmex Colombia, Telmex Perú, Telmex Ecuador, Telmex USA, KPN (Netherlands), Net Serviços de Comunicaçao, Brasil, HITTS, Mexico (Chairman)
Members of the Supervisory Board delegated by the Central Works Council		
Silvia Bauer (1968)	Member of the Central Works Council of A1 Telekom Austria AG	
Walter Hotz (1959)	Chairman of the Central Works Council of A1 Telekom Austria AG	
Werner Luksch (1967)	Vice Chairman of the Central Works Council of A1 Telekom Austria AG	
Alexander Sollak (1978)	Chairman of the Staff Council Committee of Telekom Austria AG	
Gottfried Zehetleitner (1962)	Member of the Central Works Council of A1 Telekom Austria AG	

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

Other positions at non-listed companies (voluntary disclosure)	First appointed	End of current term of office on Supervisory Board of Telekom Austria AG or date of departure	Independent pursuant to Rule 53 and 54 of the ACGC
APK Pensionskasse (Chairman), Webster University Vienna (Member of the Supervisory Board), Société Horlogère Reconvilier AG, Switzerland (Member Board of Directors)	1 Nov 2012	2018*	Independent pursuant to Rule 53 but not Rule 54
	23 May 2012	2018*	Yes
C.A.P. Immobilienprojektentwicklungs- und Beteiligungs AG (Chairman), Winfried Kallinger Privatstiftung (Board of Trustees)	29 May 2013	2018*	Yes
Managing Director of and partner in VWT – Vereinigung Österreichischer Wirtschaftstreuhänder GesmbH, Chairman of the University Council of the Academy of Fine Arts	29 May 2013	2018*	Yes
	29 May 2013	2018*	Yes
Member of the University Council of the University of Innsbruck	20 May 2008	2018*	Yes
	19 May 2011	29 May 2013	Yes
	28 June 2001	29 May 2013	Yes
	20 May 2008	2018*	Yes
	27 May 2010	2018*	Yes
ATP Planungs- u. Beteiligungs AG, East Centro Capital Management AG, Bankhaus Denzel AG, Wolfgang Denzel AG, Wolfgang Denzel Auto AG, Wolfgang Denzel Holding AG	15 July 2005	29 May 2013	Yes
Vodafone D2 GmbH, Vodafone Holding GmbH, Medfort Sarl, Luxembourg (Chairman), Perseus SA Luxembourg (Chairman), Sirrix AG (Chairman)	4 June 2003	2018*	Yes
	23 Oct 2012	2018*	Independent pursuant to Rule 53 but not Rule 54
	26 July 2012		
Österreichische Industrieholding AG, A1 Telekom Austria AG, Telekom Austria Personalmanagement GmbH, Board of Tele-Post Privatstiftung, APK Pensionskasse AG	Reappointed on 6 May 2011		
Österreichische Industrieholding AG	3 Aug 2007 to 20 Oct 2010, Reappointed on 11 Jan 2011		
	3 Nov 2010		
	27 Oct 2010		

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

In the reporting year – with the exception of the person below – no member of the Supervisory Board attended fewer than 50% of the Supervisory Board meetings in person. Mr. Oscar Von Hauske Solís attended by video conference.

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-adding corporate development and is committed to the principles of transparency and a policy of open communication. The Group-wide areas of competency and responsibility are clearly regulated by the Articles of Association of Telekom Austria AG as well as 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 Management Board of Telekom Austria AG is supported by four Group Chief Officers who are responsible for Human Resources, Technology, Marketing and Finance. A Chief Technology Officer was added to the Management Board of Telekom Austria AG in September 2013.

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

/ In line with the statutory provisions, the **Audit Committee** is primarily concerned with the audit of and preparation for the approval of the annual financial statements, the audit of the consolidated financial statements, the proposal for the distribution of profit, the Management Report, the Group Management Report and the Corporate Governance Report. High priority was also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. Furthermore, it prepares the selection of the auditor and checks the independence of the auditor of the annual and consolidated financial statements, particularly with regard to the performance of additional services. As of the end of 2013, the members of the Audit Committee were Rudolf Kemler as Chairman, Alfred Brogyanyi (since 29 May 2013, previously Wilfried Stadler) as financial expert, Oscar von Hauske Solís, Peter Oswald, Ronny Pecik, Wolfgang Ruttenstorfer and Silvia Bauer, Walter Hotz and Alexander Sollak (the last three as employee representatives).

/ The **Chairing Committee** and the **Remuneration Committee** are formed by Rudolf Kemler (Chairman) Ronny Pecik (first Vice Chairman) and Michael Enzinger (second Vice Chairman, since 29 May 2013, previously Edith Hlawati). The Chairing Committee also conferred regularly with the Chairman of the Management Board, prepared the meetings of the Supervisory Board and was authorised to make decisions on matters of urgency in the 2013 financial year. In its capacity as the Remuneration Committee, the Chairing Committee concluded contract negotiations with the Management Board in 2013, defined the remuneration of the Management Board, set the targets for the calculation of performance-based components and determined whether targets were reached.

/ The **Personnel and Nomination Committee** submits proposals to the Supervisory Board for appointments to positions on the Management Board, which have become vacant and also deals with questions of succession planning. Its members are Rudolf Kemler (Chairman), Michael Enzinger (since 29 May 2013, previously Edith Hlawati), Ronny Pecik, Walter Hotz and Werner Luksch. At the end of 2012/the start of 2013, the Personnel and Nomination Committee discussed in depth the prolongation of Hannes Ametsreiter's position on the Management Board. In addition, at the end of 2012 the Personnel and Nomination Committee was commissioned by the Supervisory Board to search for candidates for the position of Chief Technology Officer. Following extensive research by the Personnel and Nomination Committee, and the hiring of a well-known headhunter, Günther Ottendorfer was appointed as the third member of the Management Board from 1 September 2013.

The **Frequency Committee**, which was set up for the Austrian frequency auction in the summer of 2013, consisted of Rudolf Kemler (Chairman), Michael Enzinger, Ronny Pecik, Harald Stöber, Walter Hotz and Alexander Sollak. The Frequency Committee prepared the questions arising in connection with applying for and performing the frequency auction in Austria for the Supervisory Board and made the decisions delegated to it.

In the 2013 financial year the Supervisory Board held extensive discussions concerning the strategic orientation of the Telekom Austria Group, its business development and the frequency auction in Austria at seven meetings of the Supervisory Board, one strategy workshop, five meetings of the Audit Committee and four meetings of the Frequency Committee. The main activities of the Supervisory Board in 2013 are compiled in the Supervisory Board's report to the Annual General Meeting, which is also available on the company's website.

Measures to support women

Two of the ten shareholder representatives on the Supervisory Board of Telekom Austria AG are women. At 20% this proportion of women members is significantly higher than the average for the Austrian stock index ATX. There are no women on the Management Board of Telekom Austria AG, though one of the four Chief Group Officers is female.

At the subsidiaries of Telekom Austria Group there are eight women in Supervisory Board positions and six in Management Board and executive positions.

The Telekom Austria Group is targeting a gradual increase in the proportion of women in managerial positions at all Group subsidiaries to 35% by 2015. This goal is to be achieved through several initiatives and measures such as building and broadening female networks as part of the 'New Manager' programme at A1, as well as mentoring programmes and flexible models for working hours.

Other disclosures

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 Management Board, managing directors and members of the Supervisory Board. It also pays the associated costs.

Auditor's fees

Deloitte Audit Wirtschaftsprüfungs GmbH 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 Commercial Code. A detailed analysis by the Audit Committee revealed no legal obstacle to the appointment of Deloitte Audit Wirtschaftsprüfungs GmbH. The Annual General Meeting on 29 May 2013 appointed Deloitte Audit Wirtschaftsprüfungs GmbH as the auditor of the annual and consolidated financial statements for the 2013 financial year.

The expenses incurred by the Telekom Austria Group for the audit of the annual and consolidated financial statements by the Deloitte network amounted to EUR 1.2 million in the 2013 financial year after EUR 1.5 million in the previous year (KPMG). A further EUR 0.3 million was incurred for other consultancy services by KPMG in the 2013 financial year.

Report by Internal Audit and risk management

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

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

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

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

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 as well as strategic and operational objectives. Its functionality and suitability according to Rule 83 of the Austrian Corporate Governance Code is also assessed by the external auditor and monitored by the Audit Committee, which also monitors 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. 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.

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. From 2005 A1 has been the only network operator in Austria to be certified in accordance with the ISO 27001 standard. It was followed by Vipnet in 2007 and Mobiltel in 2012. The processes implemented in accordance with this standard target the highest possible level of data security within the company.

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 and have it certified externally.

The Audit Committee of the Supervisory Board is informed regularly and the Supervisory Board as a whole annually, about the activities in the area of compliance management and, in particular, the measures taken to prevent corruption. Furthermore, the Supervisory Board is informed annually about the activities in capital market compliance.

The appointment of Martin Walter as Group Compliance Officer in November 2011 was the starting signal for the implementation of new compliance management at an international level. Martin Walter reports directly to the Management Board and is independent in his work. He is supported by the 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 that essentially consists of the core elements of prevention and reaction. The compliance measures necessary for this are now firmly established in all divisions of the company.

Instruments such as the Code of Conduct or Group guidelines were updated and extended, and new instruments such as the 'tell.me' platform were set up for anonymous whistleblowing. A Group-wide training programme ensures the effectiveness of these instruments. In 2013, 3,800 employees and managers received classroom training and 5,600 employees and managers took part in e-learning sessions in the areas of corruption prevention and integrity, antitrust law, data protection and IT security as well as capital market compliance. The employees of the 'ask.me' compliance helpdesk are available to answer any questions. In 2013, 'ask.me' handled around 350 questions. The communications activities of the compliance department were awarded the European Change Communication Award in 2012 and the Communication Excellence Award in 2013.

In 2012, the Telekom Austria Group established a new whistleblowing platform ('tell.me') to allow employees and third parties to inform anonymously on cases of potential misconduct. Of the around 30 tips received to date, 85% were substantiated and investigated by Internal Audit. The consequences in cases where employees were found guilty of misconduct extended from appropriate training and warnings to termination.

In 2013, the compliance management system of the Telekom Austria Group was audited according to the German audit standard IDW PS 980. The scope of the audit included Telekom Austria AG and all material operating subsidiaries in Central and Eastern Europe. The concept and implementation of the various compliance measures were audited. In addition, the effectiveness of the system was evaluated over a six-month audit phase during normal operations in Austria. Specific transactions from different divisions were selected on a random basis and analysed and assessed according to IDW criteria.

The audit and consulting company PwC issued Telekom Austria AG and A1 Telekom Austria AG a positive audit report with no comments, i.e. no suggestions for improvement. The audit report states that the compliance management system was appropriately designed and implemented for the areas of anti-corruption/integrity, capital market compliance and antitrust law in all material aspects, and in compliance with the relevant statutory requirements and the 2009 Business Principles for Countering Bribery of Transparency International. The principles and measures presented are suitable for the timely identification, with sufficient assurance, of risks of material violations, and for their prevention. The subsidiaries in Central and Eastern Europe were also evaluated with positive results.

In future, the compliance management system will focus on the optimisation of normal operations and the further sustainable establishment of the concept of integrity at all business units.

Vienna, 13 February 2014

The Management Board

Hannes Ametsreiter, Chairman
of the Management Board,
Telekom Austria Group

Hans Tschuden, Vice Chairman
of the Management Board, CFO,
Telekom Austria Group

Günther Ottendorfer, CTO,
Telekom Austria Group

Report by the Supervisory Board

Ladies and Gentlemen!

In the 2013 financial year the Telekom Austria Group again faced many challenges of a varying nature, just like the telecommunications industry in Europe as a whole. From an operational perspective, a range of measures to stem the negative external factors influencing the company's results had to be implemented with undiminished determination. In parallel, key strategic initiatives were launched which will lend major support to the future development of the Telekom Austria Group. Following the acquisition of YESSS! in January of this year to bolster the market position in Austria, the Telekom Austria Group took part in the Austrian spectrum auction in the autumn of 2013, which ranked among the most expensive auctions in Europe. The Group spent a total of around EUR 1,030 million to ensure key transmission frequencies – the foundation of the Austrian mobile telephony business – for the next 20 years. The Telekom Austria Group also made major investments to safeguard its competitiveness in its international markets. All these investments, which were prepared in collaboration with the Supervisory Board, serve to assure and develop the future earnings power of the Telekom Austria Group.

In the 2013 financial year the Supervisory Board dealt with the issues of strategic orientation, investment and financing decisions and the business development of the Telekom Austria Group and its subsidiaries in seven meetings of the Supervisory Board and one strategy workshop. In addition, personnel changes in the executive bodies of the company were prepared and implemented. In order to expand the Management Board, Mr. Günther Ottendorfer was appointed as Chief Technical Officer effective 1 September 2013, reflecting the particular importance of this complex area of responsibility. The 2013 Annual General Meeting saw the Supervisory Board enter a vital next stage with new elections for all of its members. New members were elected in Elisabetta Castiglioni, Alfred Brogyányi as a financial expert and Michael Enzinger as the second Vice Chairman. I would like to take this opportunity to thank the members of the Supervisory Board who have since left us, Edith Hlawati, Franz Geiger and Wilfried Stadler, for their extraordinary commitment and the many years of constructive cooperation.

The current general national and international conditions, strategic opportunities and challenges and the potential courses of action for optimising business performance were discussed in detail at the strategy workshop of the Supervisory Board. In addition to stabilising business performance in its mature markets, the central objective of corporate strategy is to leverage all potential in the Group's growth markets. In Austria, Bulgaria and Croatia the strategy of advancing convergent communications solutions must be successfully continued. Efficiency enhancements to improve earnings power are also essential for all business units. The budget for 2014, the business plan for the years 2014 to 2017 and the discussion of the financial strategy and dividend policy were the main topics of discussion at the Supervisory Board meeting in December 2013.

The Supervisory Board of Telekom Austria AG is strongly committed to compliance with the Austrian Corporate Governance Code (ACGC) and to responsible corporate management and control aimed at generating sustainable enterprise value. The Supervisory Board has agreed extensive criteria for ensuring the independence of its members. All ten shareholder representatives have declared their independence within the meaning of Rule 53 of the ACGC, while eight have also declared their independence as defined by Rule 54 of the ACGC. The Supervisory Board also analysed the effectiveness of its activities, organisation and working methods in accordance with Rule 36 of the ACGC.

As provided for by 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. The most recent evaluation, which was performed by Deloitte in early 2014, found no facts that conflicted with the declaration made by the Management Board and the Supervisory Board in the financial year concerning observance of and compliance with the 'comply or explain' rules or the recommendations of the ACGC.

The Personnel and Nomination Committee prepared the above personnel changes in the Supervisory Board and the Management Board in six meetings.

In the summer of 2013 the Supervisory Board set up a Frequency Committee in light of the forthcoming frequency auction in Austria. Its members discussed issues relating to this in depth at four meetings.

In 2013 the Audit Committee of the Supervisory Board dealt with financial reporting as part of the preparation of the annual financial statements and the quarterly reports in addition to performing its duties to monitor the effectiveness of the internal control system, risk management and the internal audit system at five meetings. During the audit of the annual and consolidated financial statements for 2013, the Audit Committee also received regular reports on the findings of the audit procedure for both sets of statements. Auditors and the Audit Committee were also able to interact without Management Board members being present. There was a change in auditor in the 2013 financial year. After more than a decade with KPMG, the 2013 Annual General Meeting elected Deloitte Audit Wirtschaftsprüfungs GmbH to audit the annual and consolidated financial statements.

As part of its reporting, Deloitte Audit Wirtschaftsprüfungs GmbH credibly demonstrated its impartiality to the Audit Committee in accordance with section 270(1a) of the Austrian Commercial Code. 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 2013 were issued with unqualified audit opinions by Deloitte Audit Wirtschaftsprüfungs GmbH. The Management Report and the Group Management Report are consistent with the annual financial statements and the consolidated financial statements respectively. After prior consultation with the Audit Committee and following an extensive discussion and review, the Supervisory Board approved the annual financial statements for 2013, 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 IFRSs as prescribed by section 245a of the Austrian Commercial Code, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approved the Management Board's proposal for the appropriation of net profit, namely the distribution of a dividend of 5 Eurocents per eligible share for the 2013 financial year, with the remaining amount being carried forward to new account.

I would like to conclude by thanking the members of the Management Board and all our employees for the great commitment they have shown in the challenging 2013 financial year. I would also like to assure the shareholders of Telekom Austria AG that going forward the Supervisory Board will continue to actively support and press ahead with the strategic development of the Telekom Austria Group.

Rudolf Kemler
Chairman of the Supervisory Board
Vienna, February 2014

Group Management Report

audited pursuant to §269 of the Austrian Commercial Code

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)]

After a number of difficult years, the global economic situation stabilised increasingly in 2013. While economic growth in the United States declined from 2.7% in the previous year to 1.8%, according to World Bank estimates, China's performance proved robust with a year-on-year rise in GDP of 7.7%. After a recession in the previous year, the economic climate stabilised in the European Union in 2013 amidst some positive signals, which intensified in the second half of the year.

According to European Commission estimates, economic growth in Austria amounted to 0.4% in 2013 after 0.9% in the previous year; a stronger economic recovery is expected only in 2014. GDP growth of 0.5% was achieved in Bulgaria and of 1.0% in Belarus. By contrast, Croatia and Slovenia suffered a decline in economic performance. The Republic of Serbia and the Republic of Macedonia returned to growth in 2013 with increases of 2.0% and 2.5% respectively.

In addition to the necessary budget consolidation and fundamental structural reform, which challenged the EU Member States in Southern and Southeastern Europe in particular, the economic situation was dominated by the low interest rate policy reinforced by the European Central Bank. It lowered lending rates by 25 basis points in both May and November 2013 to currently 0.25% and has recently reaffirmed its plans to retain its expansive monetary policy in the long term.

Further developments which shaped events on the international capital markets included the discussion of an additional bailout for Greece, government crises in several European countries, the ongoing civil war in Syria and political unrest in Turkey. Further unease was triggered by varying comments by the US Federal Reserve concerning a possible reduction in market support in the form of a tapering of its bond-buying programme, which was then announced in December.

Development of real GDP in the markets of Telekom Austria Group

in %[1)]

	2012[2)]	2013	2014e
Austria	0.9	0.4	1.6
Bulgaria	0.8	0.5	1.5
Croatia	–2.0	–0.7	0.5
Belarus	1.5	1.0	1.5
Slovenia	–2.5	–2.7	–1.0
Republic of Serbia	–1.7	2.0	1.0
Republic of Macedonia	–0.4	2.5	3.0

1) Sources: GDP for USA, China, Belarus, the Republic of Serbia and the Republic of Macedonia: World Bank, www.worldbank.org/content/dam/Worldbank/GEP/GEP2014a/GEP2014a.pdf, page 16. All other countries European Commission (http://ec.europa.eu/economy_finance/eu/countries)

2) Due to the earlier publication date of this Group management report, other sources were used than in the previous year and the data published for 2012 was adjusted accordingly.

ICT spending on Telekom Austria Group markets

in % of gross national income per capita[5)]

	2011	2012
Austria	0.7	0.7
Bulgaria	3.7	3.5
Croatia	1.5	1.5
Belarus	1.2	1.5
Slovenia	1.4	1.4
Republic of Serbia	2.9	2.9
Republic of Macedonia	3.9	3.0

Industry trends and competition

The business performance of Telekom Austria Group is influenced by a number of external factors. In 2013 the market environment again proved highly competitive, both in the fixed-line and mobile communications markets. Price pressure remained high. Furthermore, regulatory provisions continue to have a negative effect on revenues and earnings. This applies particularly to termination rates and roaming charges in mobile communications. Telekom Austria Group counters these factors through the successful implementation of its convergence strategy, a clear focus on high-value customers, innovative products and services as well as the strict management of costs.

In Austria Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed-line and mobile communications solutions under its A1 brand. By European standards, Austria is considered a particularly competitive telecommunications market with a low price level. In the latest market report issued by the regulatory authority, which tracked market data up to the second quarter of 2013, average revenues generated per customer fell by almost 7% year-on-year to EUR 13.9.[3)] While voice minutes saw a stable development and the number of text messages declined, data volumes rose by 57% year-on-year in the second quarter of 2013. The strongest stimulus for this trend came from smartphones, which rose by 41% to more than 3.1 million.

In the Austrian fixed-line market fixed-to-mobile substitution continued in the reporting year. While 15.4% of all voice minutes were on fixed lines in the second quarter of 2012, this figure was only 14.5% in the same period of 2013. Parallel to this, average telephony revenues per month declined by 13% for private customers and 8% for business customers. The strong demand for broadband solutions continued in 2013 and resulted in an overall rise of 17% to almost 7.5 million broadband connections. Fixed-line broadband grew by 5% and mobile broadband (data tariffs and prepaid cards) by 4%.

According to Statistik Austria, the share of Austrian households with internet access of any kind rose from 79% in 2012 to 81% in 2013.[4)] While the above indicators suggest increased use of telecommunications solutions, telecom spending as a percentage of users' average income is, however, generally declining at the same time. This is confirmed by the information and communications technology (ICT) price basket, published regularly by the International Telecommunication Union (ITU). It calculates spending on the basis of a defined basket of products comprising fixed-line telephony, mobile telephony and fixed broadband services as a percentage of average gross national income per capita. The index value for Austria declined from 1.1% in 2008 to 0.7% in 2012, the year of the most recent report.[5)]

In the reporting year, the high competitive intensity in Bulgaria continued to have a massive influence both on pricing for mobile communications services as well as on convergent product packages. The internet penetration rate

3) www.rtr.at/de/komp/TKMonitor_4_2013/TM4_2013.pdf

4) www.statistik.at/web_de/statistiken/informationsgesellschaft/index.html

5) www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2013/MIS2013_without_Annex_4.pdf; the index is calculated in the summer of the respective subsequent year, hence the data for 2013 is not yet available.

of all households climbed from 50.9% in the previous year to 53.7% in 2013.[6)]

The Croatian ICT market was also characterised by high competitive intensity and the strained general economic situation in the reporting year. Dominant factors included the boom in smartphones and a further rise in broadband connections.[7)]

The mobile penetration rate rose further in Belarus in 2013 and 3G network coverage was expanded as well.[8)]

In the Additional Markets segment of Telekom Austria Group, Slovenia has the most developed ICT market. According to official statistics, there was a significant increase in user behaviour among mobile communications customers in Slovenia in the reporting year; voice minutes climbed by a total of 3.8% against the same period of the previous year in the first nine months 2013 and the number of text messages sent rose by more than 20%.[9)]

In the Republic of Serbia, the catch-up process in mobile broadband, starting from a far lower level than in the Telekom Austria Group's other markets, continued in 2013. This development was helped by a general expansion of network infrastructures.

The ICT market in the Republic of Macedonia is only slowly approaching the standards of Western Europe in terms of user behaviour; both broadband penetration and average revenues are at significantly lower levels.

Regulation

As the market leader, A1 Telekom Austria AG is classified in Austria as a provider with substantial market power and is therefore subject to the corresponding regulatory conditions. 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 regulation of A1 Telekom Austria AG in the fixed-line network applies at retail and wholesale levels, also including access obligations to allow alternative providers access to infrastructures and services. However, decisions on regulation are not just made at a national level. They are also increasingly being made at a European level, such as, for example, the roaming regulation, which applies equally to all EU member states.

Fixed-line telecommunication markets

The Austrian regulatory authority made further rulings in the fourth round of the market review process in 2013 as part of the statutory market analysis. It was guided by the European Commission's recommendations pertaining to the regulation of fixed and mobile termination rates of May 2009. Generally, the goal is to harmonise and significantly lower these rates throughout Europe. The new cost accounting models developed under these guidelines provide the basis for the glidepaths which apply to fixed-line and mobile termination rates.

As part of the most recent market analysis for Austria, the fixed-line termination rates were redefined in compliance with this EU recommendation. The previous charges per minute of 0.82 Eurocents (peak) and 0.48 Eurocents (off-peak) have been reduced to 0.137 Eurocents and 0.085 Eurocents respectively. In contrast to the reduction in fixed-line termination rates, the option was created to significantly increase fixed-line origination charges as compensation, a first for the whole of Europe.[10)] Instead of previously 0.82 euro cents per minute (peak) and 0.48 euro cents per minute (off-peak) for fixed-line origination, 2.135 Eurocents and 1.321 Eurocents can now be charged respectively. Both rulings came into effect on 1 November 2013. Peak times are defined as working days from 8 am to 6 pm; all other times are defined as off-peak.[11)]

6) www.nsi.bg/en/content/6099/households-who-have-internet-access-home, see also xls-download for 2012 figure.

7) www.hakom.hr/UserDocsImages/2013/e_trziste/KVA%20ENG%20Q3%202013_broadband%20subscribers.pdf

8) www.telegeography.com/products/commsupdate/articles/2013/10/22/belarus-mobile-users-top-10-94m-in-september-ministry-reports/

9) www.stat.si/eng/novica_prikazi.aspx?id=5959, data for the full-year 2013 is not yet available.

10) The connection service (origination) is the transmission of voice and data traffic from the participant to an interconnectable network node. Those demanding origination services are mainly interexchange carriers and service network operators who offer their customers connection services by way of carrier selection (CS) and carrier pre-selection (CPS).

11) Source: www.rtr.at/de/tk/FN_Originierungsentgelte_11_2013

Glidepaths for mobile termination rates

in Eurocent

	Jul 2012	Jan 2013	Jul 2013	Nov 2013	Jan 2014	Jul 2014	Sep 2014	Jan 2015	Jul 2015
Austria	2.01	2.01	2.01	0.8049	0.8049	0.8049	0.8049	0.8049	0.8049
Bulgaria	2.70	2.35	1.18	1.18	1.02	1.02	1.02	0.97	0.97
Croatia	4.00	2.61	2.54*	2.54*	1.69*	1.69*	1.69*	0.83	0.83
Belarus	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Slovenia	3.52	3.24	3.24	3.24	1.05**	1.05**	1.05**	1.05**	1.05**
Republic of Serbia	4.68	4.20	4.20	3.72	3.46	3.46	3.46	3.01	3.01
Republic of Macedonia	6.50	6.50	6.50	1.95	1.95	1.95	1.46	1.46	1.46

* National mobile termination charges; international termination charges may differ.

** Final ruling pending

Besides British Telecommunications plc in the UK, A1 Telekom Austria AG is the only company in Europe to offer the innovative product of virtual unbundled local access (VULA) as part of its next-generation access (NGA) network expansion. This product has been confirmed by both the national regulatory authority and the European Commission as a central wholesale product for NGA expansion. It has also been called for in the latest draft rulings 'Physical access' and 'Wholesale broadband' on the wholesale markets.

As part of the market analysis for the physical access market and the wholesale broadband market, the European Commission expressed doubts to the Austrian authority regarding its draft regulation, as their wholesale prices based on the retail price level appear too low to incentivise investment in new infrastructure. Furthermore, the European Commission considered further deregulation to be possible. The Austrian regulation authority has not so far followed these suggestions.

The market analysis for the wholesale market for 'terminating segments of leased lines and Ethernet services' was rolled out anew after the European Commission vetoed the draft ruling of the Austrian regulator, the Telecom Control Commission (TKK). All the proceedings currently still ongoing are expected to be concluded in the first quarter of 2014.

Business performance in the international markets of the Telekom Austria Group was influenced by the following regulatory provisions for fixed-line operations: In Bulgaria termination rates were significantly reduced from 1 July 2013 in accordance with the abovementioned EU recommendation. Until that time, the regulator (CRC) had intended a two-stage path, which came into effect from 1 July 2012, defining prices for local and national termination regardless of whether calls originated domestically or abroad. Since Croatia joined the EU as at 1 July 2013, the same European stipulations on termination rates also apply to all Croatian operators.

EU roaming glidepath

Retail (in Eurocent)	Before	July 2012	July 2013	July 2014
Data (per MB)	none	70.0	45.0	20.0
Voice-calls made (per minute)	35.0	29.0	24.0	19.0
Voice-calls received (per minute)	11.0	8.0	7.0	5.0
SMS (per SMS)	11.0	9.0	8.0	6.0

Wholesale (in Eurocent)	Before	July 2012	July 2013	July 2014
Data (per MB)	50.0	25.0	15.0	5.0
Voice (per minute)	18.0	14.0	10.0	5.0
SMS (per SMS)	4.0	3.0	2.0	2.0

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 regulations apply in Austria, Bulgaria, Slovenia, Liechtenstein and, since 1 July 2013, Croatia. They define roaming charges and termination rates between individual market players. The regulatory frameworks in Belarus, the Republic of Serbia and the Republic of Macedonia are at different stages of development, but there are signs of gradual harmonisation with EU regulations.

