Telekom Austria Group

Combined Annual Report 2017

The digital journey continues

Key figures of the A1 Telekom Austria Group

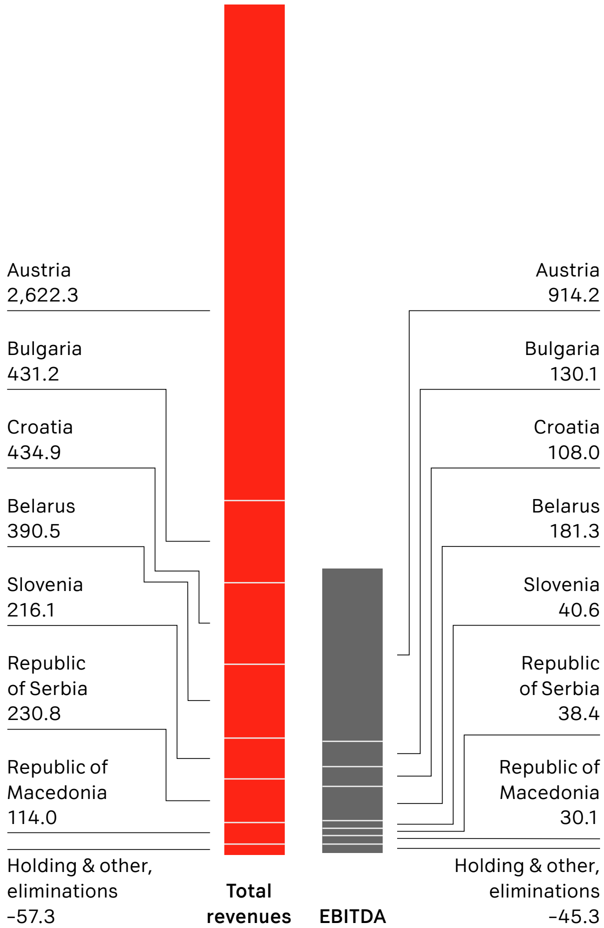
	2017	2016	Change in %
Customer indicators (in '000)			
RGUs [1]	6,036.5	5,900.2	2.3
of which broadband RGUs	2,529.0	2,448.9	3.3
of which TV RGUs	1,421.4	1,284.3	10.7
Fixed access lines	3,471.4	3,421.7	1.5
Mobile communications customers	20,657.7	20,707.8	-0.2
of which contract customers	15,580.7	15,041.0	3.6
of which prepaid customers	5,077.1	5,666.8	-10.4
Key financial data (in EUR mn)			
Total revenues	4,382.5	4,211,5	4.1
EBITDA [2]	1,397.3	1,354.3	3.2
EBITDA margin (in %)	31.9	32.2	–
Operating income	443.9	486.7	-8.8
Net result	345.5	413.2	-16.4
Free cash flow [3]	384.7	232.0	65.8
Net cash flow from operating activities	1,174.8	1,195.5	-1.7
Capital expenditures [4]	736.9	764.1	-3.6
Net debt	2,331.8	2,339.4	-0.3
Equity	2,937.4	2,770.7	6.0
Equity ratio (in %)	38.5	34.9	–
Net debt to EBITDA	1.7×	1.7×	–
Net gearing ratio	0.79	0.84	–
Return on invested capital—ROIC [5] (in %)	6.9	8.5	–
Return on equity—ROE [6] (in %)	12.1	15.9	–
Key share figures (in EUR)			
Earnings per share	0.48	0.58	-17.6
Free cash flow per share	0.58	0.35	65.8
Market capitalisation as of 31 December (in EUR bn)	5.1	3.7	37.8
Share price as of 31 December	7.72	5.61	37.8
Share price high	8.28	5.73	–
Share price low	5.50	4.66	–
Dividend per dividend-bearing share	0.20 [7]	0.20	–
Employee indicators			
Full-time equivalents, as of 31 December	18,957	18,203	4.1
Share of female employees (in %)	38	39	–
Share of female managers (in %)	36	36	–
Environmental indicators			
Total energy consumption (in MWh)	791,790	753,810	5.0
Energy efficiency indicator (in MWh/terabyte)	0.24	0.32	-25.5
Direct scope 1 CO_2 emissions (in t) [8]	27,867	27,419	1.6
Indirect scope 2 CO_2 emissions market-based in t [9]	190,621	178,038	7.1
Share of renewable energy in electricity (in %)	62	61	–
Recycling rate (in %)	72	72	–
Media literacy training			
Free media literacy training	1,947	1,784	9.1
Participation in free media literacy training	28,817	25,499	13.0

1) 'Revenue generating units' 2) EBITDA is defined as the net result excluding financial result, income tax, depreciation and amortisation and, if applicable, impairment losses or reversal of impairments. 3) Defined as cash flow generated from operating activities plus proceeds from sale of plant, property and equipment minus capital expenditures paid and interest paid. 4) Excluding asset retirement obligations. 5) Total return on invested capital, calculated by net operating profit after tax (NOPAT) divided by the average capital invested. As calculation parameters changed in the reporting period, figures have been adjusted accordingly in the comparison period. 6) Ratio of net result to the average equity employed; serves as an indicator which measures the yield on equity. 7) Proposal to the Annual General Meeting, which will take place on 30 May 2018. 8) Direct emissions from combustion of fossil fuels without cooling agents. CO_2 in CO_2 equivalents excluding compensation. 9) Indirect emissions (market-based) from electricity and district heating. CO_2 in CO_2 equivalents excluding compensation.

A1 Telekom Austria Group

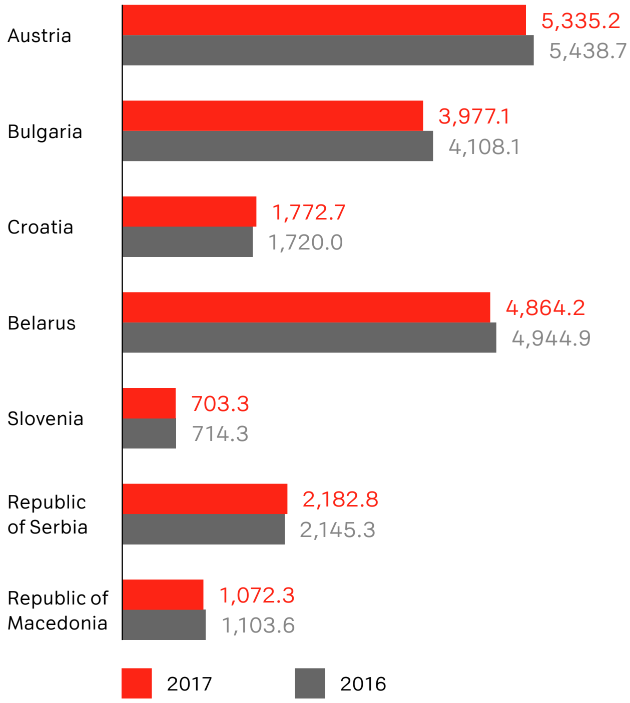
Total revenues and EBITDA by segments

in EUR mn / in 2017



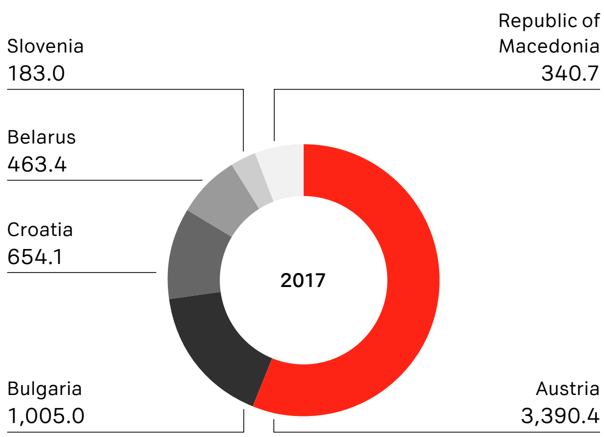
Mobile communications customers by segments

in '000 / as of 31 December



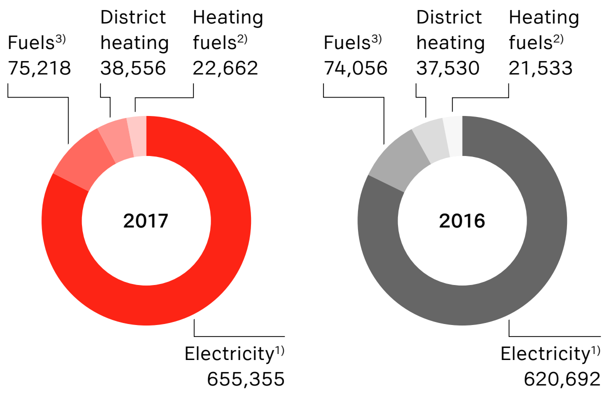
RGUs by segments

in '000 / as of 31 December 2017



Total energy consumption

in MWh



Total energy consumption
791,790

Total energy consumption
753,810

1) Purchased and in-house production as well as diesel for emergency generators 2) Includes oil and gas 3) Includes diesel, petrol, CNG, LPG and natural gas without diesel for emergency generators