The EU's Third Roaming Regulation came into effect on 1 July 2012 and, unlike previous regulations, intends a structural solution from 2014. The customer is allowed to choose an alternative provider for roaming services, regardless of the national operator. This promotes the goal of further increasing competition between operators in Europe. Furthermore, new price caps have been set for voice, messaging and data services. Besides the regulatory provisions already in place, the proposal of a uniform European telecommunications market, which has not yet been approved by the European Parliament and the Council of the European Union, would mean further significant market intervention.

Austria's biggest frequency auction to date ended on 21 October 2013. For a total of EUR 1,030 million, A1 Telekom Austria AG acquired frequency blocks in the 800-MHz (digital dividend), 900-MHz and 1,800-MHz bands. The subsidiaries in Macedonia, Croatia and Slovenia also acquired frequency rights in 2013. In the coming years further spectrum prolongation and auction processes will take place in these and other markets of Telekom Austria Group.

As part of the market analysis process, the Austrian regulatory authority has redefined mobile termination rates and, in doing so, complied with the European Commission's recommendations on termination rates. As at 1 November 2013, mobile termination rates were reduced from 2.01 Eurocents to 0.8049 Eurocents per minute. Mobile termination rates were also lowered further in Bulgaria, Croatia, Macedonia and Serbia in the reporting year. International termination rates in Croatia were reduced especially rapidly as a consequence of the country joining the EU.

Information on financial reporting

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

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

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

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

Application of IAS 29 'Financial Reporting in Hyperinflationary Economies'

Taking into account macroeconomic developments, Belarus was classified as a hyperinflationary economy in December 2011, which is why the provisions for financial reporting in hyperinflationary economies as per IAS 29 were then applied for the first time to Telekom Austria Group's 2011 consolidated financial statements. IAS 29 defines the following indicators of a hyperinflationary economy:

- Wealth is kept in non-monetary assets, and amounts of local currency held are immediately invested to maintain purchasing power.
- Prices are quoted in foreign currencies; sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period.
- Interest rates, wages and prices are linked to a price index.
- The cumulative inflation rate over three years approaches, or exceeds, 100%.

The provisions concerning 'financial reporting in hyperinflationary economies' affect several areas of the Consolidated

Key financial figures

in EUR million

	2013	2012	Change in %
Revenues	4,183.9	4,329.7	–3.4
EBITDA comparable	1,287.4	1,455.7	–11.6
EBITDA comparable margin	30.8%	33.6%	
EBITDA incl. effects from restructuring and impairment tests	1,242.2	1,421.1	–12.6
Operating income	377.6	457.1	–17.4
Net result	109.7	104.0	5.5
Earnings per share (in EUR)	0.20	0.23	–16.7
Free cash flow per share (in EUR)	–1.62	0.74	n.m.
Capital expenditure*	1,779.1	728.2	144.3
Net debt	3,695.8	3,248.9	13.8

* Not including additions for asset retirement obligations

Expenses

in EUR million

	2013	2012	Change in %
Material expenses	547.3	474.7	15.3
Employee costs	845.9	833.3	1.5
Other operating expenses	1,590.5	1,648.1	–3.5
Restructuring charges	45.2	34.7	30.3
Impairment charges	0.0	0.0	n.m.
Depreciation and amortisation	864.6	964.0	–10.3

Financial Statements of Telekom Austria Group as at 31 December 2013, 2012 and 2011, in addition to those for subsequent periods. Further information can be found in Note (1) to the Consolidated Financial Statements.

Revenues and earnings development[12)]

In the 2013 financial year, Telekom Austria Group experienced revenue losses in all its mature markets as a result of competitive price pressure and regulatory cuts in termination and roaming rates. In Austria, the management countered these negative factors through a clear focus on the high-value customer segment, the implementation of its convergence strategy and strict cost management. Mobile tariff structures were adjusted to changing customer requirements, such as the rising demand for broadband products. As a result of the latter, as well as growth in the television business, the number of fixed-line connections increased slightly in Austria. The Bulgaria segment suffered from the effects of further termination rate cuts in combination with tough competition and a weak general economic environment, which negatively impacted consumer behaviour. In Croatia, the growth in the fixed-line business largely compensated for the negative effects in the mobile business from competitive pressure and the strained economic situation in the first half of the year. In the second half of the year, however, the market also faced pressure on interconnection and roaming revenues as a result of the country joining the EU. Against the backdrop of negative foreign exchange rate effects, Belarus continued to post strong operational results. The rise in the share of contract customers in particular had a positive effect on the Additional Markets segment; the Republic of Serbia stood out with strong growth in revenues and EBITDA comparable.

12) As of 1 January 2013 IAS 19 – Employee Benefits (amended) – became effective. Accordingly, the reported results for the interim and full year 2012 were adjusted retrospectively.

Key financial figures by segment

in EUR million

Revenues	2013	2012	Change in %
Austria	2,658.6	2,787.1	–4.6
Bulgaria	399.4	469.1	–14.8
Croatia	389.2	420.4	–7.4
Belarus	331.7	301.2	10.1
Additional Markets	453.5	426.6	6.3
Corporate & Other, Eliminations*	–48.5	–74.7	n.m.
Total	**4,183.9**	**4,329.7**	**–3.4**

EBITDA comparable	2013	2012	Change in %
Austria	745.3	903.2	–17.5
Bulgaria	158.6	207.4	–23.5
Croatia	117.6	136.6	–13.9
Belarus	155.9	124.4	25.3
Additional Markets	138.5	117.3	18.1
Corporate & Other, Eliminations*	–28.5	–33.1	n.m.
Total	**1,287.4**	**1,455.7**	**–11.6**

EBITDA incl. effects from restructuring and impairment tests	2013	2012	Change in %
Austria	700.1	868.5	–19.4
Bulgaria	158.6	207.4	–23.5
Croatia	117.6	136.6	–13.9
Belarus	155.9	124.4	25.3
Additional Markets	138.5	117.3	18.1
Corporate & Other, Eliminations*	–28.5	–33.1	–13.8
Total	**1,242.2**	**1,421.1**	**–12.6**

Operating income	2013	2012	Change in %
Austria	184.0	314.0	–41.4
Bulgaria	64.0	55.2	15.9
Croatia	51.8	69.4	–25.4
Belarus	71.6	29.5	142.8
Additional Markets	33.8	17.0	98.9
Corporate & Other, Eliminations*	–27.7	–28.0	–1.2
Total	**377.6**	**457.1**	**–17.4**

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

In mobile communications, Telekom Austria Group posted an increase of 2.5% to more than 20.1 million customers in 2013. Austria enjoyed the strongest growth, with a surge of around 535,300 customers, primarily as a result of the acquisition of the no-frills provider YESSS!, followed by the Republic of Serbia with net additions of 157,800 customers. Belarus also developed well, with an increase of 147,000 customers. In the fixed-line business, 34,000 access lines were added at Group level, corresponding to growth of 1.3% to 2.6 million access lines. Austria gained 1,600 net additions in the year as a whole.

As a result of the developments described above, Telekom Austria Group saw a reduction in revenues of 3.4% to EUR 4.18 billion in 2013. Higher revenues in the Belarus and Additional Markets segments were offset by declines in Austria, Bulgaria and Croatia. Telekom Austria Group's international segments accounted for 37.2% of total revenues in 2013 after 36.7% in the previous year (measured as total consolidated revenues of the international segments to total Group revenues not including Corporate & Other, Eliminations).

Telekom Austria Group also focussed on the ongoing optimisation of operating efficiency and strict cost management in 2013 as well. As a result, operating expenses remained virtually stable overall at EUR 2,983.7 million, despite the 15.3% rise in material expenses resulting from the strategic focus on the high-value customer segment. Employee costs rose slightly, by 1.5%, to EUR 845.9 million despite a headcount reduction in the Group, primarily caused by an extraordinary effect in Austria and own work capitalised in Bulgaria and the Republic of Serbia.

Other operating expenses were reduced by 3.5% to EUR 1,590.5 million in 2013, which was mainly the result of lower interconnection and roaming expenses.

EBITDA comparable declined by 11.6% in the 2013 financial year to EUR 1,287.4 million. Belarus and the Additional Markets segment saw increases of 25.3% and 18.1% respectively. This could not, however, offset the reductions in EBITDA comparable in Austria, Bulgaria and Croatia, of 17.5%, 23.5% and 13.9% respectively, resulting from lower revenues.

In sum, these developments led to a reduction in the EBITDA comparable margin from 33.6% in the previous year to 30.8% in 2013.

Restructuring charges, which relate entirely to the Austrian segment, amounted to EUR 45.2 million in the reporting year after EUR 34.7 million in the previous year. They include social plans for employees whose employment contracts are being terminated in a socially responsible manner, and future expenses for civil servants who no longer provide services to Telekom Austria Group, but whose employment contracts cannot be terminated due to their civil servant status. As in the previous year, there were no impairment losses in the reporting year.

Resulting from the operational trends as well as the restructuring expenses, EBITDA including the effects of restructuring and impairment tests fell by 12.6% to EUR 1,242.2 million. At EUR 864.6 million, depreciation and amortisation were 10.3% lower than in the previous year. The strongest factor here was the completed write-down of the acquired mobile customer base of Mobiltel in Bulgaria in June 2012. Operating income for 2013 declined by 17.4% to EUR 377.6 million.

The financial result of Telekom Austria Group amounted to EUR –187.4 million in the reporting year, a reduction of 11.9% as versus the previous year. This was primarily due to a EUR 31.8 million reduction in interest expenses as a result of the lower average financial liabilities for the year as a whole, as well as a reduction in the discount rate applied to the calculation of the restructuring provision, employee benefit obligation and asset retirement obligation in the fourth quarter of 2012. Interest income remained stable at around EUR 16.1 million. As a result of the weaker performance of the Belarusian Rouble and the Croatian Kuna, exchange rate differences amounted to a negative EUR 4.3 million in the reporting year after a positive EUR 2.5 million in the previous year.

The tax expenses in the reporting year amounted to EUR 80.4 million, as opposed to EUR 140.4 million in 2012, as a result of lower deferred tax expenses.

Overall, the Telekom Austria Group reported an increase in net income to EUR 109.7 million for the 2013 reporting year, compared to EUR 104.0 million in the previous year.

Company key figures

	2013	2012	2011
Earnings per share (in EUR)	0.20	0.23	–0.57
Dividend per share (in EUR)	0.05*	0.05	0.38
Free cash flow per share (in EUR)	–1.62	0.74	1.08
ROE	9.3%	12.1%	–21.4%
ROIC	3.9%	3.8%	–0.1%

* Proposal to the 2013 Annual General Meeting, which will take place on 28 May 2014

Balance sheet structure

in EUR million

	31 Dec 2013	As % of the balance sheet total	31 Dec 2012	As % of the balance sheet total
Current assets	1,221.2	15.5	1,809.3	24.9
Property, plant and equipment	2,308.1	29.4	2,426.4	33.4
Goodwill	1,581.9	20.1	1,289.5	17.8
Other intangible assets	2,590.3	33.0	1,522.6	21.0
Other assets	158.5	2.0	209.4	2.9
ASSETS	**7,860.0**	**100.0**	**7,257.1**	**100.0**
Current liabilities	1,442.3	18.4	2,322.1	32.0
Long-term debt	3,737.7	47.6	2,832.0	39.0
Employee benefit obligation	164.3	2.1	161.7	2.2
Non-current provisions	881.4	11.2	923.1	12.7
Other long-term liabilities	121.7	1.5	199.2	2.7
Stockholders' equity	1,512.6	19.2	819.1	11.3
LIABILITIES AND STOCKHOLDERS' EQUITY	**7,860.0**	**100.0**	**7,257.1**	**100.0**

Net assets and financial position

Total assets, as at 31 December 2013, climbed by 8.3% year-on-year to EUR 7,860.0 million as a result of additions to goodwill and intangible assets, which were largely financed through debt.

Current assets declined by 32.5% to EUR 1,221.2 million in the reporting year, primarily due to the reduction in cash and cash equivalents as a result of investment activities, mainly the acquisition of the Austrian mobile telecommunications frequencies. Non-current assets climbed by 21.9% to EUR 6,638.8 million as other intangible assets increased by EUR 1,067.7 million due to the acquisition of mobile frequencies. Goodwill also increased by EUR 292.4 million as a result of the acquisition of the mobile provider YESSS! and fixed-line acquisitions in Croatia.

Current liabilities fell by 37.9% to EUR 1,442.3 million in 2013, essentially due to reduced current financial liabilities as a result of the repayment of a bond of EUR 750 million in July 2013. By contrast, non-current financial liabilities increased by 32.0% to EUR 3,737.7 million due to the issue of two bonds in the amount of EUR 300 million in July 2013 and EUR 750 million in December 2013. Other non-current liabilities were reduced as a result of the settlement of financial instruments for hedging interest-rate risk.

Dividend payments for the 2012 reporting year amounted to EUR 22.2 million as opposed to EUR 168.2 million in the previous year. The rise in equity from EUR 819.1 million to EUR 1,512.6 million was essentially due to the issue of the EUR 600 million hybrid bond. This also entailed a rise in the equity ratio as at 31 December 2013 to 19.2% after 11.3% one year previously.

Net debt

In the reporting year the net debt of Telekom Austria Group climbed by 13.8% to EUR 3,695.8 million. As a result of this fact and the decline in EBITDA comparable by 11.6% to EUR 1,287.4 million, the ratio of net debt to EBITDA comparable climbed from 2.2x in the previous year to 2.9x in 2013.

Net debt

in EUR million

	31 Dec 2013	31 Dec 2012
Long-term debt	3,737.7	2,832.0
Short-term borrowings	232.2	1,078.6
Cash and cash equivalents, short-term and long-term investments, financing with related parties	–274.1	–715.3
Derivative financial instruments for hedging purposes	0.0	53.6
Net debt Telekom Austria Group	**3,695.8**	**3,248.9**
Net debt/EBITDA comparable	2.9×	2.2×

Cash flow

The cash flow from operating activities climbed slightly by 0.3% in the reporting year to EUR 1,051.6 million. While operating cash flow was down by 12.2% year-on-year for operational reasons, this was offset by lower working capital requirements. The lower working capital requirements were essentially caused by a decline in accounts receivable compared to the previous year and a less severe decline in accounts payable compared to 2012. A main factor here was the settlement of a legal dispute over interconnection fees with a competitor in Slovenia.

Cash used in investing activities rose from EUR 636.3 million in the previous year to EUR 2,021.4 million. This was primarily the result of the acquisition of mobile frequencies and of the mobile provider YESSS! in Austria.

Cash flow from financing activities was positive in the reporting year at EUR 569.6 million after an outflow of EUR 269.6 million in the previous year. The repayment of the EUR 750 million bond in July 2013 was more than compensated for by low dividend payments and the issue of a EUR 600 million hybrid bond in January 2013 as well as two bonds of EUR 300 million and EUR 750 million, in July and December 2013 respectively.

This resulted in a reduction in cash and cash equivalents of EUR 399.4 million to EUR 201.3 million as at the end of 2013.

Free cash flow, which includes income from the disposal of property, plant and equipment and intangible assets, fell from EUR 325.4 million in the previous year to a negative EUR 716.7 million in the reporting year, primarily as a result of the cash flow used in investing activities.

Capital expenditure

In the year under review capital expenditure amounted to EUR 1,779.1 million after EUR 728.2 million in the previous year.

The decline in capital expenditure for tangible assets of 11.6% to EUR 487.0 million is largely due to the segments

Cash flow

in EUR million

	2013	2012	Change in %
Cash flow generated from operations	1,051.6	1,047.9	0.3
Cash flow used in investing activities	–2,021.4	–636.3	n.m.
Cash flow generated from (used in) financing activities	569.6	–269.6	n.m.
Effects of exchange rate changes	1.8	0.0	n.a.
Loss of purchasing power on cash and cash equivalents	–1.0	–1.2	n.a.
Change in cash and cash equivalents	–399.4	140.8	n.m.

Capital expenditure*

in EUR million

	2013	2012	Change in %
Tangible Austria	306.3	353.6	–13.4
Tangible Bulgaria	37.6	48.3	–22.2
Tangible Croatia	51.5	51.1	0.9
Tangible Belarus	28.8	28.2	2.2
Tangible Additional Markets	62.7	69.5	–9.8
Total tangible	**487.0**	**550.7**	**–11.6**
Intangible Austria	1,203.5	94.6	n.m.
Intangible Bulgaria	22.5	20.5	9.9
Intangible Croatia	30.9	27.8	11.1
Intangible Belarus	5.2	15.5	–66.8
Intangible Additional Markets	30.0	19.3	55.4
Total intangible	**1,292.1**	**177.5**	**n.m.**
Total capital expenditure*	**1,779.1**	**728.2**	**144.4**

* Excluding capital expenditures arising from asset retirement obligations

Austria and Bulgaria. In Austria, this decline resulted from higher additions to tangible assets in connection with the fibre roll-out in 2012. Capital expenditure for tangible assets was also down in Bulgaria on account of lower spending on mobile and fixed-line infrastructure. In Croatia, capital expenditure for tangible assets remained stable at around EUR 51 million as a result of further investment in the fixed-line infrastructure.

Capital expenditure for intangible assets increased from EUR 177.5 million in the previous year to EUR 1,292.1 million in the reporting year. This rise was predominantly due to the acquisition of mobile telecommunications frequencies in the multi-band auction in Austria, and intellectual property rights, frequencies and collocation rights for base stations from Orange Austria. Telekom Austria Group also acquired mobile frequencies in Croatia, Slovenia and the Republic of Macedonia. In Belarus, additions to intangible assets declined in the reporting year after the purchase of mobile frequencies in 2012.

Segment analysis

Segment Austria

In the Austrian mobile market the start of 2013 was dominated by the takeover of Orange Austria by Hutchison 3G Austria. In the course of this transaction Telekom Austria AG acquired the mobile provider YESSS! in addition to frequencies, base stations and intellectual property rights from Orange Austria for around EUR 400 million after purchase price adjustments. The pricing environment in the Austrian mobile market was again characterised by intensive competition in 2013, which A1 Telekom Austria AG sought to address by means of tariff adjustments in the no-frills segment and a fundamental change in the tariff structure for the premium segment. By offering product bundles with different data packages, the company thus endeavoured to take account of the trend towards greater data usage more effectively. Furthermore, A1 Telekom Austria AG selectively addressed high-value customers in order to successfully defend its highest income segment. Convergent product packages were also a central element of the operational strategy in 2013, with the goal of counteracting the ongoing substitution of fixed-line voice telephony with mobile communications in 2013. Other external factors such as regulatory intervention in the area of roaming as well as termination rate cuts in July 2012 and November 2013 also had a negative effect on revenues.

In October 2013 A1 Telekom Austria AG was able to shore up its quality leadership in the Austrian mobile market for years to come by acquiring 2 x 70 MHz in mobile frequencies in the Austrian multi-band auction, of which 2 x 20 MHz were bought in the key 800-MHz frequency band. The total expenses amounted to EUR 1.03 billion.

In 2013 the Austrian segment saw a 10.3% increase in mobile customers to around 5.7 million as a result of the acquisition of

YESSS!. In line with this A1 Telekom Austria AG's market share increased by 4.7 percentage points to 42.6%.

Aided by growth of 5.9% in fixed-line broadband connections, fixed access lines increased by 1,600 lines to 2.3 million in 2013. A1 TV posted an increase of 7.7% to 235,700 customers. These positive developments stood against a 10.5% decrease in fixed-line voice minutes (2012: 10.6%), resulting from the substitution of fixed-line telephony with mobile communications.

The operational successes described above were not enough to compensate for the negative effects of price competition and regulatory measures; hence the Austria segment reported a drop in revenues of 4.6% to EUR 2,658.6 million for 2013.

Income from monthly fee and traffic charges fell by 3.8% to EUR 1,843.3 million as lower income resulting from the migration of existing customers to all-in tariffs could not be compensated by higher monthly fees in the contract seg-

Key performance indicators Austria

Key financials (in EUR million)	2013	2012	Change in %
Revenues	2,658.6	2,787.1	–4.6
of which monthly fee and traffic	1,843.3	1,915.7	–3.8
of which data and ICT solutions	224.7	214.8	4.6
of which wholesale (incl. roaming)	140.9	164.5	–14.4
of which interconnection	260.5	327.1	–20.4
of which equipment	170.0	148.7	14.4
of which other	19.2	16.3	17.7
EBITDA comparable	745.3	903.2	–17.5
EBITDA comparable margin	28.0%	32.4%	
EBITDA incl. effects from restructuring and impairment tests	700.1	868.5	–19.4
Operating income	184.0	314.0	–41.4
Capital expenditure	1,509.8	448.2	236.8
Mobile communication			
ARPU (in EUR)*	16.1	18.8	–14.3
Mobile communication subscribers (in '000)*	5,714.5	5,179.2	10.3
Share of contract customers*	69.4%	76.6%	
Market share*	42.6%	37.9%	
Mobile broadband subscribers (in '000)*	816.4	743.5	9.8
Penetration*	158.1%	161.8%	
Fixed line			
ARPL (in EUR)	31.3	32.1	–2.5
Total access lines (in '000)	2,283.9	2,282.3	0.1
of which fixed broadband lines (in '000)	1,390.2	1,312.1	5.9
of which retail	1,352.2	1,270.4	6.4
of which wholesale	38.0	41.7	–9.0
Unbundled lines (in '000)	250.0	267.6	–6.6
Fixed line voice traffic (in million minutes)	2,090.1	2,335.9	–10.5
of which domestic traffic	1,342.2	1,531.2	–12.3
of which fixed-to-mobile traffic	521.5	553.4	–5.8
of which international fixed-line traffic	226.3	251.3	–9.9
Broadband penetration in Austria in % of households	121.2%	118.5%	
Employees (full-time equivalent, as of 31 Dec 2013)	8,804	9,077	–3.0

* As of Q2 the methodology for counting mobile subscribers was changed. Previous quarters of 2012 and 2013 were adjusted retrospectively.

Operating expenses Austria
in EUR million

	2013	2012	Change in %
Material expenses	343.6	287.9	19.3
Employee costs	683.7	679.7	0.6
Other operating expenses	973.5	1,006.4	–3.3
Restructuring charges	45.2	34.7	30.3
Depreciation and amortisation	516.1	554.5	–6.9

ment. Lower roaming income from customers abroad and the decline in the fixed-line voice business also contributed to the decline. Moreover, the consolidation of YESSS! as at 3 January 2013 had a positive impact in terms of year-on-year comparisons. The fall in wholesale revenues (including roaming) by 14.4% to EUR 140.9 million is partly due to lower tariffs between network operators. Interconnection revenues were also down by 20.4% to EUR 260.5 million as a result of less usage and lower fees in the transit business; however, the previous year's figure was lifted by a positive non-recurring effect of EUR 10.1 million in Q1 2012. Equipment revenues were up by 14.4% in 2013 at EUR 170.0 million, which was primarily the result of demand for high-end handsets among existing customers. Overall, EUR 49.8 million of the total decline in revenues was due to regulatory effects.

As a result of the migration to all-in tariffs, regulatory intervention and the integration of YESSS! customers described above, average monthly revenues per mobile user (ARPU) fell to EUR 16.1 (2012: EUR 18.8). Given the further decline in the fixed-line voice business, which was only partially cushioned by higher revenues from broadband and A1 TV, average monthly revenue per fixed access line (ARPL) fell to EUR 31.3 in 2013 (2012: EUR 32.1).

The decline in roaming and termination rates had a positive effect on operating expenses in the reporting year. In particular, interconnection expenses fell by 16.3% to EUR 240.0 million, primarily due to the transit business. However, the year-on-year comparison is affected by a non-recurring effect of EUR 3.1 million in Q1 2012.

The 19.3% rise in material costs to EUR 343.6 million is predominantly due to subsidies for handsets as part of A1 Telekom Austria AG's strategic focus on the premium customer segment. A non-recurring effect from the modernisation of the fixed-line infrastructure in the amount of EUR 6.0 million was also recognised here. Other operating expenses increased by 6.7% to EUR 372.2 million as a result of higher marketing and sales costs, which were incurred as a result of the marketing strategy to target high-value mobile customers. Employee costs were relatively stable compared to the previous year and included extraordinary effects in the amount of EUR 5.0 million. In net terms, operating expenses climbed by 1.4% in the reporting year to EUR 2,000.8 million.

Lower revenues in combination with higher operating expenses led to a decline in EBITDA comparable of 17.5% to EUR 745.3 million. EUR 30.4 million of this reduction stems from regulatory cuts. The EBITDA comparable margin fell from 32.4% in the previous year to 28.0%.

Restructuring expenses of EUR 45.2 million (2012: EUR 34.7 million) were recognised in the Austria segment in the 2013 reporting year. These include social plans for employees whose employment contracts are being terminated in a socially responsible manner, and future expenses for civil servants who no longer provide services to the Telekom Austria Group, but whose employment contracts cannot be terminated due to their civil servant status. As there were no effects from impairment testing in the reporting year, EBITDA including effects of restructuring and impairment tests amounted to EUR 700.1 million, 19.4% below the previous year's level.

Depreciation and amortisation declined by 6.9% to EUR 516.1 million, as higher write-downs for intangible assets and mobile infrastructure were more than offset by lower write-downs for fixed-line infrastructure. As a result of the developments described above, the net operating income of the Austria segment amounted to EUR 184.0 million, 41.4% below the figure for the previous year.

Segment Bulgaria

The market environment in Bulgaria was again dominated by a weak economy in 2013, which had a negative impact on demand and the purchasing power of customers. Furthermore, business performance was characterised by an intensive competitive environment and drastic regulatory effects.

In the fourth quarter of the reporting year Mobiltel changed the calculation methodology for mobile communications customers, resulting in a reported reduction of 1,026,000 mobile customers. Part of this effect is due to the shortening of the inactivity period for inactive SIM cards from previously twelve months (voucher validity period) to currently three. The rest of the effect is as a result of changes in two fixed-line products for which SIM cards are also used. Customers with 'Box' services who use a second number as their 'fixed-line connection' are now only counted once. Customers with integrated business solutions, which combine fixed-line and mobile connections, are now counted only as fixed-line customers. The customer figures published for 2012 were restated accordingly.

Taking into account this change in its calculation logic Mobiltel posted a reduction of 7.4% to 4.2 million mobile communications customers in the reporting year, which is predominantly due to the prepaid segment. Mobiltel's market share also declined from 42.1% to 39.0%, though it still holds the position of market leader. The constant rise in data use led to a further increase in mobile broadband customers by 30.5% to over 192,900. There was a total increase of 1.4% in the fixed-line business to just under 159,900 access lines, with a particularly positive performance in broadband connections and growth of 2.0% year-on-year.

Key performance indicators Bulgaria

Key financials (in EUR million)	2013	2012	Change in %
Revenues	399.4	469.1	–14.8
EBITDA comparable	158.6	207.4	–23.5
EBITDA comparable margin	39.7%	44.2%	
EBITDA incl. effects from restructuring and impairment tests	158.6	207.4	–23.5
Operating income	64.0	55.2	15.9
Capital expenditure	60.2	68.8	–12.6
Mobile communication			
ARPU (in EUR)*	6.3	7.1	–11.2
Mobile communication subscribers (in '000)*	4,181.5	4,515.6	–7.4
Share of post-paid customers*	78.7%	74.4%	
Market share*	39.0%	42.1%	
Mobile broadband subscribers (in '000)*/**	192.9	147.9	30.5
Penetration*	144.8%	144.2%	
Fixed line			
ARPL (in EUR)*	13.5	14.0	–3.9
Total access lines (in '000)*	159.9	157.6	1.4
of which fixed broadband lines (in '000)*	155.0	152.0	2.0
Employees (full-time equivalent, as of 31 Dec 2013)	2,647	2,937	–9.9

* In Q4 the methodology for counting mobile and fixed-line subscribers was changed. Previous quarters of 2012 and 2013 were adjusted retrospectively.

** In Q1 2013 the methodology for counting mobile broadband customers was changed to exclusively include data-only tariffs. The previous quarters of 2012 and 2013 were adjusted retrospectively.

Despite a positive stimulus on account of the rising significance of data traffic, the reporting year was characterised by negative effects in the form of a further decline in the price level and cuts in national and international termination rates as at 1 July 2012, 1 January 2013 and 1 July 2013, which a rise in traffic volumes failed to compensate. In spite of rising revenues from IPTV and the sale of equipment, total revenues declined by almost 15% to EUR 399.4 million, of which EUR 41.7 million were due to regulatory effects. Other operating income climbed by EUR 4.7 million as opposed to the previous year, primarily as a result of own work capitalised. The corresponding amount is reflected in operating expenses.

The developments described above were also reflected in a reduction in average monthly revenue per mobile user to EUR 6.3 (2012: EUR 7.1). Average monthly revenue per access line (ARPL) was also down slightly at EUR 13.5 (2012: EUR 14.0) due to the growth in access lines in the retail business. However, fixed service revenues were up by 10.7% at EUR 26.2 million.

To counteract the difficult operating environment, Mobiltel's management successfully focused on effective cost management in the reporting year. Higher material costs resulting from the rising demand for high-value handsets were balanced by a reduction in marketing and sales costs and a decline in interconnection expenses. Lower bad debt expenses also contributed towards a 6.0% total reduction in operating expenses to EUR 252.8 million.