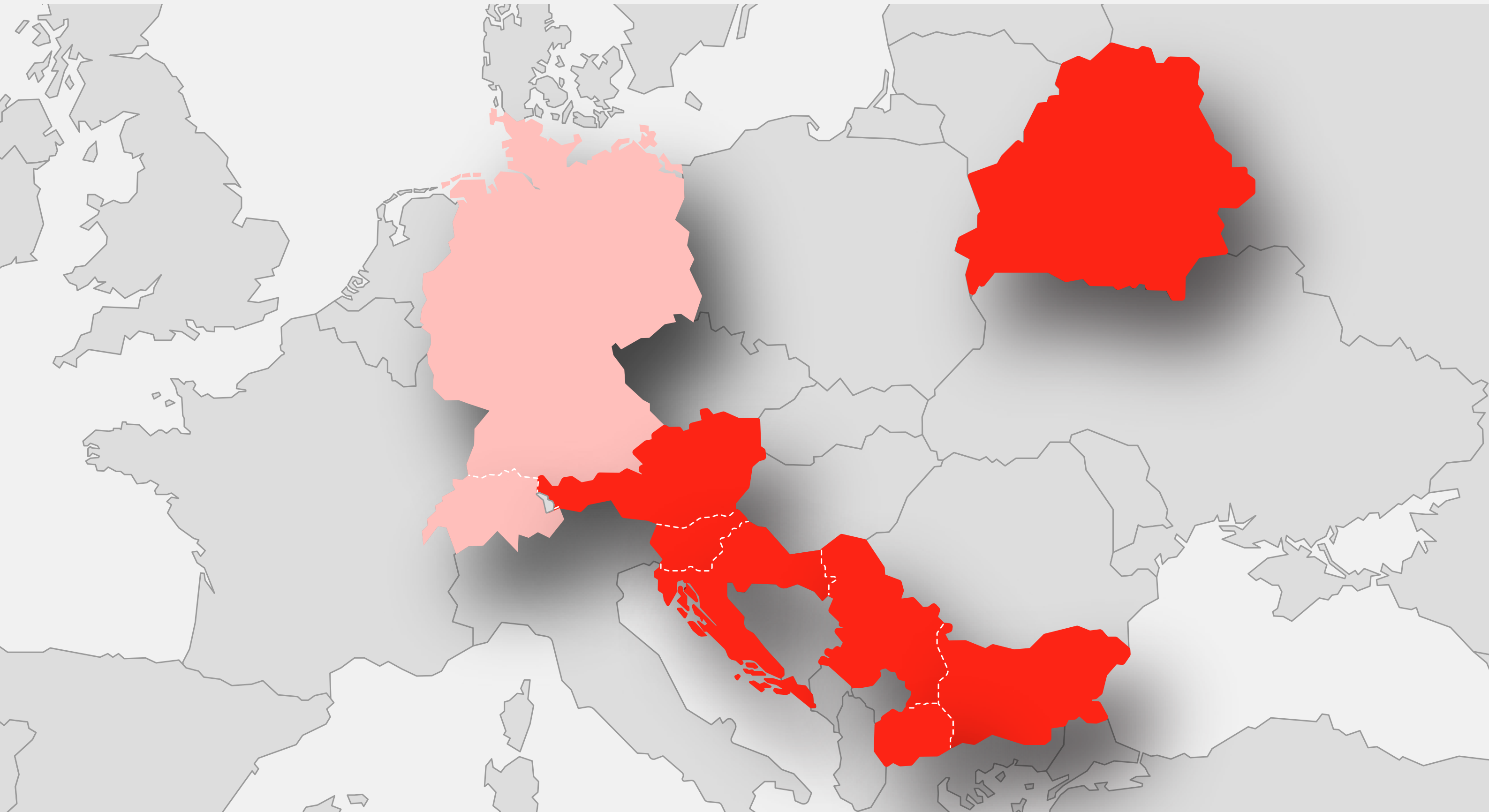
A1 Telekom Austria Group Overview

As a leading telecommunications provider in the CEE region, the A1 Telekom Austria Group provides its approximately 24 million customers in its seven core markets with products and services in areas including voice telephony, broadband internet, multimedia services, data and IT solutions, wholesale, payment solutions and digital services. In the Group's six convergent markets, customers also benefit from tailor-made product combinations comprising fixed-line and mobile services. The Group's subsidiary A1 Digital operates in the core markets as well as in Germany and Switzerland. It focuses on digital services, accompanying and supporting companies in the process of digitalisation.

	Austria	Bulgaria	Croatia	Belarus	Slovenia	Republic of Serbia	Republic of Macedonia
Mobile communications customers (in '000)	5,335.2	3,977.1	1,772.7	4,864.2	703.3	2,182.8	1,072.3
Market share mobile (in %)	38.8	38.7	36.5	42.5	29.1	24.1	47.8
Mobile market position	#1	#1	#2	#2	#2	#3	#2
RGUs (in '000)	3,390.4	1,005.0	654.1	463.4	183.0	–	340.7
Market share fixed-line broadband (in %)	56.4	22.3	24.4	6.7	11.8	–	29.5
Convergent since	2007	2011	2011	2016	2015	–	2014

Products[1)]							
Mobile	✔	✔	✔	✔	✔	✔	✔
Fixed-line	✔	✔	✔	✔	✔		✔
Convergent products	✔	✔	✔	✔	✔		✔
Internet	✔	✔	✔	✔	✔	✔	✔
Data and IT solutions	✔	✔	✔	✔	✔	✔	✔
Value-added services	✔	✔	✔	✔	✔	✔	✔
Wholesale offerings	✔	✔	✔	✔	✔	✔	✔
IPTV	✔	✔	✔	✔	✔		✔
Handsets	✔	✔	✔	✔	✔	✔	✔
Mobile solutions for companies	✔	✔	✔	✔	✔	✔	✔
Mobile payment services	✔						
Satellite TV		✔	✔				
DVBT							✔

1) Products of A1 Digital: Software as a Service, Infrastructure as a Service, Internet of Things and connected products, digital workforce, vertical business solutions, customer analytics



Contents

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The digital journey continues

Digitalisation is progressing rapidly in almost all areas of business and life. The A1 Telekom Austria Group sees itself as a pioneer and companion on this journey. In the year under review, it therefore continued its transformation into a preferred digitalisation partner. Providing connectivity and bandwidth at the highest level forms a sound basis for this. For this reason, further investments in the rollout of fixed-line and mobile broadband infrastructure and in state-of-the-art data centres were made in 2017.

Alejandro Plater, CEO & COO, Siegfried Mayrhofer, CFO

Thanks to the quality of its infrastructure, the A1 Telekom Austria Group also paved the way for excelling in its core business and expanding its product portfolio. An outstanding customer experience is the focus of these core aspects of the strategic orientation (see 'Vision and Strategy'). Attractive offers in the areas of ICT, cloud and IoT ('Internet of Things') solutions and innovative content offers play an increasingly important role in this context. Moreover, with the establishment of A1 Digital as an international subsidiary, the Group is gaining ground beyond its traditional geographical footprint.

The consistent execution of the Group's strategy allowed the A1 Telekom Austria Group to improve its operational business even in the face of tough competition and regulatory frameworks. As a result, the A1 Telekom Austria Group recorded revenue growth of 4.1 % and EBITDA growth of 3.2 % in the year under review despite substantial losses due to roaming regulation. The Group managed to increase free cash flow by 65.8 % to EUR 384.7 mn. The number of mobile customers amounted to 20.7 million and the Group posted a growth of 3.6 % in its contract base, while fixed-line revenue-generating units (RGUs) increased by 2.3 %. The Telekom Austria share price closed at EUR 7.72 on 31 December 2017, up 37.8 % in a year-on-year comparison and clearly outperforming the sector (Stoxx Telecom: –3.6 %). For the year 2018, the management is expecting modest growth in revenues and CAPEX of about EUR 750 mn.

In pursuing its corporate strategy, the A1 Telekom Austria Group commits itself to the targets of the triple bottom line of sustainable development ('People, Planet, Profit'). The company is also expressly committed to the UN Global Compact and makes contributions to the Sustainable Development Goals (SDG) of the United Nations. All this is intended to secure business activity in the long run. Beyond that, the Group's management actively assumes societal and environmental responsibility. This integrated viewpoint has also led to the first-time publication of a combined annual and sustainability report for the year under review.

An example of optimising core business, but also of utilising synergy effects and best possible group-wide leverage of existing assets ('One to all'), is the gradual roll-out of the A1 brand across all of the Group's operations, which was resolved in 2017. In the course of consequently pursuing this one-brand strategy, the Group rebranded its international corporate brand into A1 Telekom Austria Group. Thus, the Group makes use of the strong brand identity of A1 to promote its public perception as a powerful international company ('One company').