Despite these efforts, it was not possible to fully compensate the negative impact of the decline in revenues on EBITDA comparable, which thus fell by 23.5% to EUR 158.6 million in the reporting year. EUR 20.5 million of this decline are due to interconnection and roaming rate reductions. The EBITDA comparable margin fell from 44.2% in 2012 to 39.7% in 2013.

Write-downs declined by 37.9% year-on-year in 2013 as the mobile customer base acquired through the acquisition in 2005 had been written down by June 2012. Operating income therefore climbed from EUR 55.2 million in 2012 to EUR 64.0 million in 2013.

Segment Croatia

In Croatia the performance of the mobile business was negatively affected by the difficult economic environment and intensive competition in 2013. Vipnet attempted to counteract the generally low price level with a strong focus on the high-value customer segments. The strategic focus also centred on the continuation of the convergence strategy, such as by acquiring satellite TV provider Digi TV and four cable network operators. The fixed-line business continued to develop well and offset declines in the mobile business in the first half of the year. In the second half of the year, Croatia's joining the EU and the associated regulatory provisions in the areas of roaming and interconnection had a negative impact on business performance.

The total number of mobile communications customers declined by 4.0% in the reporting year to around 1.8 million as a result of the steady migration of prepaid customers, who often use multiple SIM cards, to contract tariffs. The share of contract customers increased by three percentage points to 45.1% over the year. Also owing to the focus on the high-value segment, market share fell slightly from 38.3% to 37.3%. The number of fixed access lines rose by 18.4% to 193,100. Therein included were broadband connections which rose by 25.9% at 109,200 in the reporting year.

Higher revenues from monthly fees resulting from customer growth in the contract segment, only partially offset lower revenues from mobile connection fees due to declining prices and customer migration to all-in tariffs. The effects of the EU roaming glidepath, which Vipnet must adhere to since Croatia joined the EU in July 2013 and which has resulted in lower inter-operator charges among other things, were only partially offset by higher traffic volumes. Lower termination rates also led to reduced interconnection revenues. In total, revenues for 2013 declined by 7.4% to EUR 389.2 million. These revenues include a negative currency effect of EUR 3.0 million.

The above factors resulted in a decrease in average monthly revenue per mobile user to EUR 11.6 (2012: EUR 12.3). Average monthly revenue per fixed access line (ARPL) decreased by 5% to EUR 22.7 (2012: EUR 23.9), owing to the rise in satellite customers with a lower ARPL. However, the rise in the number of fixed access lines led to a total increase in fixed service revenues of 10.8%.

Key performance indicators Croatia

Key financials (in EUR million)	2013	2012	Change in %
Revenues	389.2	420.4	–7.4
EBITDA comparable	117.6	136.6	–13.9
EBITDA comparable margin	30.2%	32.5%	
EBITDA incl. effects from restructuring and impairment tests	117.6	136.6	–13.9
Operating income	51.8	69.4	–25.4
Capital expenditure	82.4	78.8	4.5
Mobile communication			
ARPU (in EUR)	11.6	12.3	–5.9
Mobile communication subscribers (in '000)	1,843.8	1,921.0	–4.0
Share of post-paid customers	45.1%	42.2%	
Market share	37.3%	38.3%	
Mobile broadband subscribers (in '000)*	168.8	162.2	4.0
Penetration	115.1%	116.8%	
Fixed line			
ARPL (in EUR)	22.7	23.9	–5.0
Total access lines (in '000)	193.1	163.0	18.4
of which fixed broadband lines (in '000)	109.2	86.8	25.9
Employees (full-time equivalent, as of 31 Dec 2013)	1,138	1,104	3.0

* In Q1 2013 the methodology for counting mobile broadband customers was changed to exclusively include data-only tariffs. The previous quarters of 2012 and 2013 were adjusted retrospectively.

Other operating income climbed by EUR 3.8 million in the reporting year and included effects of completed court proceedings, an acquisition as well as offsetting payments for employees migrating within the Group.

Operating expenses declined by 2.9% to EUR 277.4 million, mainly resulting from lower roaming and interconnection expenses. Material costs were higher than in the previous year owing to the greater demand for high-value handsets.

Despite the positive development in operating expenses, EBITDA comparable fell by 13.9% to EUR 117.6 million as a result of the negative trend in revenues in the reporting year. The EBITDA comparable margin fell to 30.2% (2012: 32.5%). Operating income also declined by 25.4% to EUR 51.8 million.

Segment Belarus

Belarus was classified as a hyperinflationary country in December 2011, and it was resolved to apply accounting for hyperinflationary economies for the whole year 2011. As hyperinflation is determined, among other things, by the three-year cumulative inflation rate which amounted to 108.7% for 2011 and around 21.8% for 2012, hyperinflationary accounting was continued in 2013 as well.

While the macroeconomic environment in Belarus remained relatively stable in the year under review, the Belarusian Rouble fell by 13.3% against the Euro over the course of the year (2012: –4.8%). The rate of inflation in 2013 declined slightly compared to the previous year to around 16.6%.

velcom again met these challenges in 2013 with the ongoing optimisation of tariffs and its equipment portfolio. Tariffs were adjusted in March, July and November 2013 to counter currency and hyperinflation effects. Furthermore, the company focused on optimising operating expenses and disconnecting them from currency effects.

Key performance indicators Belarus

Key financials (in EUR million)	2013	2012	Change in %
Revenues	331.7	301.2	10.1
EBITDA comparable	155.9	124.4	25.3
EBITDA comparable margin	47.0%	41.3%	
EBITDA incl. effects from restructuring and impairment tests	155.9	124.4	25.3
Operating income	71.6	29.5	142.8
Capital expenditure	34.0	43.7	–22.3

Mobile communication			
ARPU (in EUR)	4.8	4.6	4.3
Mobile communication subscribers (in '000)	4,947.4	4,800.4	3.1
Share of post-paid customers	80.6%	80.3%	
Market share	42.5%	43.5%	
Mobile broadband subscribers (in '000)*	246.5	227.5	8.4
Penetration	123.0%	116.6%	

Employees (full-time equivalent, as of 31 Dec 2013)	1,749	1,680	4.1

* In Q1 2013 the methodology for counting mobile broadband customers was changed to exclusively include data-only tariffs. The previous quarters of 2012 and 2013 were adjusted retrospectively.

In the year under review, the total number of mobile customers increased by 3.1% to 4.95 million. The number of mobile broadband customers climbed by 8.4% to around 246,500. Despite the continuous increase in the number of its customers, velcom's market share has fallen slightly, relative to the previous year to 42.5%, on account of the high competitive intensity (2012: 43.5%).

After hyperinflationary adjustments and despite a negative currency effect of EUR 50.9 million, revenues increased by 10.1% in the reporting year to EUR 331.7 million. Revenues from monthly fee and traffic rose thanks to the constant customer growth, inflation-related price adjustments and the upselling effects achieved. Equipment revenues also climbed as a result of a greater number of handsets sold and increased demand for smartphones as well as attractively priced tablets.

As a result of the abovementioned developments average monthly revenue per mobile user improved to EUR 4.8 (2012: EUR 4.6).

Operating expenses were reduced slightly in 2013 to EUR 180.7 million. In local currency, however, operating expenses increased mainly as a result of higher material costs. Inflation-related salary adjustments and higher international termination rates also led to higher employee costs and interconnection expenses in local currency. Positive effects from the introduction of VAT for telecommunications customers could not offset the abovementioned higher local currency expenses.

Thanks to the positive development in revenues and the slight decline in operating expenses on a Euro-basis, EBITDA comparable increased by 25.3% in the reporting year to EUR 155.9 million. Continuing efforts to reduce expenses denominated in a foreign currency helped to stem the negative impact of the currency devaluation. With regard to EBITDA comparable, negative currency effects in the amount of EUR 23.9 million were offset by positive operating effects and the effects of inflation-related tariff adjustments, amounting to EUR 55.4 million. The EBITDA comparable margin climbed by almost six percentage points to 47.0% in the reporting year, which is the highest margin in the Group.

The combination of lower write-downs and higher EBITDA comparable resulted in an improvement in operating income from EUR 29.5 million in the previous year to EUR 71.6 million.

Key performance indicators Slovenia

Key financials (in EUR million)	2013	2012	Change in %
Revenues	198.9	199.6	–0.4
EBITDA comparable	62.8	58.0	8.3
EBITDA comparable margin	31.6%	29.1%	
EBITDA incl. effects from restructuring and impairment tests	62.8	58.0	8.3
Operating income	39.9	36.3	10.0
Capital expenditure	23.2	18.6	24.6
Mobile communication			
ARPU (in EUR)	19.9	21.8	–8.6
Mobile communication subscribers (in '000)	679.2	662.6	2.5
Share of post-paid customers	78.0%	76.4%	
Market share	30.0%	30.3%	
Mobile broadband subscribers (in '000)	20.8	18.2	14.2
Penetration	108.5%	107.1%	
Employees (full-time equivalent, as of 31 Dec 2013)	396	366	8.4

Segment Additional Markets

Slovenia

Despite intensive competition, Slovenia's Si.mobil increased its subscriber base by 2.5% to almost 679,200 customers in 2013. This is due to a further improvement in the contract share, which was achieved in part thanks to the strong growth in the no-frills segment. Si.mobil's market share remained stable in 2013 at 30.0%.

Revenues were virtually constant in the reporting year at EUR 198.9 million (2012: EUR 199.6 million). The decline in roaming revenues was largely offset by higher revenues from monthly fee and traffic as a result of the higher share of contract customers. Other operating income includes a non-recurring effect in the amount of EUR 1.8 million relating to the settlement of a legal dispute concerning interconnection revenues. As a result of the increase in contract customers in the no-frills segment, the average monthly revenue per mobile user declined to EUR 19.9 (2012: EUR 21.8).

Higher employee costs, which resulted from the 8.4% head-count increase, were primarily compensated by lower inter-connection expenses thanks to lower prices and the positive effect of settling the legal dispute mentioned above. Material costs declined on account of lower equipment prices. Overall, operating expenses were down by 2.01% to EUR 138.9 million.

As a result of the reduced operating expenses and other operating income, EBITDA comparable rose by 8.3% to EUR 62.8 million and operating income by 10.0% to EUR 39.9 million in the reporting year.

Key performance indicators Republic of Serbia

Key financial figures (in EUR million)	2013	2012	Change in %
Revenues	182.6	160.4	13.9
EBITDA comparable	64.0	49.0	30.6
EBITDA comparable margin	35.0%	30.6%	
EBITDA incl. effects from restructuring and impairment tests	64.0	49.0	30.6
Operating income	–8.6	–18.4	n.m.
Capital expenditure	52.7	57.0	–7.6

Mobile communication			
ARPU (in EUR)	7.4	7.1	4.0
Mobile communication subscribers (in '000)	2,017.7	1,859.9	8.5
Share of post-paid customers	50.8%	47.2%	
Market share*	21.1%	17.6%	
Penetration	133.1%	147.2%	

Employees (full-time equivalent, as of 31 Dec 2013)	918	898	2.2

* Change largely due to competitor restatement of subscriber numbers.

Republic of Serbia

In the Republic of Serbia Vip mobile continued to grow in 2013 and increased the number of its mobile customers by 8.5% to more than 2.0 million. This was due to a significant rise in the share of contract customers from 47.2%, as at the end of 2012, to 50.8% as at the end of 2013. The market share climbed by 3.5 percentage points to 21.1%, part of which was due to a subscriber restatement by a competitor and the associated reduction of the total number of mobile customers in the market.

The improvement in the share of contract customers led to an increase in income from monthly fees and interconnection. The latter were also driven by higher traffic volumes, which offset a reduction in revenues from transit fees. Negative currency effects in the amount of only EUR 0.1 million (2012: EUR –17.4 million), caused by a 0.1% depreciation of the Serbian Dinar relative to the Euro, were considerably less than in the previous year. Overall, these developments resulted in an increase in revenues of 13.9% to EUR 182.6 million. Other operating income climbed from EUR 7.3 million in the previous year to EUR 8.9 million, mainly on account of own work capitalised. The corresponding amount is reflected in operating expenses. The strong growth in terms of contract customers led to an increase in average monthly revenue per mobile user to EUR 7.4 (2012: EUR 7.1).

Higher interconnection expenses and an increase in the costs for the maintenance of technical equipment triggered an increase in operating expenses of 7.4% in the reporting year to EUR 127.5 million. In total, the rise in revenues in the 2013 reporting year led to an improvement in EBITDA comparable of 30.6% to EUR 64.0 million. The EBITDA comparable margin was up from 30.6% in the previous year to 35.0%. Given the relatively stable currency, development there was no negative translation effect on EBITDA comparable.

Net operating income improved from EUR –18.4 million in the previous year to EUR –8.6 million.

Key performance indicators Republic of Macedonia

Key financials (in EUR million)	2013	2012	Change in %
Revenues	64.9	60.3	7.5
EBITDA comparable	14.7	12.1	21.4
EBITDA comparable margin	22.7%	20.1%	
EBITDA incl. effects from restructuring and impairment tests	14.7	12.1	21.4
Operating income	6.3	0.4	n.m.
Capital expenditure	16.1	13.0	24.2
Mobile communication			
ARPU (in EUR)	7.9	7.5	5.2
Mobile communication subscribers (in '000)	629.7	632.0	–0.4
Share of post-paid customers	47.5%	41.8%	
Market share	28.0%	27.3%	
Penetration	109.2%	113.1%	
Employees (full-time equivalent, as of 31 Dec 2013)	214	205	4.4

Republic of Macedonia

In the Republic of Macedonia the number of mobile communications customers fell over the course of the year 2013 to around 629,700 resulting from the migration away from multi-SIM to all-in tariffs. While the number of Vip operator's contract customers increased significantly, there was a decline in the prepaid segment due to competitive effects. Nevertheless, the company's market share increased by around 0.7 percentage points to 28.0%.

Revenues rose by 7.5% year-on-year to EUR 64.9 million. The expanding subscriber base and higher national traffic volumes led to increased monthly fee and traffic revenues in addition to higher interconnection revenues. ARPU increased to EUR 7.9 (2012: EUR 7.5).

Despite a reduction in mobile termination rates in the fourth quarter of 2013, higher national traffic volumes resulted in higher interconnection expenses. This development was partially offset by reduced national roaming expenses due to the ongoing expansion of the network. Overall, operating expenses climbed by 3.8% to EUR 50.6 million.

Despite the higher operating expenses Vip operator's EBITDA comparable improved by 21.4% to EUR 14.7 million. As a result of the higher EBITDA comparable and lower write-downs due to the exchange of network equipment, operating income increased from EUR 0.4 million in the previous year to EUR 6.3 million.

Key performance indicators Liechtenstein

Key financials (in EUR million)	2013	2012	Change in %
Revenues	6.5	6.8	–3.3
EBITDA comparable	0.6	1.2	–47.6
EBITDA comparable margin	9.9%	18.2%	
EBITDA incl. effects from restructuring and impairment tests	0.6	1.2	–47.6
Operating income	–0.2	0.3	n.m.
Capital expenditure	0.5	0.2	142.3
Mobile communication			
ARPU (in EUR)	40.4	50.9	–20.5
Mobile communication subscribers (in '000)	6.4	6.2	3.2
Market share	16.1%	15.9%	
Penetration	108.1%	106.4%	
Employees (full-time equivalent, as of 31 Dec 2013)	15	15	0.0

Liechtenstein

As of the end of the year 2013 mobilkom liechtenstein's subscriber base had increased in size by 3.2% compared to the previous year to around 6,350 subscribers. Revenues fell 3.3% in the reporting year to EUR 6.5 million. Resulting from these lower revenues as well as higher operating expenses, owing mainly to regulatory effects, EBITDA comparable also came in 47.6% lower at EUR 0.6 million. After EUR 0.3 million in the previous year, the company reported negative operating income for the reporting year of EUR 0.2 million.

Non-financial performance indicators

Corporate social responsibility

The Telekom Austria Group's corporate strategy aims to increase enterprise value in a sustainable way, while taking into account all relevant economic, ecological and social aspects. This goal is supported by the commitment to the Austrian Corporate Governance Code and the application of the internal control system, the Code of Conduct and the compliance guidelines. An integrated corporate social responsibility (CSR) management system, pre-defined standards and processes, a Group-wide environment policy and membership of the UN Global Compact ensure the ongoing development of strategies and goals, and the involvement of all business units and hierarchies. Sustainability reporting is based on the guidelines of the Global Reporting Initiative (GRI).

The sustainability strategy of the Telekom Austria Group was fundamentally revised in 2013. A materiality analysis was conducted with the help of various interest groups to identify the central sustainability issues. Four areas of activity were then derived which are considered material to the future development of the Telekom Austria Group. Specific targets, measures and performance indicators were defined for these areas of activity.

The area of activity named 'Providing responsible products' builds on the innovative application options for secure, high performance communication networks and their positive impact on the environment and society. 'Living green' highlights the specific measures to reduce the Telekom Austria Group's ecological footprint. To allow performance measurement in this area, environmental indicators were drawn across the Group for the first time in 2013 (with the exception of Liechtenstein). The efficient promotion of employees is at the heart of the area of activity named 'Empowering people'. 'Creating equal opportunities' comprises Telekom Austria Group initiatives aimed at fostering equal opportunities in the digital world.

The environmental management of A1 Telekom Austria AG and the Slovenian Si.mobil are ISO 14001 certified and satisfy all EMAS requirements. The energy management of A1 Telekom Austria AG is ISO 50001 certified. Compliance with the requirements of these standards is reviewed annually by an independent certification body.

Employees

Employees at year-end*	2013	2012	Change in %
Austria	8,804	9,077	–3.0
Bulgaria	2,647	2,937	–9.9
Croatia	1,138	1,104	3.0
Belarus	1,749	1,680	4.1
Additional Markets	1,543	1,484	4.0
Corporate	165	164	0.5
Total	**16,045**	**16,446**	**–2.4**

* Full-time equivalents

Employees

As at the end of 2013, the Telekom Austria Group employed 16,045 individuals, 2.4% fewer than at the end of the previous year. The headcount in the Austria segment was reduced by 3.0% to 8,804 as part of the ongoing restructuring measures. Approximately 51% of these employees have civil servant status. The segments outside of Austria saw a reduction of 1.8% to 7,076 employees.

With a view to maintaining its competitive capability and innovative drive, Telekom Austria Group invests in extensive professional training for its personnel on an ongoing basis. The Telekom Austria Group Business School functions as a central development platform, and had developed and organised more than 174 training opportunities for 2,826 employees by the end of 2013. In addition to the training offered by this central institution, the Telekom Austria Group subsidiaries have also developed their own training programmes tailored to the needs of their respective markets. To meet future requirements for experts and managers, the Telekom Austria Group is particularly committed to apprenticeship training. In Austria, university and college graduates are offered a twelve-month graduate programme while school-leavers can experience on-the-job training with the A1 trainee programme.

Total spending on further education and professional training in the year under review amounted to EUR 7.9 million (2012: EUR 10.0 million). This corresponds to an average per employee at year-end of EUR 492 (2012: EUR 604).

Innovation and technology

The Telekom Austria Group concentrates its many research and development activities on the development of market-oriented products and services in addition to the ongoing technological development of its network infrastructure. In order to ensure synergies and cost benefits, these activities are subject to Group-wide coordination and knowledge sharing.

In addition to innovative applications in the machine-to-machine (M2M) business segment, products focused on the development of a uniform strategy for all cloud computing activities, which reliably provide customers with IT infrastructures such as computing capacity, data storage or software via a network. Considerable investments were carried out in all markets to maintain the multi-award winning quality of the network. In Austria, for example, the expansion of the fibre-optic network was continued in selected areas and the built-up areas were served on the basis of the 4G/LTE network in the 2,600 MHz range. In addition, A1 Telekom Austria AG also doubled upload data rates in the 3G network.

A1 Telekom Austria AG is also the world's first network operator to accelerate fixed-line data transmission through the use of vectoring, an innovative process for optimising the use of existing copper wire pairs.

In a field trial, A1 Telekom Austria AG successfully tested existing fibre-optic cables with a length of more than 600 km between Salzburg and Vienna via Klagenfurt and Graz at 400 Gbps, equivalent to ten times the transmission capacity.

LTE was also successfully trialled in Bulgaria and Croatia. Vipnet in Croatia also set a new world record in high-performance data transfer. As part of a live network demonstration, transmission rates of up to 4.3 Gbps were achieved based on the latest standard in the hybrid fibre-coax (HFC) network. In

Slovenia and the Republic of Macedonia, the mobile network was also upgraded to UMTS 900 technology, in addition to an upgrade to HSPA+. In Belarus, velcom was able to implement not only HSPA+, but locally also the latest dual carrier HSPA (DC-HSPA technology).

Through the cooperation with national and international institutions and application-based research cooperations with partners in the scientific and industrial communities, Telekom Austria is pursuing different approaches for the integration of future information and communications technologies in order to be able to offer market and customer-oriented communications solutions. The Telekom Austria Group currently has research partnerships with the Research Centre for Telecommunications in Vienna, the Vienna University of Technology, the University of Vienna, the Christian Doppler Laboratory for Sustainable Mobility, the Josef-Ressel Center for User-friendly Secure Mobile Environments and the Technical University of Sofia. Beyond its own sphere of action, 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 the wholesale area the Telekom Austria Group has entered into a partnership agreement with KPN International and thus created one of the largest fibre-optic networks in Europe, with network coverage in 35 countries. The different data services are being made available to target groups such as major international customers.

Disclosure in accordance with § 243a of the Austrian Commercial Code

Shareholder structure and capital disclosures

At the end of 2013, as at the end of the previous year, 47.90% or 212.2 million shares in Telekom Austria AG were held in free float. 0.1% or 0.4 million of these shares were held by the company itself. The remaining 52.09% or 230.8 million shares were held by the Republic of Austria through ÖIAG (28.42%) and América Móvil (23.67%). There were no material changes in the shareholder structure in 2013. Please see the section on subsequent events for information regarding the change to its stake which América Móvil reported on 16 January 2014.

Standard change-of-control clauses that can ultimately lead to the termination of contracts are contained in various financing agreements or affect the majority of financing agreements. The relevant funding volume has increased compared to the previous year. None of these clauses came into effect in the 2013 financial year. Apart from these, the company has entered into no significant agreements that will become effective, change or be terminated in the event of a takeover bid or change of control at the company as a result of such a bid.

The voting rights attached to shares held by Telekom Austria Group employees, which are held in a collective custody account, are exercised by a custodian (notary).

Changes to the Management Board and the Supervisory Board

The previous Supervisory Board mandates ended at the Annual General Meeting on 29 May 2013 and new members were elected.

The Management Board contract with the Chairman Hannes Ametsreiter was extended as at 1 January 2014 until 31 December 2016, with an option to extend for a further two years. A third member of the Management Board with responsibility for the area of technology, Günther Ottendorfer, was appointed on 1 September 2013 until 1 September 2016, with an option to extend for a further two years.

Cash-use policy

In deciding the cash-use policy at Telekom Austria Group, ensuring an Investment Grade rating is the top priority. Following the downgrade by Moody's from Baa1 (negative outlook) to Baa2 (stable outlook) and by Standard & Poor's from BBB (stable outlook) to BBB- (stable outlook) in October 2013, the Group is pursuing the medium-term goal of returning to a rating of BBB (stable outlook) with Standard & Poor's by reducing its net debt. This is intended to ensure the necessary financial flexibility for strategic projects.

Telekom Austria AG intends to distribute a dividend of EUR 0.05 per share for the 2013 financial year.

Telekom Austria AG: Members of the Supervisory Board

Name (year of birth)	Date of first appointment	End of current term of office/ leaving date
Alfred Brogyányi (1948)	29.05.2013	2018*
Elisabetta Castiglioni (1964)	29.05.2013	2018*
Henrietta Egerth-Stadlhuber (1971)	20.05.2008	2018*
Michael Enzinger, second Deputy Chairman (1959)	29.05.2013	2018*
Franz Geiger (1950)	19.05.2011	29.05.2013**
Edith Hlawati, second Deputy Chairwoman (1957)	28.06.2001	29.05.2013**
Rudolf Kemler, Chairman (1956)	01.11.2012	2018*
Peter J. Oswald (1962)	20.05.2008	2018*
Ronny Pecik, first Deputy Chairman (1962)	23.05.2012	2018*
Wolfgang Ruttenstorfer (1950)	27.05.2010	2018*
Wilfried Stadler (1951)	15.07.2005	29.05.2013**
Harald Stöber (1952)	04.06.2003	2018*
Oscar Von Hauske Solís (1957)	23.10.2012	2018*

Members of the Supervisory Board appointed by the Central Works Council		
Silvia Bauer (1968)	26.07.2012	
Walter Hotz (1959)	Reappointed on 06.05.2011	
Werner Luksch (1967)	03.08.2007 to 20.10.2010, reappointed on 11.01.2011	
Alexander Sollak (1978)	03.11.2010	
Gottfried Zehetleitner (1962)	27.10.2010	

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

** The term of office ended at the Annual General Meeting on 29 May 2013 which dealt with the 2012 financial year.

Risk management

Principles and methods

As one of the leading telecommunications companies in Austria and Central and Eastern Europe, the Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. The risk management system of the Telekom Austria Group anticipates these developments early on in order to be able to respond to them effectively. In its essence, this consists of four areas: Market and business risks which may arise in respective countries due to competition, regulatory intervention or an unclear legal situation are monitored and analysed throughout the Group by a central risk manager. Risks which may influence the guaranteed availability and security of the services offered, such as technical and topographical risks, are covered by business interruption management. Compliance risks are monitored by Group Compliance, which is aided by local compliance managers. Financial risks such as liquidity, default, currency, transfer and interest rate risks are handled by Treasury.

Market and competition risks are managed at Group level by means of the regular analysis of risks and opportunities and the use of effective measures to mitigate and exploit these. The effects of deviations from planning are evaluated using scenario and probability calculations. The overall risk situation is derived from the sum of the individual risks. In addition to the Austrian fixed-line and mobile communications market, the Telekom Austria Group also holds leading positions internationally in seven other telecommunications markets, which ensures broad diversification in terms of both sectors and geographical regions. The risk sets of the respective markets vary, which is why risk management is the responsibility of the local operational units. However, Group-wide monitoring and coordination is ensured by a central risk manager. Risks are identified, assessed and summarised in a risk report by way of structured interviews and workshops with top-level management. Building on this, measures to reduce and avoid risk are prepared, implemented and subsequently analysed. A risk catalogue forms the basis for risk management. The close integration of business planning and risk management ensures appropriate risk control.

The Telekom Austria Group's risk management is monitored by the Audit Committee of the Supervisory Board. Management receives a regular status report as a controlling instrument. The most important risk categories and individual risks that could materially influence the net assets, financial position and results of operations of the Telekom Austria Group are explained below.

Risks

Market and competition risks

High competitive intensity, also seen in the Telekom Austria Group's international markets, is leading to sharp price reductions in both mobile communications and data traffic. There is therefore the risk that growth in traffic volumes will not be able to offset these price declines. 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 foreign markets. The trend towards smartphones is being exploited to make higher-value tariffs more attractive and to thereby increase sales potential in the medium term. Furthermore, the 'Combine and Save' campaign in Austria is aiding the goal of stabilising average customer sales and further optimising customer loyalty.

The telecommunications sector is facing the challenge of having to be able to offer new services and products at faster and faster rates. Shorter innovation cycles also entail innovation risks that are countered with different measures. An example of this is 'Future.talk', a series of events created to discuss global challenges to the industry.

The economic and financial crisis created a volatile overall economic environment in the Telekom Austria Group's operating markets. The monitoring of key macroeconomic indicators in order to assess any changes in consumer behaviour is therefore 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 Telekom Austria Group falls into this category in several sub-markets, and its foreign subsidiaries are also subject to equivalent regulatory frameworks. Regulation at both retail and wholesale levels restricts operational flexibility with regard to products and product bundles. There is also an obligation to provide access to infrastructure and fixed-line services for alternative providers. Additional regulatory rulings such as a reduction in mobile and fixed-line termination rates due to the European Commission's recommendation on termination rates could negatively affect the Telekom Austria Group's earnings development.

In 2011 the European Union decided to introduce additional comprehensive regulatory measures for roaming rates within the community as part of its Roaming III regulation, which came into effect on 1 July 2012. By contrast to the previous system, a structural solution is now intended which should allow customers a choice of provider for roaming services, regardless of the national operator. This measure is expected to lead to additional competition between operators in Europe from the middle of 2014. Price regulation is also continuing for voice, messaging and data services. Furthermore, by way of the proposal entitled 'Telecom Single Market' the European Commission has made a proposal to lower roaming charges for consumers to a national level. These regulations would affect the mobile communications companies of the Telekom Austria Group in the EEA member states Austria, Slovenia, Bulgaria, Croatia and Liechtenstein.

A1 Telekom Austria AG and its subsidiaries are party to a number of legal proceedings both in and out of court with authorities, competitors and other parties. An ongoing dialogue with stakeholders and a regular exchange of information on controversial issues, which could pose a threat to the company, enable the Group to identify problems early on and develop measures to counteract them. Telekom Austria AG has joined the ongoing proceedings in connection with past misconduct as a private party. While some of the proceedings have already been concluded in the court of first instance, a final ruling has not yet been imposed.

Compliance risks

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

Financial risks

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

Investment risks

The Telekom Austria Group counters investment risks with measures such as the active management of equity investments through target requirements, coordination processes and, in the event of an acquisition, thorough due diligence and enterprise valuation.

Personnel-related risks

The Telekom Austria Group counters personnel-related risks in various ways. New employees are recruited in part through the ‘A1 Top Talent Competition’ and the ‘A1 Career Apprenticeship’ programmes. Risks of the loss of key employees are counteracted by means of forward-looking succession and career planning. An internal business school assists in the ongoing development of employees’ skills and abilities. The Group-wide satisfaction survey ‘TAGisfaction’ is used to track current sensitivities and developments in the company so as to be able to introduce effective improvement measures if necessary.

Approximately 51% of the workforce in the Austria segment has civil servant status. To address the structure of employee costs, the Austrian segment has not only developed several social plans in cooperation with employee representatives, but also models which enable employees with civil servant status to transfer to government ministries.

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 fault tolerance, and efficient operating and security processes safeguard high standards of quality. Group guidelines guarantee uniform methods for recognising and managing the most important risks to operational processes.

Internal control system for financial reporting

Since delisting from the New York Stock Exchange in 2007, the Telekom Austria Group has retained the internal control system (ICS) for financial reporting as was up until that time required by law (Sarbanes-Oxley Act). The ICS is intended to ensure reasonable assurance regarding the reliability and accuracy of external financial reporting in compliance with international and national standards. Regular internal reporting to Management and the review of the internal control system by Internal Audit also ensure that weaknesses are identified promptly in addition to being reported and eliminated accordingly. The most important content and principles apply to all Telekom Austria Group subsidiaries. Each significant financial transaction has a risk and control matrix to ensure that its financial reporting is correct and complete. The effectiveness of this system is reviewed, analysed and assessed at regular intervals. At the end of each year Management carries out an assessment of the relevant companies with the involvement of the business units. Based on the findings of this assessment and the defined criteria, Management declared the internal control system effective as at 31 December 2013.

Events after the end of the reporting period

On 16 January 2014, América Móvil, S.A.B. de C.V. concluded a conditional share purchase agreement with Inmobiliaria Carso, S.A. de C.V and Control Empresarial de Capitales, S.A. de C.V for a total of 13,901,000 Telekom Austria AG shares, equivalent to 3.14% of the share capital.

Outlook

Telekom Austria Group’s outlook for the year 2014 reflects Management’s confidence in achieving its ambitious targets, even though the overall conditions in most of the Groups markets remain challenging. The continued implementation of the turnaround strategy is expected to yield further results, targeting enhanced profitability and revenue inflection in the midterm. A number of recent developments support the success of this strategy.

Adverse external factors such as macro-economic headwinds, regulatory cuts and severe price pressure, which dominated the business development in 2013, will continue to weigh on revenue trends in 2014. At the same time Management expects an increasingly positive impact from the strategic steps already taken to deal with these external factors.

In its mature markets, Telekom Austria Group will proceed with its focus on the successful implementation of its convergence strategy, as well as on products for the high-value customer segment. Management also remains confident about its ability to monetise increasing data usage in both the fixed-line and mobile networks, and to add value by upgrading prepaid customers to the contract segment. The ongoing trend towards smartphones in all markets of the Telekom Austria Group, as well as penetration and market share growth in the Group’s mobile-only markets, is expected to persist.

Operations in Austria, the domestic market of the Group, will continue to be impacted by low mobile price levels, leading to further ARPU deterioration and fixed-to-mobile substitution. The expected introduction of new services from mobile virtual network operators (MVNOs) entails additional risks. Management seeks to address these challenges through the continuation of its convergence strategy, by means of which the Group offers superior services to its customers and which is expected to support a further stabilisation of the fixed-line business. The recently acquired spectrum adds additional momentum to the anticipated growth in fixed-line and mobile broadband customers. Regulatory cuts such as lower roaming prices and termination rates will continue to burden revenues in Austria.

In the CEE region ongoing macro-economic headwinds will remain a key driver impacting businesses and customer demand. Despite Management's GDP growth expectations of approximately 2.0% in Bulgaria for the year 2014, the population reduction will further burden business development. In Croatia, Management expects stable GDP development, after a decline of 0.7% in 2013. In both countries, regulatory interventions will continue to affect results negatively, with these being most prominently felt in Croatia given that the country became subject to EU regulation through its accession to the European Union in July 2013.

Growth in the Belarusian segment will also be driven by the demand for smartphones in 2014. Management expects the Belarusian Rouble to decline by at least 20% compared to the level seen at year-end 2013, in line with the expected inflation rate. The expected growth in the Additional Markets segment will be mostly driven by an ongoing rise in penetration in the Republic of Serbia as well as by targeted market share gains by the Serbian subsidiary Vip mobile.

In Bulgaria and Slovenia spectrum will come up for sale again in 2014. In Bulgaria existing 900-MHz and 1800-MHz spectrum will be resold in the first half of 2014. In Slovenia a multi-band auction will take place via a combinatorial clock auction format, which is expected to start in March 2014.

In order to mitigate the impact of the above-mentioned negative factors on Group profitability, strict cost management remains key. In line with the continued focus on the high-value customer segment, Management will periodically review its subsidy policy in the mature markets. In addition to OPEX savings, the realisation of further CAPEX efficiency gains is critical, as safeguarding cash flow generation is crucial to the business. Altogether, Management targets gross OPEX and CAPEX savings of approximately EUR 100 million in 2014. The restructuring expense for civil servants in the Austrian segment is expected to amount to approximately EUR 30 million.

Maintaining a conservative financial profile remains the number one priority of Telekom Austria Group's finance strategy. Thus, Telekom Austria Group seeks to return to its target rating of BBB (stable outlook) with Standard & Poor's in the medium term via the use of operational cash flow, and to thus strengthen the financial flexibility of the Group.

Vienna, 13 February 2014

The Management Board

Hannes Ametsreiter, Chairman
of the Management Board,
Telekom Austria Group

Hans Tschuden, Vice Chairman
of the Management Board, CFO,
Telekom Austria Group

Günther Ottendorfer, CTO,
Telekom Austria Group

Consolidated Financial Statements 2013

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

TELEKOM AUSTRIA AG – Consolidated Statements of Profit or Loss

Notes	in TEUR	2013	2012
(4)	Operating revenues	4,183,949	4,329,703
(5)	Other operating income	87,079	82,086
	Materials	−547,302	−474,677
	Employee expenses, including benefits and taxes	−845,872	−833,268
(6)	Other operating expenses	−1,590,496	−1,648,095
	Operating expenses	**−2,983,669**	**−2,956,040**
	EBITDA comparable	**1,287,359**	**1,455,749**
(22)	Restructuring	−45,185	−34,685
(17) (18) (19)	Impairment and reversal of impairment	0	0
	EBITDA incl. effects from restructuring and impairment tests	**1,242,174**	**1,421,064**
(18) (19)	Depreciation and amortisation	−864,606	−963,972
	OPERATING INCOME	**377,568**	**457,093**
(7)	Interest income	16,123	16,937
(7)	Interest expense	−200,853	−232,674
(7)	Foreign exchange differences	−4,278	2,494
(7)	Other financial result	−137	−425
(15)	Result from investments in affiliates	1,697	981
	Financial result	**−187,447**	**−212,687**
	EARNINGS BEFORE TAXES	**190,121**	**244,405**
(30)	Income taxes	−80,421	−140,394
	NET RESULT	**109,700**	**104,011**
	Attributable to:		
	Owners of the parent	86,547	103,869
	Non-controlling interests	60	142
(29)	Hybrid capital holders	23,093	0
(29)	Basic and fully diluted earnings per share	0.20	0.23

See accompanying notes to the consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.
Comparative amounts for 2012 were restated as a result of the amendments to IAS 19.

TELEKOM AUSTRIA AG – Consolidated Statements of Comprehensive Income

Notes	in TEUR	2013	2012
	Net result	**109,700**	104,011
(8) (16)	Unrealised result on securities available-for-sale	19	321
	Income tax (expense) benefit	−5	−80
(7)	Realised result on securities available-for-sale	217	495
	Income tax (expense) benefit	−54	−122
(33)	Unrealised result on hedging activities	448	−27,430
	Income tax (expense) benefit	−112	6,857
(33)	Realised result on hedging activities	3,208	0
	Income tax (expense) benefit	−802	0
(29)	Foreign currency translation adjustment	−4,234	−27,819
	Items that may be reclassified to profit or loss	**−1,315**	**−47,778**
(27)	Re-measurement of defined benefit obligations	1,365	−15,775
	Income tax (expense) benefit	−370	3,924
	Items that are not reclassified to profit or loss	**994**	**−11,850**
	Other comprehensive income (loss)	**−320**	**−59,628**
	Total comprehensive income	**109,380**	**44,383**
	Attributable to:		
	Owners of the parent	86,226	44,241
	Non-controlling interests	61	142
(29)	Hybrid capital holders	23,093	0

See accompanying notes to the consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.
Comparative amounts for 2012 were restated as a result of the amendments to IAS 19.

TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

Notes	in TEUR	31 December 2013	31 December 2012	1 January 2012
	ASSETS			
	Current assets			
	Cash and cash equivalents	201,334	600,763	459,952
(8)	Short-term investments	9,882	85,123	165,972
(9)	Accounts receivable – trade, net of allowances	683,843	751,102	758,939
(10)	Receivables due from related parties	58	7	85
(11)	Inventories	127,273	152,942	157,706
(12)	Prepaid expenses	101,684	106,692	101,010
(30)	Income tax receivable	22,162	21,140	40,633
(13)	Non-current assets held for sale	962	881	134
(14)	Other current assets	73,995	90,602	67,015
	Total current assets	**1,221,193**	**1,809,252**	**1,751,446**
	Non-current assets			
(15)	Investments in associates	4,979	3,661	3,699
(16)	Financial assets long-term	5,247	7,872	13,897
(17)	Goodwill	1,581,906	1,289,501	1,289,714
(18)	Other intangible assets, net	2,590,269	1,522,577	1,619,339
(19)	Property, plant and equipment, net	2,308,127	2,426,436	2,462,174
(20)	Other non-current assets	25,243	30,767	34,521
(30)	Deferred tax assets	123,006	167,083	275,676
(10)	Receivables due from related parties, long-term finance	0	0	106
	Total non-current assets	**6,638,779**	**5,447,896**	**5,699,126**
	TOTAL ASSETS	**7,859,972**	**7,257,148**	**7,450,572**
	LIABILITIES AND STOCKHOLDERS' EQUITY			
	Current liabilities			
(21)	Short-term borrowings	–230,284	–1,049,424	–1,014,185
(23)	Accounts payable – trade	–573,836	–590,783	–684,025
(22)	Current provisions and accrued liabilities	–301,369	–301,789	–311,573
(10)	Payables due to related parties	–5,891	–7,775	–9,816
(30)	Income tax payable	–34,658	–37,158	–41,259
(23)	Other current liabilities	–137,098	–171,454	–184,642
(24)	Deferred income	–159,134	–163,710	–166,517
	Total current liabilities	**–1,442,271**	**–2,322,093**	**–2,412,018**
	Non-current liabilities			
(25)	Long-term debt	–3,737,702	–2,831,983	–2,935,053
(27)	Employee benefit obligations	–164,332	–161,642	–136,187
(22)	Non-current provisions	–881,355	–923,146	–888,208
(30)	Deferred tax liabilities	–105,264	–115,176	–127,250
(28)	Other non-current liabilities and deferred income	–16,441	–84,014	–74,178
	Total non-current liabilities	**–4,905,094**	**–4,115,961**	**–4,160,878**
	Stockholders' equity			
(29)	Common stock	–966,183	–966,183	–966,183
(29)	Treasury shares	7,803	8,196	8,196
(29)	Additional paid-in capital	–582,618	–582,896	–582,896
(29)	Hybrid capital	–591,186	0	0
(29)	Retained earnings	132,638	236,128	225,206
(29)	Available-for-sale reserve	15	191	805
(29)	Hedging reserve	45,717	48,459	27,887
(29)	Translation adjustments	442,296	438,062	410,243
	Equity attributable to equity holders of the parent	**–1,511,518**	**–818,042**	**–876,743**
	Non-controlling interests	–1,089	–1,052	–934
	TOTAL STOCKHOLDERS' EQUITY	**–1,512,607**	**–819,094**	**–877,677**
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**–7,859,972**	**–7,257,148**	**–7,450,572**

See accompanying notes to the consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.
Comparative amounts for 2012 were restated as a result of the amendments to IAS 19.

TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows

Notes	in TEUR	2013	2012
	Net result	109,700	104,011
	Adjustments to reconcile net result to cash flow		
(18) (19)	Depreciation and amortisation	864,606	963,972
(27)	Employee benefit obligation – non-cash	11,861	16,504
(6)	Bad debt expenses	37,985	49,885
(30)	Change in deferred taxes	29,877	97,217
(15)	Result from investments in affiliates	−1,419	−981
(31)	Share-based compensation	−378	15
(22)	Change in asset retirement obligation – non-cash	7,839	8,357
(22)	Provision for restructuring – non-cash	54,836	63,497
(7)	Result on sale of investments	218	495
(6)	Result on disposal/retirement of equipment	8,538	4,330
(7)	Gain on monetary items – non cash	−1,062	−4,112
(32)	Other	14,615	−7,286
	Gross cash flow	**1,137,217**	**1,295,903**
(9)	Accounts receivable – trade	36,311	−43,758
(10)	Receivables due from related parties	−72	15
(11)	Inventories	25,878	6,677
(12) (14)	Prepaid expenses and other assets	1,189	−8,784
(23)	Accounts payable – trade	−28,708	−94,334
(27)	Employee benefit obligation	−7,902	−6,554
(22)	Provisions and accrued liabilities	−92,513	−97,751
(23) (24)	Other liabilities and deferred income	−18,013	−1,452
(10)	Payables due to related parties	−1,822	−2,041
	Changes in assets and liabilities	**−85,652**	**−247,981**
	Cash flow from operating activities	**1,051,564**	**1,047,922**
(18) (19)	Capital expenditures	−1,779,085	−728,223
(2) (15)	Acquisitions of subsidiaries, net of cash acquired	−330,932	−44
(2) (15)	Sale of subsidiaries, net of cash disposed	−25	1,080
(18) (19)	Sale of property, plant, equipment, intangible assets	10,772	5,672
(8) (16)	Purchase of investments	−564,155	−766,737
(8) (16)	Proceeds from sale of investments	642,057	851,964
	Cash flow from investing activities	**−2,021,368**	**−636,288**
(25)	Proceeds from issuance of long-term debt	1,040,274	838,425
(25)	Principal payments on long-term debt	−932,223	−918,909
(21)	Change in short-term borrowings	−10,126	13,842
(29)	Issuance of hybrid bond	588,248	0
(29)	Dividends paid	−22,152	−168,198
(33)	Settlement of derivative financial instruments	−65,142	0
(2)	Deferred consideration paid for business combinations	−29,323	−34,727
	Cash flow from financing activities	**569,555**	**−269,566**
	Effect of exchange rate changes	1,803	−49
	Monetary loss on cash and cash equivalents	**−983**	**−1,208**
	Change in cash and cash equivalents	**−399,429**	**140,811**
	Cash and cash equivalents at beginning of the year	600,763	459,952
	Cash and cash equivalents at end of the year	201,334	600,763

See accompanying notes to the consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.
Comparative amounts for 2012 were restated as a result of the amendments to IAS 19.

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 2012	966,183	−8,196	582,896	0	−225,206
Net result	0	0	0	0	103,869
Other comprehensive income (loss)	0	0	0	0	−11,850
Total comprehensive income	0	0	0	0	92,019
Distribution of dividends	0	0	0	0	−168,174
Hyperinflation adjustment	0	0	0	0	65,233
At 31 December 2012	**966,183**	**−8,196**	**582,896**	**0**	**−236,128**
Net result	0	0	0	0	109,641
Other comprehensive income (loss)	0	0	0	0	993
Total comprehensive income	**0**	**0**	**0**	**0**	**110,634**
Distribution of dividends	0	0	0	0	−14,430
Hyperinflation adjustment	0	0	0	0	7,286
Issuance of hybrid capital	0	0	0	591,186	0
Issuance of treasury shares	0	392	−278	0	0
At 31 December 2013	**966,183**	**−7,803**	**582,618**	**591,186**	**−132,638**

See accompanying notes to the consolidated financial statements.
The use of automated calculation systems may give rise to rounding differences.
In 2013, the tax benefit resulting from the accrued interest attributable to hybrid capital holders is included in the distribution of dividends (see Note (29)).
Comparative amounts for 2012 were restated as a result of the amendments to IAS 19.

Available-for-sale reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
−805	−27,887	−410,243	876,743	934	877,677
0	0	0	103,869	142	104,011
613	−20,572	−27,819	−59,628	0	−59,628
613	−20,572	−27,819	44,241	142	44,383
0	0	0	−168,174	−24	−168,198
0	0	0	65,233	0	65,233
−191	**−48,459**	**−438,062**	**818,042**	**1,052**	**819,094**
0	0	0	109,641	60	109,700
177	2,742	−4,234	−321	1	−320
177	**2,742**	**−4,234**	**109,319**	**61**	**109,380**
0	0	0	−14,430	−24	−14,454
0	0	0	7,286	0	7,286
0	0	0	591,186	0	591,186
0	0	0	114	0	114
−15	**−45,717**	**−442,296**	**1,511,518**	**1,089**	**1,512,607**

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

2013 (in TEUR)	Austria	Bulgaria	Croatia
External revenues	2,637,497	395,720	377,487
Intersegment revenues	21,081	3,729	11,708
Total revenues	**2,658,578**	**399,449**	**389,194**
Other operating income	87,501	11,897	5,834
Segment expenses	−2,000,792	−252,754	−277,389
EBITDA comparable	**745,287**	**158,592**	**117,640**
Restructuring	−45,185	0	0
Impairment and reversal of impairment	0	0	0
EBITDA incl. effects from restructuring and impairment tests	**700,102**	**158,592**	**117,640**
Depreciation and amortisation	−516,059	−94,587	−65,836
Operating income	**184,043**	**64,005**	**51,803**
Interest income	2,411	1,054	916
Interest expense	−38,972	−2,766	−10,999
Equity in earnings of affiliates	1,697	0	0
Other financial income	−527	−58	−2,116
Earnings before income taxes	**148,652**	**62,235**	**39,604**
Income taxes			
Net result			
Segment assets	4,926,958	1,282,159	544,657
Segment liabilities	−2,695,242	−146,488	−366,134
Capex other intangible assets	1,203,488	22,550	30,850
Capex property, plant and equipment	306,327	37,616	51,532
Total capital expenditures	1,509,815	60,165	82,382
Cost to acquire property, plant, equipment and intangible assets	1,515,020	60,270	82,747
Other non-cash items	96,006	4,766	4,419
EBITDA comparable margin	28.0%	39.7%	30.2%

2012 (in TEUR)	Austria	Bulgaria	Croatia
External revenues	2,763,741	448,316	405,380
Intersegment revenues	23,394	20,752	15,005
Total revenues	**2,787,134**	**469,068**	**420,385**
Other operating income	90,067	7,181	1,997
Segment expenses	−1,974,033	−268,828	−285,784
EBITDA comparable	**903,169**	**207,421**	**136,598**
Restructuring	−34,685	0	0
Impairment and reversal of impairment	0	0	0
EBITDA incl. effects from restructuring and impairment tests	**868,484**	**207,421**	**136,598**
Depreciation and amortisation	−554,526	−152,200	−67,167
Operating income	**313,958**	**55,221**	**69,431**
Interest income	4,554	1,172	1,846
Interest expense	−61,692	−6,358	−6,922
Equity in earnings of affiliates	981	0	0
Other financial income	−938	−110	−1,207
Earnings before income taxes	**256,862**	**49,925**	**63,148**
Income taxes			
Net result			
Segment assets	3,915,941	1,326,843	532,911
Segment liabilities	−2,182,606	−197,692	−331,851
Capex other intangible assets	94,634	20,514	27,758
Capex property, plant and equipment	353,605	48,335	51,061
Total capital expenditures	448,238	68,849	78,819
Cost to acquire property, plant, equipment and intangible assets	510,184	70,557	79,288
Other non-cash items	109,365	7,703	5,284
EBITDA comparable margin	32.4%	44.2%	32.5%

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

	Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
	331,676	441,569	0	0	4,183,949
	55	11,918	0	−48,490	0
	331,731	**453,487**	**0**	**−48,490**	**4,183,949**
	4,866	12,359	23,908	−59,288	87,079
	−180,712	−327,353	−52,371	107,703	−2,983,669
	155,886	**138,493**	**−28,463**	**−75**	**1,287,359**
	0	0	0	0	−45,185
	0	0	0	0	0
	155,886	**138,493**	**−28,463**	**−75**	**1,242,174**
	−84,332	−104,679	0	887	−864,606
	71,554	**33,814**	**−28,463**	**812**	**377,568**
	8,160	800	21,602	−18,820	16,123
	−1,823	−768	−164,349	18,822	−200,853
	0	0	0	0	1,697
	810	−135	326,308	−328,696	−4,415
	78,702	**33,711**	**155,099**	**−327,882**	**190,121**
					−80,421
					109,700
	572,539	751,667	7,723,350	−7,941,357	7,859,972
	−58,261	−126,911	−4,435,668	1,481,339	−6,347,365
	5,158	30,046	0	0	1,292,093
	28,813	62,706	0	0	486,993
	33,971	92,752	0	0	1,779,085
	34,152	95,543	0	0	1,787,731
	7,854	5,414	5,817	0	124,277
	47.0%	30.5%	n.a.	n.a.	30.8%

	Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
	301,174	411,093	0	0	4,329,703
	61	15,510	0	−74,721	0
	301,235	**426,603**	**0**	**−74,721**	**4,329,703**
	4,339	7,766	23,512	−52,776	82,086
	−181,203	−317,087	−56,717	127,611	−2,956,040
	124,370	**117,282**	**−33,205**	**114**	**1,455,749**
	0	0	0	0	−34,685
	0	0	0	0	0
	124,370	**117,282**	**−33,205**	**114**	**1,421,064**
	−94,905	−100,278	0	5,104	−963,972
	29,465	**17,004**	**−33,205**	**5,217**	**457,093**
	3,801	630	34,810	−29,876	16,937
	−2,264	−1,039	−184,370	29,972	−232,674
	0	0	0	0	981
	5,055	−271	376,093	−376,553	2,069
	36,056	**16,325**	**193,328**	**−371,240**	**244,405**
					−140,394
					104,011
	598,204	805,513	7,221,944	−7,149,815	7,257,148
	−52,909	−179,550	−4,661,795	1,168,333	−6,438,054
	15,544	19,329	0	−241	177,537
	28,189	69,495	0	0	550,686
	43,733	88,824	0	−241	728,223
	43,962	91,298	0	−241	795,048
	−3,801	5,804	1,834	0	126,189
	41.3%	27.5%	n.a.	n.a.	33.6%

Table of Other Intangible Assets

in TEUR	Licenses	Brand names	Software	Customer base	Advances/ construction in progress	Other	Total
Cost							
At 1 January 2012	1,034,268	538,060	1,080,556	1,082,075	54,914	236,077	4,025,949
Hyperinflation adjustment	12,220	13,447	8,442	47,886	383	584	82,962
Additions	5,099	0	76,631	48	88,147	7,611	177,537
Disposals	−144	−1,612	−153,081	−30,757	−242	−37,431	−223,266
Transfers	9,609	0	83,341	2	−66,376	−19,419	7,157
Translation adjustment	−19,970	−75	−1,975	−166	−196	−4,839	−27,220
At 31 December 2012	**1,041,083**	**549,820**	**1,093,913**	**1,099,088**	**76,630**	**182,584**	**4,043,118**
Hyperinflation adjustment	974	967	629	3,444	60	42	6,117
Additions	75,893	10,000	98,719	333	1,088,052	19,095	1,292,093
Disposals	−95	0	−51,763	−22,682	−61	−20,254	−94,854
Transfers	19,792	0	67,879	0	−82,498	810	5,983
Translation adjustment	−2,329	−295	−941	−566	−109	−707	−4,947
Changes in reporting entities	0	12,950	−3,024	42,168	0	6,695	58,788
At 31 December 2013	**1,135,319**	**573,442**	**1,205,413**	**1,121,786**	**1,082,074**	**188,264**	**5,306,298**
Accumulated amortisation and impairment							
At 1 January 2012	−621,223	−26,744	−762,175	−827,907	0	−168,562	−2,406,610
Hyperinflation adjustment	−3,297	0	−6,590	−22,613	0	−536	−33,036
Additions	−47,955	−2,368	−159,724	−84,961	0	−17,737	−312,745
Disposals	144	1,612	152,532	30,757	0	36,960	222,004
Transfers	0	0	−17,915	0	0	17,413	−502
Translation adjustment	4,582	6	1,300	103	0	4,357	10,348
At 31 December 2012	**−667,750**	**−27,493**	**−792,572**	**−904,621**	**0**	**−128,105**	**−2,520,541**
Hyperinflation adjustment	−295	0	−534	−2,010	0	−40	−2,878
Additions	−54,391	−5,753	−152,119	−53,699	0	−16,548	−282,510
Disposals	95	0	51,164	22,682	0	12,897	86,837
Transfers	0	0	−118	0	0	1,090	972
Translation adjustment	776	20	764	341	0	592	2,493
Changes in reporting entities	0	0	1,462	0	0	−1,863	−401
At 31 December 2013	**−721,564**	**−33,227**	**−891,954**	**−937,306**	**0**	**−131,977**	**−2,716,029**
Carrying amount at							
31 December 2013	413,755	540,215	313,459	184,479	1,082,074	56,287	2,590,269
31 December 2012	373,333	522,327	301,341	194,467	76,630	54,479	1,522,577

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

Table of Property, Plant and Equipment

in TEUR	Land, buildings & leasehold improvements	Communications network and other equipment	Finance leases	Advances/ construction in progress	Total
Cost					
At 1 January 2012	869,559	11,120,892	390	194,008	12,184,850
Hyperinflation adjustment	5,442	60,282	0	3,851	69,575
Additions	30,088	448,723	0	138,700	617,512
Disposals	–16,978	–1,296,597	0	–1,158	–1,314,732
Transfers	5,057	165,635	0	–180,744	–10,052
Translation adjustment	–626	–18,039	0	–1,238	–19,903
At 31 December 2012	**892,542**	**10,480,897**	**390**	**153,421**	**11,527,250**
Hyperinflation adjustment	393	3,702	0	204	4,299
Additions	13,515	365,467	0	116,657	495,639
Disposals	–8,938	–773,756	–390	–2,309	–785,394
Transfers	4,926	113,680	0	–126,982	–8,376
Translation adjustment	–673	–8,559	0	–272	–9,504
Changes in reporting entities	81	11,627	0	0	11,708
At 31 December 2013	**901,845**	**10,193,058**	**0**	**140,719**	**11,235,622**
Accumulated depreciation and impairment					
At 1 January 2012	–554,788	–9,167,684	–204	0	–9,722,676
Hyperinflation adjustment	–331	–36,891	0	0	–37,221
Additions	–35,534	–615,653	–40	0	–651,227
Disposals	14,999	1,284,069	0	0	1,299,068
Transfers	1,964	640	0	0	2,604
Translation adjustment	333	8,306	0	0	8,639
At 31 December 2012	**–573,357**	**–8,527,213**	**–244**	**0**	**–9,100,814**
Hyperinflation adjustment	–36	–2,631	0	0	–2,667
Additions	–33,255	–548,810	–30	0	–582,095
Disposals	7,742	748,824	274	0	756,840
Transfers	1,985	–914	0	0	1,071
Translation adjustment	272	6,242	0	0	6,514
Changes in reporting entities	–13	–6,329	0	0	–6,343
At 31 December 2013	**–596,664**	**–8,330,831**	**0**	**0**	**–8,927,495**
Carrying amount at					
31 December 2013	305,182	1,862,226	0	140,719	2,308,127
31 December 2012	319,185	1,953,684	146	153,421	2,426,436

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

(1) The Company and Significant Accounting Policies

Description of business and relationship with the Federal Republic of Austria

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

The Federal Republic of Austria, through Österreichische Industrieholding AG ("ÖIAG"), is a significant shareholder of Telekom Austria Group. ÖIAG's stake in Telekom Austria Group is disclosed in Note (29).

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

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

Basis of presentation

Telekom Austria Group prepared the accompanying consolidated financial statements as of 31 December 2013 in compliance with the provisions of 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 2013 and as endorsed by the European Union.