As with any venture into any new territory, enthusiasm for discoveries, development paths and future prospects leads the way when it comes to digitalisation. The A1 Telekom Austria Group will therefore stay curious and continue to think and act innovatively (see 'Start-up Initiatives') as it moves on to the next stages of its digital journey. ▪

Alejandro Plater, CEO & COO

Siegfried Mayrhofer, CFO

Back to growth

+4.1 %	+3.2 %	+65.8 %
Total revenues	**EBITDA**	**Free cash flow**
(EUR 4,382.5 mn)	(EUR 1,397.3 mn)	(EUR 384.7 mn)
0.20	+2.3 %	+3.6 %
Dividend in EUR	**RGUs[1)]**	**Mobile contract customers**
(stable)	(6.0 million)	(15.6 million)
+13.0 %	–25.5 %	36.4 %
Participation in media literacy training	**Electricity consumption per terabyte**	**Share of female managers**
(25,499)	(0.24 MWh/terabyte)	(stable)

1) 'Revenue-generating units'

Equity Story

Solid market position in Austria: exploiting rising demand for bandwidth and new technologies

- Focus on premium customers and convergence
- Targeted addressing of growth potential through increased cross- and upselling, especially via A1 hybrid modem
- Accelerated LTE and fibre roll-out reinforces infrastructure leadership
- Continuous efficiency improvement in terms of costs and investments

Growth in CEE: benefiting from growing data consumption and macroeconomic recovery

- Consistent implementation of convergence strategy: already convergent in 6 of 7 core markets
- Utilisation of ongoing strong demand for fixed-line products and data solutions
- Mobile Wi-Fi router complements fixed-line footprint
- Value-accretive M&A strengthening existing markets

Medium- to long-term growth with new business areas thanks to digitalisation

- Preferred digitalisation partner for small and medium-sized companies
- Growth in 'Internet of Things' (IoT) and cloud-based ICT solutions for enterprises
- Growth potential beyond existing footprint—launch of A1 Digital in Germany; presence in Switzerland for cloud-based services

Strong balance sheet structure

- Leverage ratio corresponds to rating targets (Investment grade rating)
- Rating confirmed by Moody's (Baa2) and Standard & Poor's (BBB) with a positive outlook
- Extensive financial flexibility for investments and M&A

Sustainable dividend policy

- Dividend level of EUR 0.20 with the potential to grow on a sustainable basis in line with the operational and financial performance

Growth and improved efficiency

Appropriate level of dividend and total shareholder return

Vision and Strategy

Digitalisation is opening up huge opportunities for economic growth, social and individual development and a more sustainable way of living in the interests of people and the environment. Within the scope of the vision and strategic orientation of the A1 Telekom Austria Group, digitalisation is taking on a correspondingly important role.

Vision: Empowering digital life

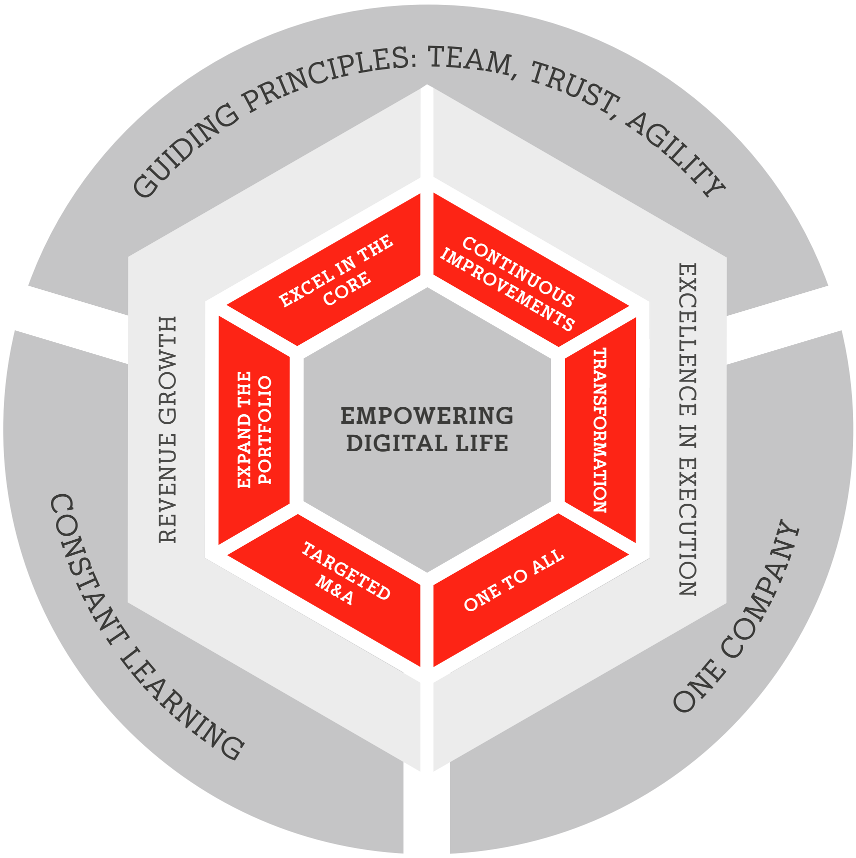
The A1 Telekom Austria Group's vision 'Empowering digital life' also expresses the fact that the Group has more to offer than just 'traditional' telecommunications services. Its self-conception goes far beyond the provision of infrastructure, connectivity and bandwidth. It sees itself as a pioneer and driver of digitalisation with the expertise to create and maintain digital business models and solutions from concept to operation.