The following amendments to and revisions of existing IFRS as well as new IFRS and IFRIC are effective as of 1 January 2013.

IAS 1	Presentation of Financial Statements (amended)
IAS 19	Employee Benefits (amended)
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities (amended)
IFRS 13	Fair Value Measurement
IFRS 1	Government Loans (amended)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
IFRS 2009–2011	Amendments as a Result of Improvements Project 2009 – 2011

The IASB issued the following standards and interpretations, which are not yet effective for the financial year 2013, but were early adopted by Telekom Austria Group as of 1 January 2013.

		Effective*	Effective**
IAS 27	Separate Financial Statements (amended)	1 January 2013	1 January 2014
IAS 28	Investments in Associates and Joint Ventures (amended)	1 January 2013	1 January 2014
IFRS 10	Consolidation	1 January 2013	1 January 2014
IFRS 11	Joint Arrangements	1 January 2013	1 January 2014
IFRS 12	Disclosures of Interests in Other Entities	1 January 2013	1 January 2014
IFRS 10–12	Transition Guidance – Amendments to IFRS 10–12	1 January 2013	1 January 2014

* 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).

The initial application of the IFRS and IFRIC listed above resulted in the following changes compared to 31 December 2012.

IAS 19 Employee Benefits (amended): The most significant change relates to the accounting for changes of the defined benefit obligations and plan assets. As Telekom Austria Group does not have any plan assets, the changed recognition relates to the defined benefit obligations in the financial statements only. The "corridor approach" is no longer permitted, all actuarial gains or losses have to be recognised immediately in other comprehensive income. The amendments to IAS 19 require retrospective application. Therefore, the consolidated statement of profit or loss of 2012 was adjusted for actuarial losses of TEUR 310 less corresponding deferred taxes of TEUR 78. Employee benefit obligations at 31 December 2012 and 1 January 2012 were increased by accumulated unrecognised actuarial losses of TEUR 22,676 and TEUR 7,211, respectively. Corresponding deferred tax assets were adjusted by TEUR 5,608 and TEUR 1,768 and deferred tax liabilities were adjusted by TEUR 16 and TEUR 9, respectively. Retained earnings were reduced by the net effect of the accumulated unrecognised actuarial losses.

in TEUR	Retained earnings
Balance at 1 January 2013 as previously reported	–219,076
Impact of changes in accounting policy IAS 19	–17,052
Balance at 1 January 2013 adjusted	–236,128
Balance at 1 January 2012 as previously reported	–219,772
Impact of changes in accounting policy IAS 19	–5,434
Balance at 1 January 2012 adjusted	–225,206

IAS 1 Presentation of Financial Statements (amended): The amendments to IAS 1 rename the "statement of comprehensive income" to "statement of profit or loss and other comprehensive income". An entity may use titles other than those used in the Standard. Telekom Austria Group maintains the name statement of comprehensive income. Items of other comprehensive income have to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss, or (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income shall be allocated on the same basis.

The initial application of the other standards (IAS, IFRS) and interpretations (IFRIC) mentioned above had an insignificant impact on the consolidated financial statements since the amendments and revisions were not fully applicable.

The following standards and interpretations were issued by the IASB, but were not effective for the financial year 2013. Telekom Austria Group has not early adopted these standards and interpretations and is currently evaluating their impact on its consolidated financial statements and disclosures.

		Effective *	Effective **
IFRS 9	Financial Instruments	1 January 2015	not endorsed
IAS 32	Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32	1 January 2014	1 January 2014
IFRS 10, 12; IAS 27	Investment Entities – Amendments to IFRS 10, 12 and IAS 27	1 January 2014	1 January 2014
IAS 36	Amendment IAS 36 Recoverable Amount Disclosures	1 January 2014	1 January 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1 January 2014
IFRIC 21	Levies	1 January 2014	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).

Principles of consolidation

The consolidated financial statements of Telekom Austria Group include 25 (2012: 26) subsidiaries in Austria and 31 (2012: 33) subsidiaries abroad in which Telekom Austria Group has 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 on which 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 interest may be measured at fair value (full-goodwill method). Goodwill is not adjusted for subsequent changes in the estimated purchase price. If the fair value of the assets acquired exceeds the consideration transferred, the resulting gain is recognised in profit and loss. Transaction costs are expensed as incurred. In case of an acquisition achieved in stages, the previously held interest is restated at fair value and any resulting difference is recognised in profit or loss. All transactions with non-controlling interests holders are directly recognised in stockholder's equity. In the course of purchase price allocations, fair values of assets and liabilities acquired are determined based on state of the art discounted cash-flow methods. The input factors used are categorised as Level 3 of the fair value hierarchy defined by IFRS 13.

Investments in companies in which Telekom Austria Group has significant influence, but no control of the investee, are accounted for using the equity method. The consolidated financial statements include one investment (2012: two) accounted for using the equity method. Under the equity method, only Telekom Austria Group's investments in as well as receivables due from and liabilities due to these equity investees are included in the consolidated statements of financial position. Telekom Austria Group's share of the investee's earnings is included in the consolidated statements of profit or loss. In the consolidated statements of cash flows only dividends, loans or cash received from or paid to the investee are included.

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

The subsidiaries included in the consolidated financial statements are listed in Note (38).

Foreign currency translation

The consolidated financial statements of Telekom Austria Group are expressed in thousand Euros ("TEUR").

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

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

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

	Exchange rates at 31 December		Average exchange rates for the period ended 31 December	
	2013	2012	2013	2012
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.6265	7.5575	7.5787	7.5214
Czech Koruna (CZK)	27.4270	25.1510	25.9734	25.1445
Hungarian Forint (HUF)	297.0400	292.3000	296.9530	289.2950
Serbian Dinar (CSD)	114.6421	113.7183	113.0943	113.0237
Swiss Franc (CHF)	1.2276	1.2072	1.2308	1.2052
Rumanian Leu (RON)	4.4710	4.4445	4.4190	4.4583
Turkish Lira (TRY)	2.9605	2.3551	2.5311	2.3141
Macedonian Denar (MKD)	61.5113	61.5050	61.5826	61.5305
Belarusian Ruble (BYR)*	13,080.0000	11,340.0000	13,080.0000	11,340.0000
US Dollar (USD)	1.3791	1.3194	1.3278	1.2852

*Year-end rates are used for the translation of revenues and expenses as IAS 29 "Financial Reporting in Hyperinflationary Economies" is applied.

Financial reporting in hyperinflationary economies

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

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

Years	Inflation in %
2008	13.4
2009	9.8
2010	10.1
2011	108.7
2012	21.8
2013	16.5

Monthly inflation in %	2013	2012
January	3.0	1.9
February	1.2	1.5
March	1.1	1.5
April	0.5	1.7
May	0.7	1.6
June	0.3	1.8
July	1.0	1.3
August	0.1	2.3
September	1.7	1.3
October	1.9	1.8
November	1.6	1.7
December	2.3	1.4

Assets and liabilities as well as the revenues and expenses of these foreign subsidiaries are translated using the year-end exchange rates for the purpose of consolidation.

Format of the consolidated statements of profit or loss

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

Revenue recognition

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

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

Fixed-line services include access fees, domestic and long distance services including internet, fixed-to-mobile calls, international traffic, voice value-added services, interconnection, call centre services 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 contingent revenue.

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

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

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

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

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

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

Certain prepaid services are billed in advance resulting in deferred revenues. These fees are deferred and recognised over the period the service is provided. Cash discounts and rebates are accounted for as a reduction in revenues when granted. Customer acquisition costs are recognised pro-rata over the contract period as marketing expenses when a service contract exists.

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

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

Research and development costs

In accordance with IAS 38, research costs, defined as costs of original and planned research performed to gain new scientific or technical knowledge and understanding, are expensed as incurred. Development costs are defined as costs incurred to achieve technical and commercial feasibility. If development costs cannot be separated from research costs or do not meet the relevant recognition criteria, the development costs as well as research costs are expensed as incurred according to IAS 38. In 2013 and 2012, research and development expenses of TEUR 18,301 and TEUR 18,000, respectively, are recognised based on their origination as employee expenses, depreciation and amortisation as well as other operating expenses in the consolidated statements of profit or loss. For information on the capitalisation of internally developed software, see Note (18).

Interest, royalties and dividends

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

Earnings per share
Basic and diluted earnings per share are calculated by dividing the net income or loss by the weighted average number of common shares outstanding for the year. The Management Board determined to settle all shares granted in the course of the long-term incentive program in cash. Thus, no related dilutive effect has been considered in 2013 and 2012 for current share-based compensation plans.

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

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

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

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

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

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

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

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

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

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

Assets held for sale

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

Goodwill and other intangible assets

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

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

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

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be 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. A cash-generating unit 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 cash flows of the cash-generating unit based on the business plans, which are prepared for periods of four years and which are based on past performance and Management's best estimates of future developments taking into account current results and current internal expectations backed by external market data and estimates. Significant assumptions to determine the value in use comprise the development of sales, cost drivers, capital expenditure, growth rate and discount rate.

The growth rates in the business plans reflect the weighted average growth rates based on market estimates. Estimated cash flows for the subsequent five to nine years are determined taking into consideration the expected market conditions and the individual market positioning of the cash-generating unit. Taking into account these estimates, the present value of the perpetual annuity is calculated based on a constant growth rate. Discount rates are determined using market data while at the same time taking into account the risks that the cash generating units are exposed to. Future changes to these estimates can have a substantial impact on the value in use of cash generating units.

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. The impairment loss shall first be allocated to the carrying amount of any goodwill allocated to the cash-generating unit, and then to the other assets of the cash-generating unit pro rata on the basis of the carrying amount of each asset in the cash-generating unit, provided that the recoverable amount is less than the carrying amount of the cash-generating unit. These reductions in the carrying amounts represent impairment losses on individual assets.

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

	Years
Mobile communications and fixed net licenses	3–30
Patents and proprietary rights	1–30
Subscriber base	2–13
Software	1–10
Other	2–30

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

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

Internally developed software

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

Property, plant and equipment

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

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

The useful lives are:

	Years
Transmission equipment	5–10
Cables and wires	15–20
Communications equipment	5–10
Furniture, fixtures and other	1–10
Buildings and leasehold improvements	1–50

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

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset.

Government grants

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

Impairment of property, plant and equipment and intangible assets

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

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

Financial liabilities

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

Other liabilities

Other liabilities are carried at amortised cost.

Provisions

A provision is recorded when an obligation to a third party exists, the payment is probable and the amount can be reasonably estimated. Long-term provisions relating to personnel and social costs, restructuring provisions and asset retirement obligation are recorded at their net present value. Provisions for restructuring contain onerous contracts in accordance with IAS 37 as well as provisions for social plans in accordance with IAS 19.

Leases

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

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

Employee benefit obligations

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

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

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 compensation increase, rate of employee turnover and rate of increase in pensions.

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

According to IAS 19.133, entities may distinguish between current and non-current assets and liabilities arising from employee benefit obligations. Telekom Austria Group applies this distinction in its financial statements.

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 is 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 and loss. Changes in the measurement of these liabilities resulting from changes in the estimated timing or amount of the outflow of resources or changes in the discount rate shall be added or deducted from the cost of the assets in the current period. The amount deducted from the asset shall not exceed its carrying amount. A possible exceeding amount is reported in the consolidated statements of profit or loss. If the adjustment results in an addition to the asset, it shall be considered whether there is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset shall be tested for impairment and any impairment losses shall be recorded.

Income taxes

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

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

Share-based payments

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

Financial instruments

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

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

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

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

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

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

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.

Derivative financial instruments

In accordance with IAS 39, Telekom Austria Group recognises all derivative financial instruments as assets or liabilities in the statements of financial position, and measures all at fair value, regardless of Telekom Austria Group's intent. Changes in the fair value of derivative instruments designated as hedging instruments are recognised in profit or loss or in other comprehensive income (as hedging reserve). For derivatives designated as fair value hedges, changes in the fair value of the hedged item and the derivative are recognised in profit or loss. For derivatives designated as a cash flow hedge, changes in the fair value of the effective portion of the hedging instrument are recognised in other comprehensive income (hedging reserve) until the hedged item is realised and recognised in profit or loss.

The ineffective portion of the fair value changes of derivatives designated as cash flow hedges and the fair value changes of derivatives which do not qualify for hedge accounting are recognised in profit or loss immediately.

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 its key accounts on an ongoing basis.

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

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

Use of estimates

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

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

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

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

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

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

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

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

(2) Business Combinations

On 2 February 2012, Telekom Austria AG and A1 Telekom Austria AG agreed to acquire assets of up to TEUR 390,000 from Orange Austria Telecommunication GmbH ("Orange Austria"). The acquisitions include following assets:

- the mobile phone operator YESSS! Telekommunikation GmbH ("YESSS!"), which was conditional to merger control approval (by Telekom Austria AG).
- a company into which base stations of Orange Austria had been demerged (by Telekom Austria AG).
- 2 x 13.2 MHz frequencies in 900 MHz, 2,100 MHz and 2,600 MHz frequency ranges (by A1 Telekom Austria AG).
- collocation rights relating to base stations (by A1 Telekom Austria AG).
- specific intellectual property rights including the brand "ONE" (by A1 Telekom Austria AG).

On 3 January 2013, Telekom Austria AG acquired 100% of the mobile phone operator YESSS! for a total consideration of TEUR 339,500. The acquisition enables Telekom Austria Group to enlarge its customer base and to expand its market portfolio by integrating the mobile phone operator YESSS! into the segment Austria. The factors contributing to the goodwill of TEUR 292,110 are expected future earnings from the positive development of the market share (including increase in customer benefit by usage of the A1 network), know-how concerning no-frills and expected synergies in cost, especially by using the A1 network. TEUR 158,532 of the acquisition costs are, as expected, deductible for tax purposes in the course of group taxation. YESSS! was merged into A1 Telekom Austria AG, which had no impact on the consolidated financial statements.

On 17 June 2013, Telekom Austria AG acquired 100% of SOBS Base Stations GmbH ("SOBS"), the company into which the base stations of Orange Austria had been demerged, for a total consideration of TEUR 3,920, which equals net identifiable assets and liabilities. As of 31 December 2013, TEUR 2,016 of the consideration were paid in cash. SOBS was merged into A1 Telekom Austria AG, which had no impact on the consolidated financial statements.

Acquisition-related costs recognised in other operating expense amounted to TEUR 4,371. The following table shows the fair values of the assets acquired and liabilities assumed on the acquisition date.

Acquisition of YESSS! and SOBS in TEUR	Fair values on acquisition date
Property, plant and equipment	4,244
Intangible assets	58,096
Other assets and receivables	6,335
Cash and cash equivalents	14,822
Deferred tax liabilities	–14,458
Accounts payable – trade and other liabilities	–17,729
Net assets acquired	**51,310**
Goodwill	292,110
Consideration transferred	**343,420**
Purchase price not yet paid	–1,904
Cash and cash equivalents acquired	–14,822
Net cash outflow	326,694

The following acquisitions of separate assets from Orange Austria, which do not qualify as a business combination, are not included in the above table: In January, March, September and November 2013, A1 Telekom Austria AG acquired intellectual property rights and part of the frequencies from Orange Austria for a total consideration of TEUR 46,173. Additionally, on 17 June 2013, A1 Telekom Austria AG closed the collocation agreement for a purchase price of TEUR 13,969. By acquiring base stations and frequencies, the existing geographical allotment of frequencies, especially in rural areas, can be extended and network quality can be improved. The last payment of the total consideration relating to the acquisition of frequencies amounting to TEUR 5,000 was effected in January 2014.

In the segment Croatia, the following companies were acquired in 2013:

On 6 March 2013, 100% of DIGI satelitska televizija d.o.o ("Digi TV"), a provider of satellite television services, were acquired for a total consideration of TEUR 929. With this acquisition, Vipnet reinforces the preconditions of convergent communications and TV services to be able to offer complete communication solutions. The gain resulting from the bargain purchase of TEUR 1,077 is recognised in other operating income and is mainly due to deferred tax assets on loss carry-forwards.

On 4 June 2013, 100% of Optika Kabel Infrastruktura d.o.o. ("OKI") were acquired for a total consideration of TEUR 942. Goodwill of TEUR 174 was recognised.

On 10 July 2013, 100% of Metronet Home d.o.o. ("Metronet") were acquired for a total consideration of TEUR 1,165. The gain resulting from the bargain purchase of TEUR 199 was recognised in other operating income.

On 15 July 2013, 100% of Kabelska Televizija Sibenik d.o.o. ("KTS") were acquired for a total consideration of TEUR 418. Goodwill of TEUR 258 was recognised.

On 16 September 2013, 100% of Istarska Kabelska d.o.o. ("Istarska") were acquired for a total consideration of TEUR 816. Goodwill of TEUR 706 was recognised.

The acquisitions of the local cable network providers enable Vipnet to offer further convergent solutions in the fixed net business. The factors contributing to the goodwills recognised are expected earnings from the future development of the customer base.

Acquisition-related costs for the acquisitions in the segment Croatia recognised in other operating expense amount to TEUR 137. In 2013, the newly acquired subsidiaries as well as B.net, which was acquired in 2011, were merged into Vipnet, which had no impact on the consolidated financial statements. The following table shows the fair values of the assets acquired and liabilities assumed on the acquisition date.

Acquisition of Metronet, KTS, OKI, Istarska and Digi TV in TEUR	Fair values on acquisition date
Property, plant and equipment	1,188
Intangible assets	1,857
Deferred tax assets	1,588
Other assets and receivables	355
Cash and cash equivalents	33
Deferred tax liabilities	−244
Accounts payable – trade and other liabilities	−369
Net assets acquired	**4,408**
Goodwill	1,139
Gain resulting from bargain purchase	−1,276
Consideration transferred	**4,270**
Cash and cash equivalents acquired	−33
Net cash outflow	4,237

As the acquired entities were merged in 2013, no pro-forma information could be presented.

On 26 February 2013, the remaining deferred consideration for the acquisition of SB Telecom Limited (SBT), the sole owner of FE VELCOM ("velcom"), in the amount of TEUR 29,323 was paid, as the predetermined performance criteria agreed at the date of acquisition in 2007 had been fulfilled. As of 31 December 2012, this consideration was recorded in other current liabilities (see Note (23)).

On 20 June 2013, 100% of Airwin Entertainment GmbH, which was reported in the segment Austria, were sold resulting in a loss of TEUR 2,280 which was recognised in other operating expenses.

(3) Operating Segments

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

Telekom Austria Group has aligned its management structure and the resulting segment reporting due to the demand for convergent products. As a result, operating segments are based on geographical markets. Telekom Austria Group reports separately on its five operating segments: Austria, Bulgaria, Croatia, Belarus and Additional Markets. The "Extended Board", which regularly convenes in Extended Board Meetings, is Telekom Austria Group's chief operating decision maker. It consists of the Management Board (Group CEO, Group CFO and Group CTO) as well as the Group Officers of Telekom Austria AG who represent human resources, technology and marketing.

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

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

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

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

The segment Additional Markets comprises the mobile communication companies in Slovenia, Liechtenstein, the Republic of Serbia and the Republic of Macedonia.

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

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

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

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

In 2013 and 2012, other non-cash items mainly consist of restructuring expenses, pension and severance expense, accrued interest, interest expense on restructuring provisions and asset retirement obligations, bad debt expenses and the net monetary gain in the segment Belarus resulting from the application of hyperinflation accounting. Additionally in 2013, this item contains the gain on bargain purchases in the segment Croatia as well as the loss from the sale of the stake in Airwin Entertainment GmbH in the segment Austria (see Note (2)).

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

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

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

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

in TEUR	2013	2012
Monthly fee and traffic	3,021,376	3,107,808
Data and ICT Solutions	225,462	215,034
Wholesale (incl. Roaming)	167,744	205,487
Interconnection	408,823	493,350
Equipment	331,394	284,282
Other revenues	29,150	23,741
Total revenues	**4,183,949**	**4,329,703**

(4) Revenues

in TEUR	2013	2012
Services	3,852,555	4,045,421
Equipment	331,394	284,282
Operating revenues	**4,183,949**	**4,329,703**

(5) Other Operating Income

in TEUR	2013	2012
Rental revenue	16,240	15,006
Own work capitalised	38,356	37,692
Other	32,483	29,389
Other operating income	**87,079**	82,086

Own work capitalised represents the work performed for own purposes consisting mainly of employee costs and direct overheads capitalised as part of property, plant and equipment as well as internally developed software.

In 2013 and 2012, other operating income includes research and educational tax credits amounting to TEUR 1,993 and TEUR 2,136, respectively. In 2013, the gain on bargain purchases amounting to TEUR 1,276 from acquisitions in the segment Croatia is included in other operating income (see Note (2)).

(6) Other Operating Expenses

in TEUR	2013	2012
Interconnection	401,428	439,249
Repairs and maintenance	169,011	167,525
Services received	204,186	216,566
Advertising and marketing	158,558	158,221
Other support services	149,009	152,695
Rental and lease expenses	160,812	154,488
Commissions	76,887	73,144
Bad debt expenses	37,985	49,885
Other consulting	12,220	17,449
Legal consulting	5,007	6,668
Travel expenses	16,216	17,207
Other taxes	15,146	12,558
Energy	58,258	58,364
Transportation	27,575	30,201
Training expenses	7,887	9,934
Net loss from retirement of fixed assets	8,538	4,330
Other	81,773	79,609
Other operating expenses	**1,590,496**	1,648,095

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

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

At the Annual General Meeting on 29 May 2013, Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna ("Deloitte") was appointed as group auditor for Telekom Austria Group. In 2012, the consolidated financial statements of Telekom Austria Group were audited by KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna ("KPMG Austria"). Expenses related to the group auditor amount to:

in TEUR	2013	2012
Audit fees	634	896
Other reviews	0	300
Fees Deloitte/KPMG Austria	**634**	**1,196**

In 2012, the expenses relate to KPMG Austria.

(7) Financial Result

in TEUR	2013	2012
Interest income on loans and receivables	11,900	13,154
Interest income on bank deposits	3,788	3,337
Interest income on available-for-sale financial assets	292	355
Net gain on hedging transactions	143	91
Interest income	**16,123**	16,937

Changes in the fair value of a hedging instrument (interest rate swap) designated as a fair value hedge in accordance with IAS 39 and of the hedged item are netted for each swap contract and are recognised as interest income or interest expense depending on the net amount:

in TEUR	2013	2012
Result on interest rate swaps – fair value hedge	–6,479	–4,531
Result from fair value measurement of EMTN bonds	6,622	4,623
Interest income	**143**	91

in TEUR	2013	2012
Interest expense on financial liabilities	164,779	181,758
Interest expense on restructuring provision	21,441	36,273
Interest expense on employee benefit obligations	5,817	6,286
Interest expense on asset retirement obligations	7,839	8,357
Net loss on hedging transactions	978	0
Interest expense	**200,853**	232,674

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

The net loss on hedging transactions relates to the settlement cost of the pre-hedges (see Note (33)).

Foreign exchange differences

in TEUR	2013	2012
Foreign exchange gains	5,703	13,188
Foreign exchange losses	–11,043	–14,806
Net monetary gain	1,062	4,112
Foreign exchange differences	**–4,278**	2,494

In 2013, foreign exchange losses result mainly from the devaluation of the Belarusian Ruble and the Croatian Kuna. In 2012, foreign exchange losses result mainly from devaluation of the Croatian Kuna.

Other financial result

in TEUR	2013	2012
Dividends received	80	70
Gain on disposal of available-for-sale securities transferred from other comprehensive income	5	39
Loss on disposal of available-for-sale securities transferred from other comprehensive income	–222	–534
Result from financial assets	**–137**	–425

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. Telekom Austria Group recognises gains and losses relating to financial instruments in the financial result.

(8) Short-term Investments

in TEUR, at 31 December	2013	2012
Marketable securities short-term – available-for-sale	1,739	53,060
Other short-term investments	8,143	32,063
Short-term investments	**9,882**	85,123

Available-for-sale securities are classified as short-term, based on Management's intention to sell these marketable securities within the next twelve months. As of 31 December 2013, these comprise mainly fixed and variable interest bonds. As of 31 December 2012, these comprise substantially commercial papers.

As of 31 December 2013, other short-term investments relate to fixed deposits in Belarus. As of 31 December 2012, they contain US Dollar fixed deposits.

(9) Accounts Receivable – Trade

in TEUR, at 31 December	2013	2012
Accounts receivable – trade, gross	864,772	954,553
Allowances	−180,929	−203,451
Accounts receivable – trade, net	**683,843**	751,102

At 31 December 2013 and 2012, accounts receivable – trade have a maturity of less than twelve months and are non-interest bearing. Beginning 2013, roaming credits are reported in accounts receivable – trade. Comparative amounts as of 31 December 2012 and 2011 were increased by TEUR 18,356 and TEUR 28,733, respectively (see Note (14)). Beginning 2013, instalment sales receivables are reported in other current financial assets. Comparative amounts as of 31 December 2012 and 2011 were decreased by TEUR 14,110 and TEUR 7,415, respectively.

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

in TEUR	2013	2012
At 1 January	**203,451**	197,153
Foreign currency adjustment	−858	−919
Change in reporting entities	814	−162
Reversed	−5,287	−7,906
Charged to expenses	43,272	57,791
Amounts written-off	−58,470	−42,506
Reclassification	−1,992	0
At 31 December	**180,929**	203,451
Thereof		
Specific allowance	11,156	15,356
General allowance	169,774	188,095

The reclassification of the allowance relates to the opening balance of the allowance for instalment sales receivables (see Notes (14) and (28)).

The ageing of accounts receivable – trade is as follows:

in TEUR, at 31 December	Gross 2013	Allowance 2013	Gross 2012	Allowance 2012
Not yet due	600,603	8,509	617,845	11,231
Past due 0–90 days	70,106	12,158	81,200	12,343
Past due 91–180 days	25,839	11,773	30,917	17,687
Past due 181–360 days	36,289	23,756	44,322	27,578
More than one year	131,935	124,733	180,268	134,612
Total	**864,772**	**180,929**	954,553	203,451

Telekom Austria Group has grouped accounts receivable – trade according to their exposure to different risks. Corresponding to the risk involved and based on historic experience, Telekom Austria Group considers a certain percentage of accounts receivable – trade of each category as doubtful. At 31 December 2013 and 2012, there is no allowance for accounts receivable – trade not due amounting to TEUR 239,119 and TEUR 221,222, respectively. As these accounts receivable – trade mainly relate to deferred marketing expenses related to customer loyalty programmes, roaming credits, accruals related to multiple deliverables and access fees invoiced in advance, there is no risk of non-fulfilment.

Bad debt expenses mainly relate to accounts receivable – trade due from business and private customers. Accounts receivable – trade due from national and international carriers are only considered doubtful when they are past due for more than 90 days.

Telekom Austria Group has neither collateral nor insurance for its accounts receivable – trade because the credit risk is sufficiently diversified due to the large number of customers.

As of 31 December 2013 and 2012, accounts receivable contain receivables sold under civil law to a special purpose entity under the asset backed security programme as described in Note (33) amounting to TEUR 384,103 and TEUR 378,357, respectively. In accordance with IFRS 10 ("Consolidated financial statements" – Relevant activities and direction of relevant activities), the special purpose entity ("SPE") was consolidated, which resulted in the recognition of the accounts receivable in Telekom Austria Group's consolidated financial statements despite their sale.

(10) Related Party Transactions

The significant shareholders ÖIAG as well as América Móvil are considered related parties due to their stake in Telekom Austria AG allowing them to exercise significant influence. Through ÖIAG, 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. None of the individual transactions associated with government agencies or government-owned entities are considered significant to Telekom Austria Group except for the acquisition of licenses at the Austrian spectrum auction (see Note (18)). In 2013 and 2012, services received from the related parties mentioned above mainly relate to postage fees, transportation, commissions and fees to RTR and amount to less than 3.8% and 2.0%, respectively, of the material expense and other operating expense recognised in the segment Austria. In 2013 and 2012, revenues generated by transactions with these related parties were below 3.2% and 2.7%, respectively, of the total revenues in the segment Austria. The services rendered to and received from related parties are provided at arm's length.

Telekom Austria Group is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis. The contract with the government concluded in July 2011 specifies the reimbursement for customers having a valid official notice issued before 1 July 2011 of Euro 13.81 per customer per month. The reimbursement for customers having a valid official notice issued after 1 July 2011 amounts to Euro 10.00 per month. The total reimbursement recorded as revenue in the service period was TEUR 20,382 and TEUR 24,834 in 2013 and 2012, 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 related parties relate to investments in associates and are set forth in the following table:

in TEUR	2013	2012
Revenues	60	111
Other operating income	13	1
Expenses	28,436	24,337

In 2013 and 2012, the expenses relate mainly to advertising and marketing services provided by media.at-Group (see Note (15)).

As of 31 December 2013 and 2012, accounts receivable from related parties and accounts payable due to related parties relate primarily to media.at-Group (see Note (15)).