In the context of its transformation into an ideal digitalisation partner, the A1 Telekom Austria Group has committed to increasing efficiency, flexibility, security and sustainability. In doing so, sustainability is understood as a long-term value driver that along with actively practised ecological and social responsibility (see 'Social and Environmental Responsibility') also has economic advantages—for example, increased energy efficiency reduces environmental effects as well as costs.

Corporate strategy

In pursuing its vision 'Empowering digital life', A1 Telekom Austria Group is drawing upon a corporate strategy based on the two pillars: revenue growth and excellence in execution.

Corporate strategy



Revenue growth

With a view to its growth strategy, the Group is not only building on its leading role in the CEE region. As part of América Móvil, it is also relying on the strength of one of the largest telecommunications providers in the world with approximately 280 million customers in the mobile communications sector alone (see 'A1 Telekom Austria Group: Part of América Móvil').

In its pursuit of revenue growth, the corporate strategy is focussed on three core elements: excel in the core, expand the portfolio and targeted M&A.

Excel in the core

The A1 Telekom Austria Group is focusing on intensifying sales and targeted cross- and upselling activities in order to optimise its core business. This involves the key objective of gaining households that are already covered technically as customers and thereby optimising the ratio of households covered to households connected. Convergence is another important starting point to ensure a first-class customer experience, with the Group already offering fixed-line and mobile services in six of its seven core markets. Infrastructure leadership remains a key differentiation factor against the competition.

A convincing example of how to excel in the core, but also of facilitating synergy effects and best possible group-wide leverage of existing assets and capabilities ('One to all') is the stepwise roll-out of the A1 brand across all of the Group's operations depending on local circumstances. In the course of pursuing this one brand strategy consistently, the Group's international corporate brand was rebranded to A1 Telekom Austria Group.

Expand the portfolio

Diversification and standing out from the competition are crucial. This requires the courage to be innovative and creative. In line with its 'Empowering digital life' vision, the A1 Telekom Austria Group's objective is to become the first point of contact and key partner for the digital transformation of companies and to unlock new potential in digital services such as cloud and ICT solutions as well as in the area of the 'Internet of Things' (IoT).

For this purpose, the subsidiary A1 Digital was founded (see 'Technology and Innovation'), which develops the associated potential for growth above and beyond the existing footprint.

In private customer business, the Group is increasingly focusing on innovations in all areas of its core business with solutions for entire households. Convergent product bundles that include, for instance, TV and music streaming services or cloud solutions are also counted here. What is more, the innovative solution A1 Smart Home was launched in 2017 and expands the utilisation potential of digitalisation in homes with a wealth of practical solutions.

Targeted M&A
In addition to measures for generating organic growth, the A1 Telekom Austria Group will also continue to grow in a sustainable manner by means of targeted and value-accretive mergers and acquisitions. A1 Digital is opening up new potential in the area of digital services, for example with the acquisition of Swiss company Exoscale (see 'Technology and Innovation'), which offers infrastructure and services for cloud applications in Europe.

In its core business, the Group continues to focus on the consolidation of existing markets as well as the pursuit of its convergence strategy and subsequently on tapping into new markets.

Excellence in execution

In order to have financial flexibility for investments, operational excellence is crucial when implementing the Group strategy. The central objectives for this are: continuous improvements, transformation and 'One to all'.

Continuous improvements
All structures, processes and investment decisions are reviewed and called into question on an ongoing basis. The A1 Telekom Austria Group has set itself the goal of becoming more efficient every single day.

All types of investment must either generate revenues or reduce costs. This is why investments are deliberately being made in technologies that allow an increase in efficiency and that protect resources.