From 28 June 2001 to 29 May 2013, a partner in a law firm which provides legal services to Telekom Austria Group was a member of the Supervisory Board. Up to the resignation in 2013 and in the full year 2012, Telekom Austria Group was charged TEUR 159 and TEUR 1,679, respectively, for legal services provided by this law firm.

All transactions with related parties are carried out at arm's length.

The following table shows the compensation of key management personnel:

in TEUR	2013	2012
Short-term employee benefits	11,807	11,952
Pensions	561	446
Other long-term benefits	124	90
Termination benefits	579	1,036
Share-based payments	−75	28
Compensation of key management	**12,997**	13,553

Expenses for pensions and severance for other employees amounted to TEUR 25,053 and TEUR 23,918 in 2013 and 2012, respectively. Expenses consist of voluntary and legal severance expenses, contributions to pension plans and other pension payments.

(11) Inventories

in TEUR, at 31 December	2013	2012
Spare parts, cables and supplies	51,399	79,830
Merchandise	75,818	72,977
Prepayments	56	135
Inventories	**127,273**	152,942

As of 31 December 2013 and 2012, the carrying amount of merchandise measured at fair value less cost to sell, amounted to TEUR 31,423 and TEUR 15,125, respectively. In 2013 and 2012, Telekom Austria Group recognised impairment charges related to inventories amounting to TEUR 25,919 and TEUR 24,337. Reversals of impairment charges amounting to TEUR 2,849 and TEUR 11,567 were recognised in 2013 and 2012 and relate to material used for the construction of networks. As of 31 December 2013 and 2012, no inventories were pledged as collateral for liabilities.

(12) Prepaid Expenses

in TEUR, at 31 December	2013	2012
Advances to employees	16,639	16,690
Rent	6,513	7,185
Prepaid marketing expenses	46,475	36,988
Other	32,057	45,829
Prepaid expenses	**101,684**	106,692

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

(13) Non-current Assets Held for Sale

in TEUR at 31 December	2013	2012
Land and buildings	962	881
Non-current assets held for sale	**962**	881

As of 31 December 2013 and 2012, non-current assets held for sale relate to land and buildings in the segment Austria. In 2013, a loss of TEUR 1,821, and in 2012 a profit of TEUR 365, were recognised from the sale of assets held for sale and are reported in the net result from retirement of fixed assets (see Note (6)).

(14) Other Current Assets

in TEUR, at 31 December	2013	2012
Derivative financial instruments	0	11,003
Instalment sales	22,667	14,110
Finance lease receivables	19,215	13,721
Other financial assets	6,485	15,586
Other non-financial assets	33,594	37,864
Other current assets, gross	**81,960**	92,284
Less allowance for financial assets	–5,788	–670
Less allowance for non-financial assets	–2,177	–1,012
Other current assets	**73,995**	90,602

For information on derivative financial instruments, see Note (33).

Instalment sales receivables relate to the instalment sales of mobile handsets and tablets and equal the present value of the revenue. As of 31 December 2013, the instalment sales receivables relate to the segment Belarus and to a lesser extent to Si.mobil in Slovenia. Until 2012, instalment sales receivables were reported in accounts receivable – trade. Comparative amounts as of 31 December 2012 and 2011 were increased by TEUR 14,110 and TEUR 7,415, respectively, and relate only to instalment sales in the segment Belarus (see Note (9)).

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

Until 31 December 2012, roaming credits were reported in other current financial assets. Beginning 2013, roaming credits are reported in accounts receivable – trade. Comparative amounts as of 31 December 2012 and 2011 were thus decreased by TEUR 18,356 and TEUR 28,733, respectively (see Note (9)).

Other current non-financial assets mainly consist of deferrals related to customer loyalty programmes, value-added tax receivables, claims against the Republic of Austria (see Note (10)), advance payments, indemnification payments due from insurance companies and receivables due from employees.

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

in TEUR, at 31 December	Gross 2013	Allowance 2013	Gross 2012	Allowance 2012
Not yet due	44,157	3,037	51,793	650
Past due 0–90 days	525	0	813	0
Past due 91–180 days	366	230	322	0
Past due 181–360 days	1,439	938	1,316	0
More than one year	1,880	1,583	175	20
Total	**48,366**	**5,788**	54,419	670

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

in TEUR	2013	2012
At 1 January	**670**	581
Foreign currency adjustment	–2	–1
Charged to expenses	3,472	90
Amounts written-off	–170	0
Reclassification	1,819	0
At 31 December	**5,788**	670

The reclassification of the allowance relates to the opening balance of the allowance for instalment sales receivables (see Note (9)).

(15) Investments in Associates

Investments in associates accounted for using the equity method as of 31 December 2013, are set forth in Note (38).

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

in TEUR	2013	2012
At 1 January	**3,661**	3,699
Dividends received	–279	0
Recognised income	1,716	–39
Changes in reporting entities	–119	0
At 31 December	**4,979**	3,661

The investment in media.at-Group is included in the investments in associates with the proportionate total consolidated equity of the media.at-group. The difference between the investment and the proportionate equity of media.at-Group as of the acquisition date was recorded as goodwill and included in the carrying amount of the investment.

In April 2013, Telekom Austria Group sold its 25.029% interest in Marx Media Vienna GmbH in the segment Austria resulting in a loss of TEUR 19, which is reported in the result from investments in affiliates.

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

Statements of profit or loss (in TEUR)	2013	2012
Revenues	126,640	139,426
Operating income	4,845	2,083
Net income	3,678	575

The financial information of media.at-Group is based on its reporting period 1 July to 30 June.
The financial information for Marx Media Vienna GmbH is no longer included in 2013.

in TEUR	2013	2012
Total assets	36,349	27,036
Total liabilities	32,110	25,444
Total stockholders' equity	4,238	1,593

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

(16) Financial Assets Long-term

in TEUR, at 31 December	2013	2012
Other investments carried at cost	558	554
Other financial assets, long-term	0	2,194
Marketable securities – available-for-sale, long-term	4,690	5,124
Financial assets, long-term	**5,247**	7,872

Other investments carried at cost include investments in unquoted equity instruments (investments) and unconsolidated affiliated companies (see Note (38)). These relate mainly to CEESEG AG. As this stake 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. As of 31 December 2013, Telekom Austria Group has no intentions to dispose of any of the investments it holds.

As of 31 December 2012, other long-term financial assets comprise fixed deposits.

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

(17) Goodwill

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

in TEUR	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
At 1 January 2012	416,101	642,646	94,706	0	136,260	1,289,714
Acquisitions	0	44	0	0	0	44
Translation adjustment	0	0	–257	0	0	–257
At 31 December 2012	**416,101**	**642,691**	**94,450**	**0**	**136,260**	**1,289,501**
Acquisitions	292,110	0	1,139	0	0	293,249
Translation adjustment	0	0	–844	0	–0	–844
At 31 December 2013	**708,211**	**642,691**	**94,744**	**0**	**136,260**	**1,581,906**

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

As of 31 December 2013 and 2012, the accumulated impairment charges on goodwill total TEUR 570,056 and relate mainly to Belarus.

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

in TEUR, at 31 December	2013	2012
A1 Telekom Austria	708,211	416,101
Total Austria	708,211	416,101
Mobiltel	642,691	642,691
Total Bulgaria	642,691	642,691
Vipnet	94,744	94,450
Total Croatia	94,744	94,450
Si.mobil	136,260	136,260
Total Additional Markets	136,260	136,260
Total Goodwill	**1,581,906**	1,289,501

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

	Growth rates perpetual annuity		Pre-tax interest rates*	
	2013	2012	2013	2012
Segment Austria	0.0%	0.0%	8.3%	8.7%
Segment Bulgaria	0.0%	0.0%	8.5% – 9.4%	8.9% – 9.5%
Segment Croatia	0.0%	0.0%	9.3% – 11.5%	9.6% – 11.0%
Segment Belarus	0.0%	0.0%	21.4% – 33.0%	20.1% – 32.2%
Segment Additional Markets	0.0%	0.0%	7.6% – 13.6%	6.5% – 13.8%

* based on a risk-free interest rate, adjusted for market, country and industry-specific risks.

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

in EUR million at 31 December	2013	2012
Segment Austria	4,340	4,239
Segment Bulgaria	1,172	1,546
Segment Croatia	748	793
Segment Belarus	652	504
Segment Additional Markets	1,228	1,239

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 2013:

	Pre-tax interest rates*
Segment Austria	12.9%
Segment Bulgaria	9.3%–10.2%
Segment Croatia	21.1% – 23.3%
Segment Belarus	30.9% – 42.5%
Segment Additional Markets	14.3% – 22.2%

* 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.

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 2013:

	Revenues	Cost	Capital expenditures
Segment Austria	−5.9%	8.3%	36.8%
Segment Bulgaria	−2.5%	4.3%	16.7%
Segment Croatia	−10.8%	15.5%	89.0%
Segment Belarus	−6.1%	9.5%	44.7%

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

(18) Other Intangible Assets

The “Table of Other Intangible Assets” provides the components and a reconciliation of the changes in other intangible assets.

As of 31 December 2013 and 2012, the line item software comprises internally developed software with a carrying amount of TEUR 32,910 and TEUR 32,992, acquisition cost of TEUR 144,683 and TEUR 144,921 and the related accumulated amortisation of TEUR 111,773 and TEUR 111,929, respectively. Additions in 2013 and 2012 amounted to TEUR 5,488 and TEUR 4,586, respectively.

In 2013 and 2012, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.
In 2013 and 2012, interest capitalised totalled TEUR 84 and TEUR 525, respectively. For details on the interest rate applied, see Note (19).

As of 31 December 2013 and 2012, purchase commitments for intangible assets amounted to TEUR 16,708 and TEUR 28,408, respectively.

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	1,341,554	294,476	521,757
End of the term	2014–2034	2017–2025	2024–2029

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

On 21 October 2013, A1 Telekom Austria acquired four blocks of the 800 MHz spectrum, three blocks of the 900 MHz spectrum and seven blocks of the 1800 MHz spectrum at the Austrian spectrum auction. By official notice of 19 November 2013, the total consideration was set at TEUR 1,029,896 and is reported in advances/construction in progress.

The 800 MHz spectrum band will be used from 1 January 2014 until 31 December 2029. The 800 MHz spectrum provides an unparalleled position to roll out a leading LTE network across Austria. This fully supports Telekom Austria Group’s high value strategy and network quality leadership and allows Telekom Austria Group to protect its fixed-line as well as its mobile customer base, in particular in rural areas.

The blocks in the 900 MHz and the 1800 MHz band were granted until 31 December 2034 for all operators. The blocks in the 900 MHz band serve to protect the existing GSM customer base, while the blocks in the 1800 MHz band provide further network capacity on a long-term basis to be able to offer modern multimedia services in highest quality. The start of the licensing period depends on the requirements stipulated by the official notice, on the current allocation of frequencies and on the other hand on the technical implementation of the intended use, which is subject to evaluation on an annual basis. According to the official notice, the use of the 900 MHz band starts on 1 January 2016 and the use of the 1800 MHz band will start between 1 January 2016 and 1 January 2020.

In October 2013, Vipnet acquired a 2x5 MHz block for a total amount of TEUR 23,110. The license is valid until 18 October 2024. Vipnet has to ensure a coverage of 50% of the territory of Croatia within a period of five years which starts once the national regulatory agency has ratified the spectrum as usable.

On 10 July 2013, Vip operator acquired a 10 MHz paired frequency block (in total 20 MHz) of the 800 MHz spectrum and a 15 MHz paired block (in total 30 MHz) in the 1800 MHz spectrum for a total amount of TEUR 10,300 in Macedonia. The frequency blocks have a term of 20 years. Vip operator has to ensure a coverage of 70% of the population of the Republic of Macedonia within a period of six years beginning with the date the blocks were awarded. The acquisition of the frequency blocks of the 800 MHz spectrum will enable Vip operator to provide LTE services, at the latest by 1 August 2014.

In 2013, Si.mobil prolonged frequencies in the 900 MHz spectrum for a consideration of TEUR 3,519 and acquired 2x10 MHz frequency blocks in the 1800 MHz spectrum for a total consideration of TEUR 886. The licenses are valid until 2016.

In 2013 and 2012, the useful lives of certain items of software in the segment Austria were reduced, which led to an increase in amortisation of TEUR 721 and TEUR 213, respectively.

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

2014	296,758
2015	232,808
2016	206,094
2017	152,265
2018	114,170
Thereafter	1,057,868

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

in TEUR	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
At 1 January 2012	145,897	247,040	30,107	83,974	4,297	511,316
Amortisation	0	−1,333	−1,034	0	0	−2,368
Translation adjustment	0	0	−77	0	8	−69
Hyperinflation adjustment	0	0	0	13,447	0	13,447
At 31 December 2012	**145,897**	**245,706**	**28,996**	**97,422**	**4,305**	**522,327**
Acquisitions	22,950	0	0	0	0	22,950
Amortisation	−3,333	−1,394	−1,026	0	0	−5,753
Translation adjustment	0	0	−256	0	−19	−275
Hyperinflation adjustment	0	0	0	967	0	967
At 31 December 2013	**165,514**	**244,312**	**27,714**	**98,389**	**4,286**	**540,215**

Regarding the acquisitions and disposals of brand names see Note (2).

Brand names classified as intangible assets with indefinite useful lives are tested for impairment in the fourth quarter of each year in accordance with IAS 36, as described in Note (1). If an event or circumstance indicates that an asset may be impaired, impairment tests are carried out. Due to the fact that brand names do not generate cash inflows that are largely independent of those from other assets, the value in use can be determined only for the asset's cash generating unit. The second step according to IAS 36.107 is to determine whether an impairment loss should be recognised based on the total cash generating unit.

As Telekom Austria Group does not intend to use the brand name "ONE" acquired in the segment Austria in 2013 (see Note (2)), it is amortised on a straight-line basis over a period of 1.5 years. Furthermore, the brand names acquired in the segments Bulgaria and Croatia in 2011 will only be used for a specific period of time and are thus amortised on a straight-line basis. The useful life in Croatia is five years. In 2012, the useful life in Bulgaria was reduced from six to 3.4 years.

Brand names were allocated to the following cash-generating units:

in TEUR, at 31 December	2013	2012
A1 Telekom Austria	144,910	144,910
Cable Runner	491	491
Paybox Bank	496	496
YESSS!	12,950	0
ONE	6,667	0
Total Austria	**165,514**	145,897
Mobiltel	243,704	243,704
Megalan	249	846
Spectrum Net	194	659
Orbitel	165	496
Total Bulgaria	**244,312**	245,706
Vipnet	25,079	25,308
B.net	2,635	3,688
Total Croatia	**27,714**	28,996
velcom	98,389	97,422
Total Belarus	**98,389**	97,422
mobilkom liechtenstein	1,138	1,157
Si.mobil	3,148	3,148
Total Additional Markets	**4,286**	4,305
Total Brand Names	**540,215**	522,327

(19) Property, Plant and Equipment

The “Table of Property, Plant and Equipment” provides the components and a reconciliation of the changes in property, plant and equipment.

In 2013 and 2012, borrowing cost capitalised totalled TEUR 1,617 and TEUR 1,520, respectively. Calculation of capitalised borrowing cost was based on an interest rate of 4.3% and 4.4% for the years 2013 and 2012, respectively.

As of 31 December 2013 and 2012, the carrying amount of land amounted to TEUR 55,141 and TEUR 55,368, respectively.

In 2013 and 2012, Telekom Austria Group reduced the estimated useful lives of certain technical equipment in the segments Austria and Bulgaria due to the rapid technological progress. The changes resulted in an increase in depreciation of TEUR 2,540 and TEUR 2,990 in 2013 and 2012, respectively.

Government grants totalling TEUR 432 and TEUR 3,792 were deducted from acquisition cost in 2013 and 2012, respectively.

The transfers from advances/construction in progress relate to property, plant and equipment and intangible assets.

As of 31 December 2013 and 2012, no property, plant and equipment is pledged as collateral.

As of 31 December 2013 and 2012, purchase commitments for property, plant and equipment amount to TEUR 55,522 and TEUR 71,581, respectively.

Sensitivity analysis

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

in TEUR	
Decrease due to extension by one year	193,097
Increase due to reduction by one year	257,577

(20) Other Non-current Assets

in TEUR, at 31 December	2013	2012
Finance lease receivables	9,763	8,424
Instalment sales	6,546	3,109
Other financial assets	3,055	2,881
Other non-financial assets	7,137	16,548
Other non-current assets, gross	**26,502**	30,962
Less allowance for financial assets	–1,258	–195
Other non-current assets	**25,243**	30,767

For information on finance lease receivables and instalment sales receivables, see Notes (26) and (14). Other non-financial assets mainly include prepayments for maintenance agreements, license fees and rent.

The following table sets forth the ageing and the development of the allowance of long-term finance lease receivables, long-term instalment sales receivables and other non-current financial assets:

in TEUR, at 31 December	Gross 2013	Allowance 2013	Gross 2012	Allowance 2012
Not yet due	18,783	677	14,414	195
More than one year	581	581	0	0
Total	**19,365**	**1,258**	14,414	195

in TEUR	2013	2012
At 1 January	**195**	131
Charged to expenses	890	64
Reclassification	173	0
At 31 December	**1,258**	195

In 2012, the allowance of long-term instalment sales receivables was reported in the allowance of accounts receivable – trade. In 2013, the opening balance of this allowance was reclassified to long-term instalment sales receivables (see Note (9)).

(21) Short-term Borrowings

in TEUR, at 31 December	2013	2012
Current portion of long-term debt	136,551	939,027
Accrued interest	93,720	103,511
Current liabilities to financial institutions	14	6,840
Current portion of lease obligations	0	45
Short-term borrowings	**230,284**	1,049,424

For further information regarding the current portion of long-term debt, see Note (25). Accrued interest includes interest on bonds and bank debt (see Note (25)). Average interest rates relating to short-term borrowings as well as further funding sources are listed in Note (33), for lease obligations, see Note (26).

(22) Provisions and Accrued Liabilities

in TEUR	Restructuring	Employees	Customer allowances	Asset retirement obligation	Legal	Other	Total
At 1 January 2013	**837,743**	**84,175**	**52,465**	**190,160**	**14,709**	**45,683**	**1,224,935**
Additions	141,679	47,170	31,838	4,620	3,886	27,458	256,651
Changes in estimate	−30,038	0	0	−13,785	0	0	−43,823
Used	−85,940	−41,999	−35,021	−575	−385	−23,630	−187,549
Released	−78,245	−8,372	−7,219	−689	−592	−4,021	−99,139
Accretion expense	21,440	0	0	7,839	0	0	29,280
Reclassifications*	−4,603	8,214	0	0	86	−227	3,470
Translation adjustment	0	−109	0	−1,491	−15	−5	−1,621
Changes in reporting entities	0	94	0	283	0	144	521
At 31 December 2013	**802,036**	**89,173**	**42,063**	**186,362**	**17,689**	**45,401**	**1,182,724**
Thereof long-term							
31 December 2013	**694,993**	**0**	**0**	**186,362**	**0**	**0**	**881,355**
31 December 2012	732,986	0	0	190,160	0	0	923,146

* 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 and 2013, new social plans were initiated which provide for early retirement, special severance packages and golden handshake options. Due to their nature of post-employment benefits, these social plans are accounted for according to IAS 19. At 31 December 2013 and 2012, the corresponding liability amounts to TEUR 775,474 and TEUR 795,057 and includes 1,725 and 1,540 employees, respectively. The expense recognised related to the increase in the provision is reported in the line item restructuring expenses, while the accretion expense is reported in the financial result. A part of the provision was released since a number of employees returned to regular operations, were transferred to the government or opted for schemes such as golden handshakes, special severance packages and early retirement to an extent not foreseeable at the time of the measurement of the provision in 2012. The changes in estimate are due to the adjustment of the employee turnover rate from 16% in 2012 to 27% in 2013. 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.

Furthermore, restructuring includes agreements from previous years concluded with the Austrian government relating to the voluntary transfer of civil servants with tenure, whose positions are eliminated due to technological progress, to employment with the government. Civil servants of the segment Austria can voluntarily transfer to administrative employment with the government. After a period of six to twelve months of public service and subject to a positive performance evaluation, the civil servants have the option to apply for a permanent transfer, in which case the right to return to Telekom Austria Group is forfeited. Telekom Austria Group bears the salary expense for these civil servants up to 30 June 2016 at the latest. The civil servants are compensated for any shortfall in salary or pension payments.

In 2013, a new general agreement for the transfer of personnel, replacing previous agreements, was concluded with the Austrian government. 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.

As of 31 December 2013 and 2012, the provision for the transfer of civil servants to the government amounts to TEUR 26,562 and TEUR 42,686 and comprises 330 and 308 employees, respectively. In addition, Telekom Austria Group recognised a liability for employees transferred to the government amounting to TEUR 7,933 and TEUR 14,979 (see Note (23)).

In 2013 and 2012, the estimated rate of compensation equals the rate used for the calculation of employee benefit obligations (see Note (27)). The following table sets forth the interest rates applied.

	2013	2012
Employees permanently leaving the service process	3.5%	3.5%
Social plans	2.0%	2.0%
Civil servants transferred to the government	2.0%	2.0%

EBITDA was adjusted for restructuring expenses which comprise expenses of the restructuring programme in 2013 and 2012 amounting to TEUR 39,560 and TEUR 17,462 respectively, and for TEUR 5,625 and TEUR 17,233 resulting from the transfer of civil servants to the government.

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

in TEUR at 31 December	1 percentage point increase	1 percentage point decrease
Change in discount rate	−39,229	43,187
Change in rate of compensation	37,433	−34,753

Employees

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

Customer rebates

The provision for customer rebates contains rebates earned by customers but not paid as of the reporting date.

Asset retirement obligation

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

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

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

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

In 2013, the minimum terms and probable extensions of rental contracts as well as the decommissioning cost for base stations were adjusted to reflect the current situation based on past experience. Furthermore, the estimated decommissioning cost of wooden masts was increased.

In addition, in 2013, the discount rate applied to the calculation of asset retirement obligations was changed from 3.5% to 3.0%. The discount rate used for the calculation is based on the risk-free interest rate of Austrian government bonds with a maturity of 25 years. The inflation rate was changed from 3.0% to 2.5% to reflect current market conditions in the individual countries. The change of these parameters resulted in a decrease of the asset retirement obligation and a corresponding decrease in related tangible assets. In the segment Belarus, the inflation rate of 15% and the discount rate of 21% remain unchanged compared to the previous year.

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	1 percentage point increase	1 percentage point decrease
Change in discount rate	–18,771	21,929
Change in inflation rate	22,620	–19,578

Legal
Provisions mainly relate to expenses incurred in respect of legal advice and litigation.

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

(23) Accounts Payable – Trade and Other Current Liabilities
At 31 December 2013 and 2012, accounts payable – trade amounting to TEUR 779 and TEUR 568, respectively, have a maturity of more than twelve months. These accounts payable relate mainly to financial retentions.

Beginning 2013, roaming credits are reported in accounts payable – trade. Accordingly, comparative amounts as of 31 December 2012 and 2011 were increased by TEUR 23,638 and TEUR 41,848, respectively.

Other current liabilities consist of the following items:

in TEUR, at 31 December	2013	2012
Fiscal authorities	61,544	63,331
Social security	9,475	8,383
Employees	18,877	17,141
Long-term incentive program	709	1,381
Employees – transferred to government	7,933	14,979
Prepayments from customers	7,784	6,595
Government	213	186
Other non-financial liabilities	4,394	2,227
Other current non-financial liabilities	**110,928**	**114,221**
Other current financial liabilities	26,170	57,233
Other current liabilities	**137,098**	**171,454**

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

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

Liabilities due to employees mainly relate to salaries payable (including overtime and travel allowances) and one-time termination benefits.

The liabilities regarding employees – transferred to government include compensation for reductions in salaries, lump sum payments for any shortfall in pension payments as well as one-time additional payments payable to the civil servants of Telekom Austria Group (see Note (22)).

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

In 2013 and 2012, other current financial liabilities include substantially cash deposits received and liabilities arising from customer deposits as well as in 2012, the interest-bearing purchase price liability relating to the acquisition of SBT in 2007 (see Note (2)). Starting 2013, roaming credits are reported in accounts payable – trade. As of 31 December 2012 and 2011, other current financial liabilities were decreased correspondingly by TEUR 23,638 and TEUR 41,848.

(24) Deferred Income

in TEUR, at 31 December	2013	2012
Unearned income	119,340	125,064
Customer loyalty programmes	39,794	38,646
Deferred income, current portion	**159,134**	163,710

Unearned income mainly relates to prepaid access fees, monthly base fees, leased lines to commercial customers, prepaid mobile fees and rental income from site sharing. These fees are recognised over the period the service is provided.

According to IFRIC 13 "Customer Loyalty Programmes", the award credits granted are recognised as deferred income until redeemed or forfeited.

(25) Long-term Debt

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

		At 31 December 2013				At 31 December 2012			
Currency	Maturity	Nominal interest rate		Face value	Carrying amount	Nominal interest rate		Face value	Carrying amount
Bonds									
TEUR				0	0	fixed	5.000%	750,000	756,118
TEUR	2017	fixed	4.250%	500,000	498,030	fixed	4.250%	500,000	497,390
TEUR	2016	fixed	6.375%	750,000	747,635	fixed	6.375%	750,000	746,497
TEUR	2022	fixed	4.000%	750,000	740,455		4.000%	750,000	739,295
TEUR	2023	fixed	3.500%	300,000	297,585			0	0
TEUR	2021	fixed	3.125%	750,000	741,746			0	0
Total Bonds				**3,050,000**	**3,025,452**			2,750,000	2,739,300
Bank debt									
TEUR	2013–2019	fixed	4.88%	31,958	31,958	fixed	4.88%	37,284	37,284
TEUR						fixed	3.72%	96,250	96,250
TEUR						fixed	4.01%	78,750	78,750
TEUR	2014–2019	fixed	4.32%	168,000	168,000	fixed	4.32%	168,000	168,000
TEUR	2014	variable	0.76%	75,000	75,000	variable	0.99%	75,000	75,000
TEUR	2015	fixed	3.51%	200,000	200,000	fixed	3.51%	200,000	200,000
TEUR	2016	fixed	5.41%	50,000	50,000	fixed	5.41%	50,000	50,000
TEUR	2013–2017	fixed	4.22%	23,843	23,843	fixed	4.22%	26,425	26,425
TEUR	2018	fixed	3.44%	200,000	200,000	fixed	3.44%	200,000	200,000
TEUR	2014–2020	variable	1.05%	100,000	100,000	variable	1.24%	100,000	100,000
Total bank debt				**848,801**	**848,801**			1,031,710	1,031,710
Leases (Note (26))				**0**	**0**			45	45
Financial debt				**3,898,801**	**3,874,253**			3,781,755	3,771,055
Current portion of long-term debt				–136,551	–136,551			–939,072	–939,072
Long-term debt				**3,762,250**	**3,737,702**			2,842,683	2,831,983

Bonds

In 2003, Telekom Austria Group initiated a Euro Medium Term Note ("EMTN") Program. The Eurobond amounting to TEUR 750,000 which was issued in July 2003 under this program was redeemed in 2013. In January 2005, a further 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 is amortised over the related terms. The EMTN Program ended on 31 December 2008, and was not extended.

On 29 January 2009, Telekom Austria Group issued a Eurobond with a face value of TEUR 750,000, a maturity of seven years and a coupon of 6.375%. The discount and the issue costs of TEUR 7,965 are amortised over the related term.

In March 2012, Telekom Austria Group initiated a Euro Medium Term Note ("EMTN") Program with a maximum volume of TEUR 2,500,000. On 2 April 2012, Telekom Austria Group issued a bond under the EMTN Program 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 Program 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 Program 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.

(26) Leases

Lessee

Telekom Austria Group leases equipment used in its operations. The leases are classified either as operating or finance leases. The operating lease contracts will expire on various dates through 2025 and mainly comprise leases of property and vehicles. As of 31 December 2013, there are no finance lease contracts.