Transformation
The A1 Telekom Austria Group is accounting for the dynamic change in its markets and its customers' needs with an appropriate transformation of its operational processes. In addition to a regional presence and call centres, services and advice are increasingly being provided on online platforms (multi-channel).

One to all
The A1 Telekom Austria Group's goal is not to redevelop products and solutions multiple times across its markets, but rather to roll out established products in other markets rapidly. In addition to product development, this is also implemented in internal processes. A good example of 'One to all' is not least the group-wide roll-out of the A1 brand (see 'Excel in the core').

Finance strategy and cash use policy

The A1 Telekom Austria Group pursues a conservative finance strategy, with a solid investment grade rating of Baa2 by Moody's and BBB by Standard & Poor's at its core. This orientation ensures a solid balance sheet structure with moderate leverage (net debt to EBITDA) and financial flexibility for investments in order to make use of growth opportunities. The dividend policy aims for a sustainable dividend distribution with the potential to grow in line with the operational and financial performance of the Group. For the financial year 2017, Management intends to propose a dividend of EUR 0.20 per share to the Annual General Meeting on 30 May 2018.

Sustainability strategy

The sustainability strategy of the A1 Telekom Austria Group is aimed at actively practised ecological and social responsibility that promotes a more efficient, resource-saving and therefore more sustainable way of working and living (see 'Social and Environmental Responsibility'). In addition, sustainability is understood as a long-term value driver in the economic sense, since more efficiency and less use of resources also have positive effects on costs.

The A1 Telekom Austria Group's understanding of its responsibility is based on the three-pillar model of sustainable development and the triple bottom line 'People, Planet, Profit' and thus integrates social, ecological and economic aspects. The Group also has targeted activities that support the United Nations' Sustainable Development Goals (SDGs) (see 'A1 Telekom Austria Group's contribution to the Sustainable Development Goals') that were issued in 2015. The Group's sustainability strategy is focused on four action areas that were derived from a materiality analysis (see graphic 'Materiality matrix') last updated in early 2017. Each action area is associated with clear targets and specific performance indicators.

Initiatives A1 Telekom Austria Group (Extract)

- Diversity Charter (since 2014)
- Next Generation Mobile Networks Alliance (since 2014)
- UN Global Compact (since 2012)
- ETNO (since 1996)
- GSM Memorandum of Understanding (since 1988)

Stakeholder dialogue

The continuous dialogue of the A1 Telekom Austria Group with its stakeholders takes place on three levels: through systematic information via different information channels, through talks and surveys as well as through shaping memberships and cooperations. Depending on the topic and the stakeholder group, different formats are used such as information events, idea competitions, surveys of customers and employees or one-on-one meetings, conferences or roadshows. ▪

Action areas in the field of sustainability

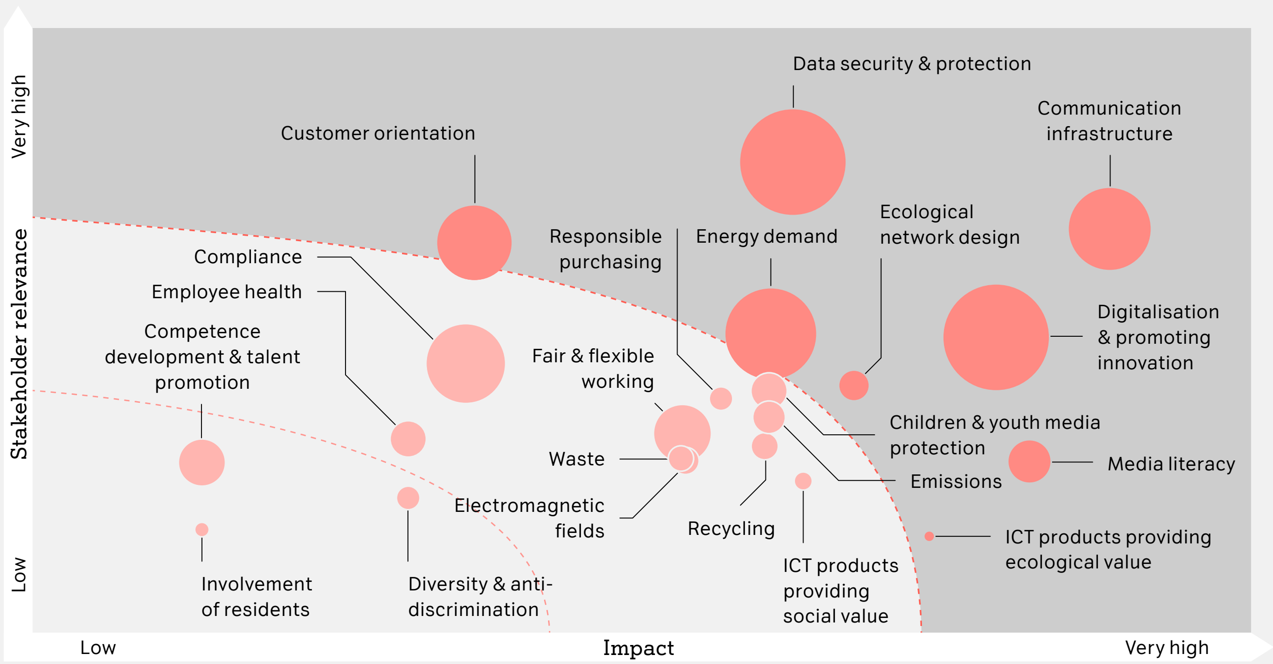
Technology and Innovation
In its role as a driver of digitalisation and beyond the provision of connectivity and bandwidth, A1 Telekom Austria Group provides entire industries, business models and societal as well as personal areas of life with a wide range of positive development possibilities.