Future minimum lease payments for non-cancellable operating lease contracts as of 31 December 2013 are:

	Operating leases
2014	47,393
2015	33,702
2016	24,081
2017	10,670
2018	8,465
after 2018	20,352
Total minimum lease payments	**144,664**

Lessor

Telekom Austria Group receives minimum lease payments for non-cancellable operating lease contracts that mainly relate to private automatic branch exchange equipment (PABX) and set-top boxes. These payments are recognised as revenue on a straight-line basis over the terms of the contracts. As of 31 December 2013 and 2012, the cost of this equipment amounted to TEUR 41,204 and TEUR 51,002, and the carrying amount to TEUR 11,470 and TEUR 9,541, respectively. The future minimum lease payments as of 31 December 2013 are as follows:

	Operating leases
2014	5,690
2015	3,483
2016	2,247
2017	1,550
2018	1,034
after 2018	561
Total minimum lease payments	**14,565**

In Bulgaria, Telekom Austria Group leases mobile handsets to customers under finance lease contracts. Furthermore, indefeasible rights of use in dark fibre are leased under finance lease contracts, which have a term until 2033. As of 31 December 2013, the future minimum lease payments for these transactions amount to:

	Finance lease
2014	19,898
2015	7,275
2016	321
2017	311
2018	302
after 2018	3,214
Total minimum lease payments	**31,320**
Less amount representing interest	–2,342
Present value of finance lease receivables	**28,978**
Less current portion	–19,215
Non-current finance lease receivables	**9,763**

The allowance for doubtful finance lease receivables (see Notes (14) and (20)) is as follows:

in TEUR, at 31 December	2013	2012
Allowance finance lease receivables, long-term	333	195
Allowance finance lease receivables, short-term	939	501
Allowance at the end of the year	**1,272**	697

(27) Employee Benefit Obligations

in TEUR, at 31 December	2013	2012
Service awards	64,373	66,128
Severance	92,934	88,935
Pensions	6,138	6,559
Other	887	20
Long-term employee benefit obligations	**164,332**	161,642

Actuarial assumptions

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

	2013	2012
Discount rate	3.5%	3.5%
Rate of compensation increase – civil servants	5.5%	5.5%
Rate of compensation increase – other employees	3.1%	3.1%
Rate of compensation increase – civil servants released from work	5.0%	5.0%
Rate of increase of pensions	1.6%	1.6%
Employee turnover rate*	0.0%–5.1%	0.0%–3.3%

* Depending on years of service.

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

Life expectancy in Austria is based on "AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler". The obligation relating to the international subsidiaries was measured by applying the Austrian life expectancy due to their insignificant amount.

Service awards

Civil servants and certain employees (together "employees") are eligible to receive service awards. Under these plans, eligible employees receive a cash bonus of two months' salary after 25 years of service and four months' salary after 40 years of service. Employees with at least 35 years of service when retiring (at the age of 65) or who are retiring based on a specific legal regulation are eligible to receive four monthly salaries. The compensation is accrued as earned over the period of service, taking into account the employee turnover rate.

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

in TEUR	2013	2012
At 1 January	**71,825**	66,351
Service cost	2,731	2,329
Interest cost	2,444	2,903
Actuarial gain/loss based on experience adjustment	−1,159	17
Actuarial gain/loss from changes in demographic assumptions	93	−121
Actuarial gain/loss from changes in financial assumptions	0	4,792
Recognised in profit or loss	**4,109**	9,921
Benefits paid	−5,280	−4,447
Foreign currency adjustments	−2	0
Other	**−5,282**	−4,447
Obligation at 31 December	**70,652**	71,825
Less short-term portion	−6,280	−5,698
Non-current obligation	**64,373**	66,128

Of the defined benefit obligations for service awards, less than 1% relate to foreign subsidiaries as of 31 December 2013 and 2012, respectively.

As of 31 December 2013 and 2012, the weighted average duration of the obligation for service awards amounted to 7.1 and 7.5 years, respectively.

Severance

Obligations for employees starting to work for Telekom Austria Group in Austria on or after 1 January 2003 are covered by a defined contribution plan. Telekom Austria Group paid TEUR 1,776 and TEUR 1,661 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2013 and 2012, respectively.

Severance benefit obligations for employees hired before 1 January 2003 are covered by defined benefit plans. Upon termination by Telekom Austria Group or retirement, eligible employees receive severance payments equal to a multiple of their monthly compensation which comprises fixed compensation plus variable elements such as overtime or bonuses. Maximum severance is equal to a multiple of twelve times the eligible monthly compensation. Up to three months of benefits are paid upon termination, with any benefit in excess of that amount being paid in monthly instalments over a period not exceeding ten months. In case of death, the heirs of an eligible employee receive 50% of the severance benefits.

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

in TEUR	2013	2012
At 1 January	**90,740**	69,521
Service cost	5,230	4,233
Interest cost	3,138	3,079
Curtailment loss/settlement	0	–113
Recognised in profit or loss	**8,368**	7,199
Actuarial gain/loss based on experience adjustment	–533	510
Actuarial gain/loss from changes in demographic assumptions	–1,263	108
Actuarial gain/loss from changes in financial assumptions	415	14,516
Recognised in other comprehensive income	**–1,381**	15,134
Benefits paid	–3,561	–1,105
Change in reporting entities	7	–4
Foreign currency adjustments	–3	–5
Other	**–3,557**	–1,113
Obligation at 31 December	**94,170**	90,740
Less short-term portion	–1,236	–1,804
Non-current obligation	**92,934**	88,935

Approximately 3% of the defined benefit obligations for severance relate to foreign subsidiaries as of 31 December 2013 and 2012.

As of 31 December 2013 and 2012, the weighted average duration of the severance benefit obligations was 16.3 and 17.3 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 2013 and 2012, 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 43,221 and TEUR 39,358 in 2013 and 2012, respectively.

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 12,911 and TEUR 13,211 in 2013 and 2012, 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.

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

in TEUR	2013	2012
At 1 January	**7,296**	7,120
Interest cost	242	302
Recognised in profit or loss	**242**	302
Actuarial gain/loss based on experience adjustment	15	84
Actuarial gain/loss from changes in financial assumptions	0	557
Recognised in other comprehensive income	**15**	641
Benefits paid	−717	−767
Obligation at 31 December	**6,836**	7,296
Less short-term portion	−697	−737
Non-current obligation	**6,138**	6,559

As of 31 December 2013 and 2012, the weighted average duration of the pension benefit obligations was 8.1 and 8.0 years, respectively.

Sensitivity analysis

The following table summarises the provisions recorded:

in TEUR at 31 December	2013
Service awards	70,652
Severance	94,170
Pensions	6,836

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	0.5 percentage points decrease	0.5 percentage points increase
Service awards	2,677	−2,404
Severance	8,125	−7,321
Pensions	294	− 272

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	1 percentage point decrease	1 percentage point increase
Service awards	–4,681	5,255
Severance	–14,109	16,998
Pensions	–509	586

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	0.5 percentage points decrease	0.5 percentage points increase
Service awards	149	–2,542
Severance	944	–3,857

No employee turnover rate is applied to the calculation of the provision for pensions as all eligible employees are already retired.

(28) Other Non-current Liabilities and Deferred Income

in TEUR, at 31 December	2013	2012
Cash flow hedges	0	64,612
Other liabilities	942	1,394
Other non-current financial liabilities	**942**	66,006
Long-term incentive program	1,083	1,643
Deferred income, other	14,416	16,366
Other non-current non-financial liabilities	**15,499**	18,008
Other non-current liabilities and deferred income	**16,441**	84,014

The cash flow hedges as of 31 December 2012 related to three forward-starting-interest rate-swap contracts (pre-hedges) which were settled in 2013 (see Note (33)). As of 31 December 2013, other non-current financial liabilities consist mainly of cash deposits received.

Regarding the long-term incentive program see Note (31). Other deferred income mainly relates to rental revenue.

(29) Stockholders' Equity

Capital management

The capital structure of Telekom Austria Group consists of financial liabilities and equity attributable to the equity holders of the parent, comprising common stock, treasury shares, additional paid-in capital, hybrid capital, retained earnings, available-for-sale reserve, hedging reserve and translation reserve.

Telekom Austria Group actively manages its capital structure to ensure going concern of all its subsidiaries while maximising the return to shareholders through the optimisation of the equity and liability structures of its entities. To the extent feasible, appropriate measures are taken to reduce exchange rate risks arising from subsidiaries outside the Euro zone

Maintaining its investment grade rating is the number one priority of Telekom Austria Group's finance strategy. Following the downgrade from Baa1 (outlook negative) to Baa2 (outlook stable) by Moody's and from BBB (outlook stable) to BBB- (outlook stable) by S&P in October 2013, Telekom Austria Group aims to regain its BBB rating by S&P via deleveraging in the medium-term. This will allow Telekom Austria Group to obtain the financial flexibility required for strategically important projects. A transparent dividend policy ensures the balance between shareholder remuneration and the utilisation of cash to redeem outstanding debt.

Safeguarding its strong capital base is key to Telekom Austria Group in order to maintain investor, creditor and market confidence as well as to provide sustainable support to the future operational development of the business. The Management Board regularly monitors the return on capital, defined by Telekom Austria Group as return on total stockholders' equity and as return on assets, of Telekom Austria Group as well as its subsidiaries.

paybox Bank, a subsidiary holding a banking license, complies with minimum equity and reserves requirements. Telekom Austria AG and its other subsidiaries are not subject to externally imposed capital requirements other than minimum capital funding requirements related to the establishment of corporations.

Share capital

As of 31 December 2013 and 2012, the common stock of Telekom Austria AG amounts to TEUR 966,183, and is divided into 443 million bearer shares with no par value. As of 31 December 2013, ÖIAG holds a stake of 28.42%, América Móvil S.A.B. de C.V., Mexico ("América Móvil") directly and indirectly holds 23.67%, 0.1% of the shares are held as treasury shares and the remaining shares are free floated. As of 31 December 2012, ÖIAG held a stake of 28.42%, América Móvil S.A.B. de C.V., Mexico ("América Móvil") directly and indirectly held 22.76%, 0.1% of the shares were held as treasury shares and the remaining shares were free floated.

The numbers of authorised, issued and outstanding shares and shares in treasury are presented below:

At 31 December	2013	2012
Shares authorised	443,000,000	443,000,000
Shares issued	443,000,000	443,000,000
Shares in treasury	−415,159	−436,031
Shares outstanding	442,584,841	442,563,969

In 2013, the transfer of 20,872 treasury shares to a board member led to an increase in shares outstanding. In 2012, the number of shares outstanding did not change because neither were treasury shares purchased nor were shares issued for the settlement of stock-based compensation plans.

Dividend payment

At the Annual General Meeting on 29 May 2013, the shareholders approved a dividend distribution of Euro 0.05 per share. The overall payment on 5 June 2013 amounted to TEUR 22,128. At the Annual General Meeting held on 23 May 2012, the shareholders approved a dividend distribution of Euro 0.38 per share. The overall payment on 30 May 2012 amounted to TEUR 168,174.

In 2013, net income of Telekom Austria AG according to Austrian GAAP amounts to TEUR 64,618, while in 2012 the net loss amounted to TEUR 134,591. In accordance with section 104 paragraph 4 of the Austrian Stock Corporation Act, the Supervisory Board and the Management Board decided to allocate an amount of TEUR 42,500 to reserves reported in retained earnings for the years ended 31 December 2013, as of 31 December 2012, an amount of TEUR 156,000 was released from reserves reported in retained earnings. These transfers resulted in unappropriated retained earnings of TEUR 22,247 and TEUR 22,257 as of 31 December 2013 and 2012, respectively. The Management Board and Supervisory Board plan to propose to the shareholders at the Annual General Meeting to distribute a dividend of Euro 0.05 per share from unappropriated retained earnings.

Treasury shares

At the Annual General Meeting of Telekom Austria AG held on 29 May 2013, the Management Board was authorised to acquire treasury shares for a period of 18 months until November 2014 up to the maximum of 5% of the share capital at a minimum price of Euro 5 and at a maximum price of Euro 15 per share. Additionally, the Management Board was empowered to:
(a) use these treasury shares to settle obligations under the share-based compensation plans described in Note (31) and/or to transfer them for or without a consideration to employees, managers and members of the Management Board/management of Telekom Austria AG and of its affiliated companies;
(b) use them as consideration for acquisitions, or
(c) sell treasury shares at any time via the stock exchange or by public offer for a period of five years from the day of the resolution in any manner permitted by law, also other than via the stock exchange, whereby the Management Board is entitled to exclude the general purchase opportunity.

Shares held in treasury as of 31 December	2013	2012
Number of treasury shares	415,159	436,031
Average price per share in Euro	18.80	18.80
Deduction in equity (in TEUR)	7,803	8,196

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 is, based on its conditions, classified as stockholders' equity according to IFRS. Accordingly, related discount and issue cost in the amount of TEUR 11,752 were recorded net of a tax benefit of TEUR 2,938 in stockholders' equity. Therefore stockholders' equity was increased by TEUR 591,186. The bond can be redeemed at 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 will be recognised as dividend payments in stockholders' equity.

In the local financial statements, coupon payments are recognised as interest expense in profit or loss according to Austrian GAAP. While the tax benefit resulting from the accrued interest is recognised in profit or loss according to local GAAP, it is recognised in stockholders' equity as "distribution of dividend" in the consolidated financial statements according to IAS 12. The net result attributable to hybrid capital holders is presented in the consolidated statements of profit or loss and equals accrued interest according to local GAAP amounting to TEUR 30,971, net of the relating tax benefit of TEUR 7,698, which is recognised in stockholders' equity.

Earnings per share

Basic and diluted earnings per share for the years ended 31 December 2013 and 2012 are calculated as follows:

	2013	2012
Net result attributable to owners of the parent (in TEUR)	86,547	103,869
Weighted average number of common shares outstanding	442,570,851	442,563,969
Basic and diluted earnings per share (in Euro)	**0.20**	0.23

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

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred in 2013 and 2012.

Reserve for available-for-sale marketable securities, hedging reserve and translation adjustment

The development of the reserve for available-for-sale marketable securities and the hedging reserve as well as the translation adjustment are presented in the consolidated statements of comprehensive income and consolidated statements of changes in stockholders' equity. The foreign currency translation adjustment mainly relates to the consolidation of velcom in Belarus and Vip mobile in Serbia. The translation adjustment as of 31 December 2013 and 2012 relating to the consolidation of Vip mobile amounts to TEUR 132,739 and TEUR 130,389, respectively. Due to the application of IAS 29 "Financial Reporting in Hyperinflationary Economies" to the subsidiaries in Belarus since 2011, the relating translation adjustment of TEUR 302,063 as of 1 January 2011 remains unchanged.

(30) Income Taxes

Income tax expense (benefit) attributable to income before income taxes consists of the following:

in TEUR	2013	2012
Current income tax	50,604	43,504
Deferred income tax	29,817	96,813
Income taxes	**80,421**	140,316

The table below provides information about the allocation of total income tax in the consolidated financial statements:

in TEUR	2013	2012
Continuing operations	80,421	140,394
Other comprehensive income	1,343	–10,580
Tax benefit relating to hybrid capital*	–10,636	0
Total income taxes	**71,128**	**129,814**

* see Note (29)

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

in TEUR	2013	2012
Income tax expense (benefit) at statutory rate	47,530	61,024
Foreign tax rate differential	–19,492	–13,879
Tax-non-deductible expenses	6,192	6,358
Tax incentives and tax-exempted income	–4,803	–19,682
Tax-free income (loss) from investments	–444	–222
Change in tax rate	–2	–3,094
Tax expense previous years	6,322	5,896
Deferred tax assets not recognised	21,123	78,575
Result from changes in reporting entities	–1,141	0
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	26,791	26,039
Other	–1,654	–698
Income taxes	**80,421**	**140,316**
Effective income tax rate	42.30%	57.48%

In 2013 and 2012, non-deductible expenses mainly consist of withholding taxes on dividends and representation expenses. Tax incentives and tax-exempted income in 2013 and 2012 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. Furthermore, research, education and investment incentives as well as other government grants are included.

In 2013, the effect of the change in tax rates resulted from the reduction in the corporate income tax rate in Slovakia. The aggregated corporate income tax rate will be reduced from 23% to 22% at the beginning of 2014. In 2012, the effect of the change in tax rates resulted from the reduction of the corporate income tax rate in Slovenia and an increase in Serbia. In Slovenia, the aggregated corporate income tax rate was reduced from 18% to 17% at the beginning of 2013. In Serbia, the aggregated corporate income tax rate was increased from 10% to 15% at the beginning of 2013.

The tax expense for prior periods recognised in 2013 and 2012 results mainly from the application of financial reporting in hyperinflationary economies in accordance with IAS 29 in Belarus.

The result of changes in reporting entities relates to the gain resulting from a bargain purchases and to the loss from the sale of a subsidiary as described in Note (2).

Impairments (reversals of impairments) of investments relate to write-downs and reversals of write-downs of investments in associates 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 12/3/2 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 at 31 December are set out below:

in TEUR at 31 December	2013	2012
Deferred tax assets		
Deferred deduction for impairments of investments in subsidiaries	75,801	135,129
Loss carry-forwards	47,567	9,006
Accounts receivable – trade	8,962	11,560
Deferred income and other liabilities	665	16,837
Other current assets and prepaid expenses	1,378	1,798
Provisions, long-term	57,887	56,021
Employee benefit obligations	19,808	19,761
Property, plant and equipment	1,708	1,876
Other	8,931	2,797
Deferred tax assets	**222,707**	**254,785**
Deferred tax liabilities		
Goodwill	–9,689	–9,689
Property, plant and equipment	–25,969	–27,872
Other intangible assets	–160,871	–157,486
Provisions	–3,838	–2,305
Write down of treasury shares for tax purposes	–1,380	–1,423
Other	–3,218	–4,103
Deferred tax liabilities	**–204,964**	**–202,879**

in TEUR at 31 December	2013	2012
Deferred tax assets	123,006	167,083
Deferred tax liabilities	–105,264	–115,176
Deferred taxes, net	**17,743**	**51,907**

Telekom Austria Group established a tax group in Austria, with Telekom Austria AG as the head of the tax group. Deferred tax assets and liabilities for the members of the tax group (currently all significant Austrian subsidiaries) are reported on a net basis since the tax group is a taxable entity.

Impairments for tax purposes according to Section 9/7 of the Austrian Corporate Tax Act are treated as temporary differences related to investments in subsidiaries. According to IAS 12.39, no deferred tax liabilities are recorded in that case. Impairments of investments in subsidiaries relate to impairments for which the recognition of expense is deferred over seven years according to Austrian tax law.

As of 31 December 2013 and 2012, Telekom Austria Group did not recognise deferred tax assets amounting to TEUR 507,123 and TEUR 525,734, respectively. In 2013 and 2012, the unrecognised deferred tax assets relate to net operating loss carry-forwards of TEUR 393,163 and TEUR 365,625 and to temporary differences related to impairments of investments in consolidated subsidiaries of TEUR 113,960 and TEUR 160,109, respectively, because realisation in the near future is not probable according to tax planning.

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 reversal of deferred tax liabilities and projected future taxable income when making this assessment.

Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets become deductible, Management believes 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 2013, Telekom Austria Group had TEUR 2,073,114 of operating loss carry-forwards. The following loss carry-forwards mainly relating to Serbia will expire in the following years:

Year	in TEUR
2014	429
2015	86,291
2016	2,051
2017	78,718
2018	100,715
2019	91,957
Total	**360,161**

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 limited to 75% of the taxable income for a year.

As of 31 December 2013 and 2012, Telekom Austria Group did not recognise a deferred tax liability for temporary differences related to investments in associates in the amount of TEUR 1,578 and TEUR 159, respectively.

Income tax receivable relates to tax returns not yet assessed. As of 31 December 2013 and 2012, income tax receivable mainly relates to Austrian and Croatian subsidiaries. As of 31 December 2013 and 2012, income tax payable mainly relates to foreign subsidiaries.

(31) Share-based Compensation

Long Term Incentive (LTI) Program

Telekom Austria Group introduced a Long Term Incentive Program (LTI) in 2010. Participants are required to invest an amount depending on the annual gross basic salaries and the management-level of the entitled employee in Telekom Austria shares and to hold these shares until the end of the holding period (at least three years). For each tranche, the number of shares granted is calculated based on the average Telekom Austria stock price for a defined period. The performance period for meeting the performance targets was determined to be three years.

On 1 September 2010 the first tranche (LTI 2010), on 1 June 2011 the second tranche (LTI 2011) and on 1 August 2012 the third tranche (LTI 2012) were granted. Free cash flow, total shareholder return and EBITDA were defined as key performance indicators. The target values for these key indicators were determined by the Supervisory Board at the beginning of each tranche. At the vesting date (at the earliest three years after the grant date), bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, bonus shares equal to the personal investment will be allocated to the participants. If the targets are exceeded, additional shares will be allocated up to a maximum of 175% of the shares on a pro rata basis. In case of a significant underperformance, no shares will be allocated. For LTI 2010, the actual performance and the bonus shares allocated are summarised in the subsequent table.

On 1 September 2013, the fourth tranche (LTI 2013) was granted. Net income, relative total shareholder return and EBITDA were defined as key performance indicators. The relative total shareholder return is determined based on a balanced peer group of nine European telecommunications providers. The target values for these key indicators were determined by the Supervisory Board. At the vesting date (at the earliest three years after the grant date), bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, additional shares will be allocated up to a maximum of 175% of the shares on a pro rata basis. In case of a significant underperformance, no shares will be allocated.

The following table summarises the significant terms and conditions for each tranche:

	LTI 2013	LTI 2012	LTI 2011	LTI 2010
Start of the programme	1 January 2013	1 January 2012	1 January 2011	1 January 2010
Grant date	1 September 2013	1 August 2012	1 June 2011	1 September 2010
End of vesting period	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Vesting date	1 September 2016	1 August 2015	1 June 2014	1 September 2013
Personal investment (at grant date)	343,738	510,986	527,094	472,770
Thereof Management Board	73,977	59,674	51,348	51,348
Personal investment (at reporting date)*	333,203	460,400	443,786	433,726
Expected performance**	72.60%	17.80%	25.60%	41.10%
Expected bonus shares***	454,154	78,038	113,609	0
Maximum bonus shares***	1,166,209	805,701	776,625	0
Fair value of programme (in TEUR)	2,400	421	682	0
Allocated bonus shares	0	0	0	178,262
Average stock price at end of vesting period (in EUR)	0	0	0	5.25
Share-based compensation (in TEUR)	0	0	0	936

* for LTI 2010 personal investment at the end of the vesting period
** for LTI 2010 actual performance at the end of the vesting period
*** taking into account the allocation of bonus shares equal to the double personal investment for LTI 2013

As of the reporting date, a liability measured at fair value for the portion of the expected future expense of the LTI program, which has already vested, is recognised. The fair value of the liability is measured based on the expected target achievement and the expected share price, as determined by applying a binomial calculation model generally used for share price analysis, taking into account expected dividends. The liability is recognised over the vesting period (see Note (28)). The following personnel expense is recognised in the consolidated statements of profit or loss (negative values indicate income):

in TEUR	2013	2012
LTI 2010	−549	−689
LTI 2011	−370	134
LTI 2012	−260	569
LTI 2013	801	0

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 EUR increase	1 EUR decrease
Fair value of LTI 2013	454	−454
Fair value of LTI 2012	78	−78

A change of five percentage points in the EBITDA applied would result in the following changes of fair values (negative values indicate a reduction):

in TEUR at 31 December	5 percentage points increase	5 percentage points decrease
Fair value of LTI 2013	331	−212
Fair value of LTI 2012	73	−36

(32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

in TEUR	2013	2012
Cash paid for		
Interest	227,745	164,303
Income taxes	46,093	31,612
Cash received for		
Interest	8,178	12,458

Cash flows relating to interest and income taxes are reported in the cash flow from operating activities. The dividends received in 2013 and 2012 (see Note (7)) had already been settled in cash as of 31 December.

In 2013 and 2012, the item "Other", which is part of the reconciliation of net result to gross cash flow, amounted to TEUR 14,615 and TEUR 7,286 respectively. In 2013, it mainly consists of bad debt expenses for other receivables (see Notes (14) and (20)) and interest resulting from the settlement of the pre-hedge (see Note (33)). In 2012, it mainly consisted of non-cash changes in provisions (see Note (22)).

In 2013, cash and cash equivalents acquired totalled TEUR 14,855, and cash and cash equivalents of TEUR 110 were disposed of due to the sale of subsidiaries (see Note (2)). In 2012, Telekom Austria Group neither acquired cash in the course of acquisitions of subsidiaries nor did Telekom Austria Group dispose of cash due to the sale of subsidiaries.

(33) Financial Instruments

Financial risk management

Overview

Telekom Austria Group is exposed to market risks, including liquidity risk, interest rate and foreign currency exchange rate risk and credit risk associated with underlying financial assets, liabilities and anticipated transactions. Potential risks relating to interest rate and foreign exchange rate fluctuations can be limited by entering into derivative financial instruments. These policies are laid down in the Treasury Guidelines. Telekom Austria Group neither holds nor issues derivative financial instruments for trading or speculative purposes.

This Note presents information about Telekom Austria Group's exposure to each of the above risks, as well as the objectives, policies and the processes for limiting and measuring these risks.

The Chief Financial Officer (CFO) of the holding company has overall responsibility for the implementation and oversight of Telekom Austria Group's risk management and is responsible for monitoring Telekom Austria Group's risk management process.

Telekom Austria Group's risk management policies are established in order to identify and analyse the risks faced by Telekom Austria Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and Telekom Austria Group's activities. Telekom Austria Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Liquidity risk

Liquidity risk is the risk that Telekom Austria Group will not be able to meet its financial obligations as they fall due. Telekom Austria Group's approach to managing liquidity is to ensure that Telekom Austria Group will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. Furthermore, all measures required to assure sufficient liquidity for the needs according to the liquidity plan shall be taken. The liquidity risk expresses itself in the monthly and yearly cumulated difference between incoming and outgoing payments (dynamic liquidity risk) as well as in the structure of the statements of financial position (structural liquidity risk).

The analysis of the dynamic liquidity risk is conducted by means of liquidity planning. The given monthly liquidity requirement based on the forecasted liquidity planning is compared against the existing financing or available lines of credit and liquid financial assets. The difference between the two will result in either a liquidity gap, which will be financed, or excess liquidity, which, if necessary, will be invested. On the basis of the existing business plan, a rolling monthly liquidity plan is drawn up for Telekom Austria Group. In the liquidity plan, all known incoming and outgoing payments are processed and a worst-case scenario is calculated.

An analysis of the structural liquidity risk takes place upon determining the net working capital and the redemption structure of the financing portfolio (risk of concentration of maturities). Individual investment financing is structured in such a way that a balanced redemption schedule can be adhered to in the aggregate portfolio and any concentration of maturities in a single year is avoided.

Telekom Austria Group invests excess liquidity in instruments with counterparties and within limits approved by the CFO. All long-term instruments and derivatives are contracted with counterparties having an investment grade rating from Standard & Poor's or an equivalent rating from another globally recognised rating agency. If no such external rating is available, an internal rating based on quantitative ratios is carried out.

The exposure to liquidity risk, the set targets, the principles and processes to monitor the risk on an ongoing basis as well as the methods used to assess liquidity risk remained unchanged to prior years.

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

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

Other funding sources
In order to diversify its short-term funding sources, Telekom Austria Group implemented a multi-currency short-term and medium-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 2013 and 2012, no multi-currency notes were issued, thus no relating current liabilities were recognised.

In August 2012, Telekom Austria Group entered into a revolving period securitisation of trade receivables with a maximum amount of TEUR 225,000 ("Asset Backed Securitisation (ABS) Program"). As of 31 December 2013 and 2012, no amount was drawn, thus no relating short-term debt was recorded. For further information on accounts receivable – trade sold in the course of this programme see Note (9). In accordance with IFRS 10, Telekom Austria Group controls the SPE because the activities of the SPE are being conducted on behalf of Telekom Austria Group according to its specific business needs so that Telekom Austria Group obtains the benefits from the SPE's operations. In substance, Telekom Austria Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits of its activities. Consequently, Telekom Austria Group includes the SPE in the consolidated financial statements. In 2013 and 2012, liquidity fees amounting to TEUR 1,679 and TEUR 606, respectively, were recognised in interest expense.

As of 31 December 2013 and 2012, Telekom Austria Group had total credit lines (including ABS) of TEUR 1,060,000 and TEUR 1,060,000, respectively. These credit lines were not utilised. The credit line commitments will expire between August 2014 and July 2018.

Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of the non-derivative financial liabilities and the derivative financial instruments with positive and negative fair value. The variable interest payments related to the financial instruments were calculated based on interest rates effective as of 31 December 2013 and 2012. Foreign currencies were translated at the rates valid on the reporting date (inflows of cash are shown as negative figures).

	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 2013						
Financial liabilities						
Bonds	3,840,807	99,063	34,002	133,304	1,531,691	2,042,748
Bank debt	940,821	60,444	103,466	294,009	402,654	80,247
Accounts payable – trade	573,836	573,050	7	63	191	525
Other financial liabilities	69,198	49,704	9,242	5,612	3,443	1,198
At 31 December 2012						
Financial liabilities						
Bonds	3,385,034	99,227	787,500	99,063	1,499,245	900,000
Bank debt	1,164,187	19,482	205,085	162,753	464,146	312,720
Accounts payable – trade	567,754	563,083	3,968	164	266	273
Lease obligations	46	39	7	0	0	0
Other financial liabilities	134,186	114,987	9,200	5,513	3,409	1,076
Derivative financial liabilities (Hedging)						
Fixed to variable IRS	– 10,984	2,426	– 13,410	0	0	0
Variable to fixed IRS	68,211	0	– 708	10,805	26,677	31,437

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

Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect Telekom Austria Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. All financial transactions are carried out within the Treasury Guideline. For derivative financial instruments used for risk management purposes, Telekom Austria Group generally applies hedge accounting in accordance with IAS 39.

The calculation of fair values (mark-to-market) is based on contractually agreed future cash flows related to these transactions. For the purpose of determining the fair value of the existing financial instruments, Telekom Austria Group considers the interest rate curve applicable to calculate discount factors of matching maturities.

The exposure to market risk, its origin and the objectives, policies and processes for managing market risk (interest rate risk and exchange rate risk) and the methods used to measure credit risk remained unchanged to prior years.

Interest rate risk

Telekom Austria Group considers changing interest rates as its major market risk exposure. Telekom Austria Group's risk management strategy strives to balance the related exposure to fair value and cash flow risks.

Since the majority of Telekom Austria Group's long-term debt has fixed interest rates, the cash flow exposure due to fluctuating interest rates is limited. However, the fair value of fixed rate debt increases when market rates are below the rates fixed on these loans. In line with its risk policy, Telekom Austria Group entered into fixed-to-floating interest rate swap agreements to create a fix-to-floating mix of its total debt portfolio to support Telekom Austria Group's value-at-risk/cash-flow-at-risk approach. Under the interest rate swap agreements, Telekom Austria Group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate amounts calculated by reference to an agreed notional principal amount.

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

For details on the risks related to long-term financial liabilities, see Note (25).

The risks related to current liabilities are set out below:

in TEUR at 31 December	2013	2012
Variable rate carrying amount	14	6,840
Average interest rate in %*	n.a.	20.49%

* Weighted average of the year-end interest rates applicable to the outstanding amounts. In 2012, this relates mainly to financial liabilities of velcom.

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):

		Change in financial portfolio	
in TEUR at 31 December	Capital amounts	Increase	Decrease
2013			
Fixed rate financial liabilities	3,723,801		
Sensitivity at 4.969%		−185,036	185,036
2012			
Fixed rate financial liabilities	3,606,710		
Sensitivity at 4.217%		−152,095	152,095

Cash flow sensitivity analysis for variable-rate financial instruments
A change of one percentage point in interest rates at the reporting date would have increased (decreased) net income or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The amounts presented refer to the variable portion of the total debt portfolio (negative amounts represent positive effects on the consolidated statements of profit or loss):

in TEUR at 31 December	Capital amounts	1 percentage point increase	1 percentage point decrease
2013			
Variable rate financial liabilities	175,014		
Sensitivity		**1,750**	**−1,750**
2012			
Variable rate financial liabilities	181,840		
EMTN bond with interest rate swap (variable leg)	300,000		
Sensitivity		4,818	−4,818

Interest rate swap agreements
Telekom Austria Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. Telekom Austria Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining term of the hedged item is more than twelve months; it is classified as a current asset or liability

when the remaining term of the hedged item is less than twelve months. Derivative financial instruments which do not qualify for hedge accounting are classified as financial assets or financial liabilities.

As of 31 December 2013, there are no interest rate swap contracts. The following table indicates the types of swaps in use at 31 December 2012, and their weighted average interest rates and the weighted average maturity of the interest rate swap contracts. The "average pay rate" represents the weighted average interest rate at 31 December 2012. This interest rate is applied to the notional amount under the relevant interest rate swap contract to determine the amount of interest that Telekom Austria Group must pay. The "average receive rate" represents the weighted average interest rate applicable at 31 December 2012. This interest rate is applied to the notional amount under the relevant interest rate swap contract to determine the amount of interest that Telekom Austria Group receives. The notional amounts under the relevant contracts only represent the basis for calculating the interest to be paid or received, and do not actually represent the amounts to be received or paid by either party:

	2013	2012
Fixed-to-variable swaps in EUR (fair value hedge)		
Notional amount in TEUR	0	300,000
Average receive rate	0	5.00%
Average pay rate	0	2.02%
Average maturity in years	0	0.59
Variable-to-fixed swaps in EUR (cash flow hedge)		
Notional amount in TEUR	0	300,000
Average pay rate	0	3.97%
Average maturity in years	0	11.02

In 2012, the interest rate swap transactions resulted in a change in effective interest rates for hedged transactions of 2.98 percentage points.

Information with respect to fair value hedges

To offset fair value changes attributable to interest rate variability of the bonds issued in 2003 under the EMTN Program (see Note (25)), Telekom Austria Group had entered into interest rate swaps.

The key conditions of the interest rate swaps and the bonds were identical. Changes in the fair value of the derivative hedging instrument had offset changes in the fair value of the underlying liability due to fluctuations in interest rates (Dollar Offset Method).

According to IAS 39, the hedge effectiveness must be between 80 and 125 percent for a hedge to be considered effective. The effectiveness is calculated by dividing the hedged portion of the change in the fair value of the underlying liability by the corresponding change in the fair value of the derivative hedging instrument or vice versa. The following hedge effectiveness test assumed that all other variables remain constant. The values presented refer to the hedged items and hedging instruments.

Hedge Effectiveness Test Fair Value Hedges

in TEUR at 31 December	Notional amount	Fair value at origination	Fair value at reporting date	Fair value change	Effectiveness
2012					
Hedged items	300,000	299,315	306,622	−7,307	
Hedging instrument (interest rate swap)	300,000	1,265	−6,479	7,744	
Effectiveness in %					−94.36%
Ineffectiveness in EUR					437

Information with respect to cash flow hedges

Cash flow hedges are entered into by Telekom Austria Group to reduce its exposure to changes in the cash flows resulting from interest payments with respect to floating interest rate liabilities.

The three forward-starting interest rate swap contracts (pre-hedges) with a face value of TEUR 100,000 each, which were concluded to hedge the interest rate risk of future interest payments, were settled on 28 May 2013 as agreed upon. An amount of TEUR 65,142 was paid to the contractual partners. Settlement cost of TEUR 978 was recorded in interest expense when incurred (see Note (7)). In 2012 and 2013, no ineffectiveness was recognised.

On 28 May 2013, the fair value of these pre-hedges, which was reported in stockholders' equity, amounted to TEUR 64,164. The relating hedging reserve will be released in profit or loss in accordance with the recognition of interest expense on the bond, which was issued on 4 July 2013, as the interest rate risk on that bond was hedged. In 2013, the release of the hedging reserve resulted in interest expense amounting to TEUR 3,208 and tax benefit amounting to TEUR 802. At 31 December 2012, the negative fair value of the hedge amounted to TEUR 64,612. In 2012, the change in fair value of the hedging instrument resulted in a loss of TEUR 23,112, in 2013, in a gain of TEUR 336 which was recognised in other comprehensive income (OCI).

Exchange rate risk

As of 31 December 2012, the remaining purchase price liability from the acquisition of SBT in 2007 (see Note (2)) amounted to TUSD 38,211. This liability was not hedged but Telekom Austria Group invested US Dollars resulting from the initial forward exchange contract which expired in 2010 (see Note (8)).

As of 31 December 2013 and 2012, of all accounts receivable – trade and accounts payable – trade, only the following are denominated in a currency other than the functional currency of the reporting entities (for foreign exchange rates, see Note (1)):

	2013			2012		
in TEUR, at 31 December	EUR	USD	Other	EUR	USD	Other
Accounts receivable – trade	24,428	1,081	20,311	14,580	4,369	16,384
Accounts payable – trade	41,199	8,310	9,988	33,335	12,521	6,710

A change of 5% in the exchange rate of EUR to HRK would have increased (decreased) foreign exchange rate differences by TEUR 1,628 and EUR 2,510 in 2013 and 2012, respectively. A change of 10% in the exchange rate of EUR to RSD would have increased (decreased) foreign exchange rate differences by TEUR 796 and TEUR 11 in 2013 and 2012, respectively. A sensitivity analysis for a change of the BYR was not performed due to the application of accounting in hyperinflationary economies. No sensitivity analysis was performed for other accounts receivable or for accounts payable – trade, denominated in foreign currencies, as there is no significant risk due to diversification.

Foreign exchange agreements

As of 31 December 2013 and 2012, hedge accounting was not applied to foreign exchange agreements.

Credit risk

Credit risk is the risk of financial loss to Telekom Austria Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Telekom Austria Group's accounts receivable – trade, investment activities and derivative financial instruments.

The exposure to credit risk, its origin and the objectives, policies and processes for managing credit risk as well as the methods used to measure credit risk remained unchanged to prior years.

Telekom Austria Group does not have significant exposure to any individual customer or counterparty, nor does it have any major concentration or credit risk related to any financial instrument other than noted under the section concentration of risk in "Significant Accounting Policies" (Note (1)). Due to internal guidelines and the setting of counterparty limits, Telekom Austria Group does not have significant exposure to credit risk in respect of financial instruments.

Telekom Austria Group does not require collateral in respect of financial assets. In order to reduce the risk of non-performance by the other parties all swap agreements are concluded under the standards of the "ISDA-Master Agreement" or the German Standards "Framework for Financial Forward Agreements".

Accounts receivable – trade and other receivables

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

The Credit Management Department has established a credit policy that requires each new customer to be analysed individually for creditworthiness.

Credit risk or the risk of default in payment by contractual partners is continuously monitored via credit checks, credit limits and verification routines. Due to the large number of customers and the high level of diversification of the portfolios, the default of any single debtor would not entail grave consequences (low concentration risk) in respect of the consolidated financial statements. Within Telekom Austria Group, operative credit risk management functions are performed at the operating company level.

Telekom Austria Group does not require collateral in respect of accounts receivable – trade and other receivables.

Financial investments
Telekom Austria Group limits its exposure to credit risk by only investing in fungible financial instruments and by placing deposits only with counterparties that have an appropriate external or internal rating based on quantitative and qualitative parameters. As Telekom Austria Group's investments are generally of a short-term nature, it does not expect any counterparties to fail to meet their obligations. Therefore, the exposure to any significant credit risk is low.

Guarantees
As of 31 December 2013 and 2012, no guarantees have been provided to third parties.

Exposure to credit risk
The carrying amount of financial assets and accounts receivable – trade represents the maximum credit risk exposure. The maximum exposure to credit risk related to financial assets was:

in TEUR, at 31 December	2013	2012
Available-for-sale financial assets	14,571	92,440
Financial investments valued at cost	558	554
Loans and receivables	60,743	61,218
Cash and cash equivalents	201,334	600,763
Hedging instruments (fair value hedges)	0	11,003
Carrying amount of financial assets	**277,206**	765,978

The following table sets forth the maximum exposure to credit risk for accounts receivable – trade, which equals the carrying amount, by geographic region:

in TEUR, at 31 December	2013	2012
Domestic	755,873	884,035
Foreign	108,899	66,272
Allowances	–180,929	–203,451
Accounts receivable – trade	**683,843**	746,856

Accounts receivable – trade from Telekom Austria Group's most significant customer amount to TEUR 2,979 and TEUR 2,011 as of 31 December 2013 and 2012, respectively. Thus, no major concentration of credit risk exists. With respect to the aging of accounts receivable – trade and the allowance for doubtful accounts, see Note (9).

Fair value of financial instruments

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

	2013		2012	
in TEUR, at 31 December	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	**201,334**	**201,334**	600,763	600,763
Accounts receivable – trade	683,843	683,843	751,102	751,102
Receivables due from related parties	58	58	7	7
Other current financial assets	42,578	42,578	42,747	42,747
Other non-current financial assets	18,106	18,106	14,219	14,219
Loans and receivables	**744,585**	**744,585**	808,075	808,075
Long-term investments	4,690	4,690	7,317	7,317
Short-term investments	9,882	9,882	85,123	85,123
Available-for-sale investments	**14,571**	**14,571**	92,440	92,440
Investments at cost	**558**	**558**	554	554
Hedging instruments (fair value hedges)	0	0	11,003	11,003
Financial assets carried at fair value	**0**	**0**	11,003	11,003

Cash and cash equivalents, accounts receivable – trade and other current financial assets have maturities lower than one year. As their carrying amounts reported approximate their fair values, no further information on the classification in the fair value hierarchy is provided.

The fair values of other non-current financial assets with a maturity of more than one year correspond to the present values of the payments related to the assets, taking into account the current interest rates that reflect market and partner-based changes to terms, conditions and expectations and are thus classified as Level 2 of the fair value hierarchy.

The fair values of held-to-maturity investments and of available-for-sale investments are based on quoted market prices.

Telekom Austria Group estimates the fair values of investments in equity instruments and investments in unconsolidated subsidiaries that do not have a quoted market price in an active market based on the audited financial statements, if available. For information on the stake in CEESEG AG, see Note (16).

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

	2013		2012	
in TEUR, at 31 December	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Current liabilities to financial institutions	14	14	6,840	6,840
Bonds	3,025,452	3,206,764	2,432,820	2,679,937
Other current financial liabilities	68,233	68,233	109,698	109,698
Non-current liabilities to financial institutions	848,801	911,356	1,031,710	1,127,312
Lease obligations	0	0	45	45
Other non-current financial liabilities	942	942	1,394	1,394
Accounts payable – trade	573,836	573,836	590,783	590,783
Payables due from related parties	5,891	5,891	7,775	7,775
Accrued interest	93,720	93,720	103,511	103,511
Financial liabilities at amortised cost	**4,616,890**	**4,860,757**	**4,284,577**	**4,627,295**
Bonds – hedged item	**0**	**0**	**306,480**	**307,097**
Hedging instruments (cash flow hedges)	0	0	64,612	64,612
Financial liabilities carried at fair value	**0**	**0**	**64,612**	**64,612**

Accounts payable – trade and other payables, as well as other liabilities, have maturities lower than 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 all other unquoted bonds, 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:

	Level 1	Level 2	Level 3	Total
At 31 December 2013				
Available-for-sale & other investments	6,429	8,143	0	14,571
Financial assets measured at fair value	**6,429**	**8,143**	**0**	**14,571**
At 31 December 2012				
Available-for-sale & other investments	8,194	84,246	0	92,440
Fair value hedges	0	11,003	0	11,003
Financial assets measured at fair value	**8,194**	**95,249**	**0**	**103,443**
Bonds – hedged item	0	306,480	0	306,480
Cash flow hedges	0	64,612	0	64,612
Financial liabilities measured at fair value	**0**	**371,092**	**0**	**371,092**

Bonds representing hedged items are reported in Level 2 as the market value adjustment in connection with the hedged risk (interest rate) was determined by applying discounted cash flows based on market data (interest curve). As the carrying amount only takes into account the market value adjustment in connection with the interest rate risk it differs from the fair value based on stock exchange quotations.

(34) Commitments and Contingent Assets and Liabilities

A tax audit performed in Austria resulted in a potential additional payment of TEUR 17,000 for prior periods. Based on the circumstances and the rules to be applied, Telekom Austria Group estimates an actual payment to be improbable.

In 2011, Si.mobil filed a law suit against Telekom Slovenia for the abuse of its monopoly position. Internationally recognised experts in the field of competition regulation estimated that the damage in case up to the reporting date amounts to approximately TEUR 248,485.

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 interconnection. 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 2013. These matters could materially affect the operating results or cash flows of any quarter when resolved in future periods. However, Management believes that after final settlement, any monetary liability or financial impact on Telekom Austria Group, beyond such provided for at year-end, would not be material to its consolidated financial statements.

(35) Remuneration paid to the Management and Supervisory Board

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

in TEUR	2013	2012
Basic remuneration (fixed salary incl. remuneration in kind)	1,118	959
Variable remuneration	1,349	780
Share-based compensation (Long Term Incentive Program)*	111	0
Total	**2,578**	1,739
Remuneration Supervisory Board	220	192

* For LTI 2010, see Note (31).
The increase in the salaries of the Management Board members is due to the extension of the Management Board by the new Chief Technology Officer since 1 September 2013.

As of 31 December 2013 and 2012, the Management Board of Telekom Austria Group is composed of Hannes Ametsreiter as Chief Executive Officer (CEO), Hans Tschuden as Chief Financial Officer (CFO) and additionally, since 1 September 2013, Günther Ottendorfer as Chief Technology Officer (CTO).

(36) Employees

The average number of employees during the years 2013 and 2012 was 16,347 and 16,863, respectively. As of 31 December 2013 and 2012, Telekom Austria Group employed 16,045 and 16,446 employees (full-time equivalents).

(37) Subsequent Events

On 16 January 2014, América Móvil, S.A.B. de C.V. concluded a conditional contract with Inmobiliaria Carso, S.A. de C.V. and Control Empresarial de Capitales, S.A. de C.V. for the acquisition of 13,901,000 shares of Telekom Austria TA AG, which represent 3.14% of share capital.

(38) Affiliated Companies

Name and company domicile	Share in capital as of 31 December 2013 in %	Method of consolidation*
Segment Austria		
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00	FC
Telekom Austria Personalmanagement GmbH, Vienna	100.00	FC
Telekom Austria Beteiligungen GmbH, Vienna	100.00	FC
CableRunner GmbH, Vienna	76.00	FC
CableRunner Austria GmbH & Co. KG, Vienna	76.00	FC
World-Direct eBusiness solutions Gesellschaft m.b.H., Vienna	100.00	FC
ÖFEG GmbH, Vienna	100.00	FC
paybox Bank AG, Vienna	100.00	FC
paybox Service GmbH, Vienna	100.00	FC
3G Mobile Telecommunications GmbH, Vienna	100.00	FC
mk Logistik GmbH, Vienna	100.00	FC
JetStream Hungary Kft, Budapest	100.00	FC
JetStream Slovakia s.r.o., Bratislava	100.00	FC
JetStream RO s.r.l., Bucharest	100.00	FC
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00	FC
JetStream Switzerland GmbH, Zurich	100.00	FC
JetStream Poland Spolka Z Ograniczona Odpowiedzialnoscia, Warsaw	100.00	FC
JetStream Germany GmbH, Frankfurt on the Main	100.00	FC
JetStream Italy S.r.l, Milan	100.00	FC
TA CZ sítě s.r.o., Prague	100.00	FC
JetStream BH d.o.o.drustvo za telekomunikacije, Sarajevo	100.00	FC
Homer Receivables Purchasing Company Limited, Dublin (Special Purpose Entity)		FC
media.at GmbH, Vienna	25.3228	EQ
Segment Bulgaria		
Mobiltel EAD, Sofia	100.00	FC
Alabin 48 EOOD, Sofia	100.00	FC
M repair and service EAD, Sofia	100.00	FC
M Support Services EOOD, Sofia	100.00	FC
M Game EOOD, Sofia	100.00	FC
GPS Bulgaria AD, Sofia	90.00	FC
Orbitel EAD, Sofia	100.00	FC
Segment Croatia		
Vipnet d.o.o., Zagreb	100.00	FC
Vipnet usluge d.o.o., Zagreb	100.00	FC
Segment Belarus		
FE VELCOM, Minsk	100.00	FC
FE TA-Engineering, Minsk	100.00	FC
FE TA-Installation, Minsk	100.00	FC
Segment Additional Markets		
Telekom Austria Group M2M GmbH, Vienna	100.00	FC
mobilkom liechtenstein AG, Vaduz	100.00	FC
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00	FC
TA Mreža d.o.o., Ljubljana	100.00	FC
Vip mobile d.o.o., Belgrade	100.00	FC
Vip operator DOOEL, Skopje-Zentar	100.00	FC
Vip operator uslugi DOOEL, Skopje-Zentar	100.00	FC
Vip operator prodazba DOOEL, Skopje-Zentar	100.00	FC
Corporate & Other		
Telekom Projektentwicklungs GmbH, Vienna	100.00	FC
Telekom Finanzmanagement GmbH, Vienna	100.00	FC

Name and company domicile	Share in capital as of 31 December 2013 in %	Method of consolidation*
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00	FC
mobilkom Bulgarien Beteiligungsverwaltungsgmbh, Vienna	100.00	FC
mobilkom Bulgarien Geschäftsentwicklungsgmbh, Vienna	100.00	FC
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00	FC
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00	FC
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00	FC
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00	FC
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00	FC
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00	FC
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00	FC
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	100.00	FC
SB Telecom Ltd., Limassol	100.00	FC

* FC – full consolidation, EQ – equity method, NC = no consolidation due to immateriality

As of 31 December 2013, all affiliated companies in which Telekom Austria Group holds more than a 20% interest are included in the consolidated financial statements.

All affiliated companies have 31 December as their reporting date except for media.at-Group which has 30 June as its reporting date.

(39) Release for Publication

On 13 February 2014, 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 upon approval.

Vienna, 13 February 2014

Hannes Ametsreiter   Hans Tschuden   Günther Ottendorfer

Auditor's Report on Consolidated Financial Statements (Translation)

We have audited the accompanying consolidated financial statements of Telekom Austria AG, Vienna, for the fiscal year from January 1, 2013 to December 31, 2013. These consolidated financial statements comprise the consolidated statements of profit or loss the consolidated statements of comprehensive income, the consolidated statements of financial position as of December 31, 2013, the consolidated statements of cash flows, the consolidated statements of changes in stockholders equity for the fiscal year ended December 31, 2013, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 245a UGB. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2013 and of its financial performance and its cash flows for the fiscal year from January 1, 2013 to December 31, 2013 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Comments on the Management Report for the Group

Pursuant to statutory provisions, 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 other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, February 13, 2014

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Nikolaus Schaffer Wirtschaftsprüfer	Mag. Maximilian Schreyvogl Wirtschaftsprüfer

The report is a translation from the original auditor's report in German, which is solely valid. The consolidated financial statements may only be published or duplicated together with our auditors' report in the version audited by us. This auditors' report only relates to the complete consolidated financial statements in German, including the consolidated management report. Section 281(2) of the Austrian Commercial Code (UGB) applies to versions differing from the version audited by us.

Glossary

Information and communication technology glossary

ARPL (monthly average revenue per Line)
Average revenue generated per fixed access line.

ARPU (monthly average revenue per User)
Average revenue generated per mobile user.

Convergence
Demand-driven consolidation of established goods markets; in the ICT industry, this means the consolidation of telecommunications, informatics and media and their combination via an interactive multimedia platform.

Fibre to the building (FTTB)
Fibre-optic cables run from the exchange to the customer's building. Copper wires are used to transmit the signal the remaining distance to the customer.

Fibre to the curb (FTTC)
Fibre-optic cables run from the exchange to the street cabinet. Copper wires are used to transmit the signal the remaining distance to the customer.

Fibre to the exchange (FTTEx)
A fibre-optic distribution network is laid to the exchange. Copper cables are laid for the so-called 'last mile'.

Fibre to the home (FTTH)
Direct fibre-optic connection to a household.

HSPA+ (High Speed Packet Access Plus)
Advanced version of the UTMS standard for fast mobile internet. Supports download speeds of up to 42 Mbps.

ICT
Information and Communication Technology.

Internet Protocol (IP)
Manufacturer-neutral transport protocol for communication across network boundaries, specifies the format of data packets and serves as the addressing scheme.

IPTV (Internet Protocol Television)
Transmission of television programmes and films via the internet.

LTE (Long Term Evolution)
LTE represents the further advancement of existing mobile networks towards even faster data transfer and larger transmission capacities. LTE enables transfer rates of up to 150 Mbps.

Machine-to-Machine (M2M)
Connection services for automated data transfer between machines, devices, sensors or servers for remote controlling and monitoring with or without human interaction.

Mobile penetration
Measures customers of a mobile communication provider as a proportion of total population.

Roaming
Allows users to make telephone calls using a third-party (foreign) network. This is subject to a roaming agreement between network operator and at least one partner in the respective foreign country.

Smartphone
Mobile telephone with expanded functionality. In addition to calls and SMS services, this usually includes additional services such as e-mail, internet access, calendar, navigation, and the recording and playback of audiovisual content.

Social media
Describes digital media and technologies which allow users to interact and create media content individually or as part of a community.

Tablet computer
Portable computer which – unlike a notebook – has no hardware keyboard, but instead comes with a touch screen used to control the entire computer, including the software emulation of a keyboard.

Termination charges
The operator of a subscriber network connects a call originating from a third-party telecommunication network to a subscriber of its own network and charges a fee to the network operator from which the call originates.

Unbundling
The local loop is made available to alternative network operators and Internet service providers in order to give them access to end users.

Video on demand
Allows users to directly access and play videos from a video server in real time whenever convenient.

Wholesale
Reseller market; in the telecommunications industry this refers to providers in the areas of voice telephony, data communication, mobile communication and internet services.

Stock exchange and economic glossary

ATX (Austrian Traded Index)
Benchmark index of the Vienna Stock Exchange.

Capital expenditure
Defined as 'additions to property, plant and equipment and intangible assets' as reported in the cash flow statement under 'cash flow from investing activities'.

Capital market compliance guideline
Group-wide guideline setting out organisational measures to prevent stock trading using share price-relevant information not yet publicly available (insider information) and to ensure the confidential treatment of such insider information.

Code of Conduct
The Code of Conduct of the Telekom Austria Group is a Group-wide internal directive which prescribes how to deal fairly with customers, suppliers and employees, protect confidential company and business information, protect assets and deal with conflicts of interest. It also sets out rules for accepting gifts and provisions on capital market compliance.

Compliance management
Area of responsibility dealing with a company's compliance with statutory provisions and directives as well as voluntary codes.

Corporate governance
The Austrian Corporate Governance Code sets out guidelines for responsible company management and controlling.

Directors' dealings
Describes transactions by the management of listed stocks in securities of the same company.

Directors and officers (D&O) insurance
Pecuniary damage liability insurance concluded by a company for its executive bodies and senior employees.

Stoxx Telecom Index
Index of companies in the telecommunication sector.

EBITDA (earnings before interest, taxes, depreciation and amortisation)
EBITDA is defined as net income excluding the financial result, income taxes and depreciation and amortisation expense.

EBITDA comparable
Defined as EBITDA adjusted for restructuring and impairment effects. EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring programme and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses.

EBITDA margin
Ratio of EBITDA to revenue in percent.

Euro Medium Term Note Program (EMTN)
Internationally recognised documentation for the issue of bonds that also serves as the basis for subsequent issues.

EVA (Economic Value Added)
Operating profit after tax less capital charges. An indicator for the value created by a company.

Free cash flow
Defined as cash flow from operating activities less capital expenditure in existing business areas.

GRI (Global Reporting Initiative)
Initiative to develop standards for the preparation and evaluation of sustainability reports using a participatory approach.

IFRS (International Financial Reporting Standards)
Accounting standards developed by the International Accounting Standards Board (IASB; formerly International Accounting Standards Committee, IASC). In addition to the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) published by the IASB, this includes the interpretations published by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

Market capitalisation
Number of shares outstanding multiplied by the share price.

Net debt
Financial liabilities less cash and cash equivalents, investments, finance lease receivables and derivative financial instruments for hedging activities.

Net debt to EBITDA comparable
Ratio of net debt to EBITDA comparable; indicates the debt repayment period on the basis of net debt and EBITDA comparable.

No frills
Cost benefit for customers gained by foregoing supplementary services.

ÖIAG
Österreichische Industrie Holding AG is the investment and privatisation agency of the Republic of Austria.

Rating
Assessment of the creditworthiness of a debtor. Ratings are often issued by specialist rating agencies such as Standard & Poor's or Moody's Investor Service in the form of rating codes.

RoE (return on equity)
Ratio of net income to the average equity employed; serves as an indicator which measures the yield on equity.

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

Whistleblower
Individual who brings to light abuses such as illegal activities (e.g. corruption, insider trading and human rights violations) or general risks that he/she discovers at his/her workplace or elsewhere.

Legend for tables

n.m. not meaningful; used for changes >300% and for percentage changes which are not meaningful.

n.a. not applicable.

Forward-looking statements

This annual report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are usually accompanied by words such as "believe", "intend", "anticipate", "plan", "expect" and similar expressions. We caution that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

- the level of demand for telecommunications services or equipment, particularly with regard to access lines, traffic, bandwidth and new products;
- competitive forces in liberalised markets, including pricing pressures, technological developments, alternative routing developments and new access technologies, and our ability to retain market share in the face of competition from existing and new market entrants;
- the effects of our tariff reduction initiatives or other marketing initiatives;
- the impact of insolvencies of our major customers or international suppliers;
- the regulatory developments and changes, including the levels of tariffs, the terms of interconnection, unbundling of access lines and international settlement arrangements;
- our ability to achieve cost savings and realise productivity improvements;
- the success of new business, operating and financial initiatives, many of which involve start-up costs, and new systems and applications, particularly with regard to the integration of service offerings of our newly integrated subsidiaries;
- our ability to secure the licenses we need to offer new services and the cost of these licenses and related network infrastructure build-outs;
- the progress of our domestic and international investments, joint ventures and alliances;
- the impact of our new business strategies and transformation process including the reintegration of subsidiaries and restructuring of operations;
- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital expenditures;
- the outcome of current and future litigation in which we are or will be involved;
- the level of demand for our shares which can affect our business strategies;
- our ability to further reduce our existing workforce;
- concerns over health risks associated with the use of wireless handsets or radio frequency emissions from transmission masts;
- changes in the law including regulatory, civil servants and social security, pensions and tax law; and
- general economic conditions, government and regulatory policies, new legislation and business conditions in the markets we serve.

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