Environment
Information and communications technologies can contribute to a more ecological and thus sustainable style of life. This is because it is important to find innovative solutions to challenges such as climate change.

Employees
Digitalisation is accompanied by a profound change of the foundations and methods of working. This includes the question of how employees interact within the company as well as with customers, suppliers and other stakeholders. A1 Telekom Austria Group actively promotes the competences required.

Society
By providing the technological basis and educational offers for equal, digital access to information, education and knowledge, A1 Telekom Austria Group not only serves as a responsible member of our society, but also as an element briding gaps.

Materiality matrix



Bubble size represents business relevance for A1 Telekom Austria Group.

A topic's importance is based on its impact on the environment, society and the economy as well as how relevant it is to A1 Telekom Austria Group's stakeholders. Thus, the topics most important to A1 Telekom Austria Group are those that have the biggest impact and those that are most relevant to the stakeholders. As an additional dimension, the topics were assessed with regard to their business relevance for A1 Telekom Austria Group. This allows a perspective that takes into account the topics' sustainability context and their economical significance for the company.

Value Chain

The value chain of the A1 Telekom Austria Group shows an overview of input factors, the value generation and its output and outcomes. The resources needed for this are presented as input factors and the subsequent results are shown as output and outcomes. The topics identified along the value chain were factored into the materiality analysis.

Input factors

- Financial resources
- Human capital
- Technical components
- Natural resources
- Intellectual capital

A1 Telekom Austria Group

Vision & common purpose

Empowering digital life

Corporate strategy

Revenue growth

- Excel in the core
- Expand the portfolio
- Targeted M&A

Excellence in execution

- Continuous improvements
- Transformation
- One to all

Customer centricity

Strategy enablers

- One company
- Guiding Principles: Team, Trust, Agility
- Constant learning

Generating value by providing connectivity and bandwidth

Output & Outcomes

- Connectivity & future-proof infrastructure
- Innovation
- A company of integrity
- Holistic customer experience
- Skills development
- Financial flexibility
- Customer-centric products & services
- Access to information, knowledge and education
- Low-emission network infrastructure

A1 Telekom Austria Group's contribution to the Sustainable Development Goals

In 2015, the members of the United Nations adopted targets for sustainable development (Sustainable Development Goals or SDG) on economic, social and ecological levels. These goals came into effect on 1 January 2016 and will remain valid for 15 years (until 2030). Politics, civil society and the economy are working together on their implementation. A1 Telekom Austria Group is making contributions to the following SDGs:

Sustainable Development Goals

4 QUALITY EDUCATION

Assuring fair, inclusive and high-quality education and life-long learning possibilities.

8 DECENT WORK AND ECONOMIC GROWTH

Promoting steady, broad and sustainable economic growth, productive full-time employment as well as humane work for all.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Creating a powerful and robust infrastructure, promoting broad and sustainable industrialisation and supporting innovation.

10 REDUCED INEQUALITIES

Reducing inequality within and between nations.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Assuring sustainable patterns of consumption and production.

A1 Telekom Austria Group's contribution: Digitalisation & promoting innovation

A1 Telekom Austria Group promotes constant learning and media literacy development through free training in the framework of the group-wide A1 Internet for All initiative.

A1 Telekom Austria Group offers its employees fair and flexible work environments, promotes their health and implements measures to increase diversity and fight discrimination. By enabling digitalisation, it promotes a decoupling of economic growth and resource consumption.

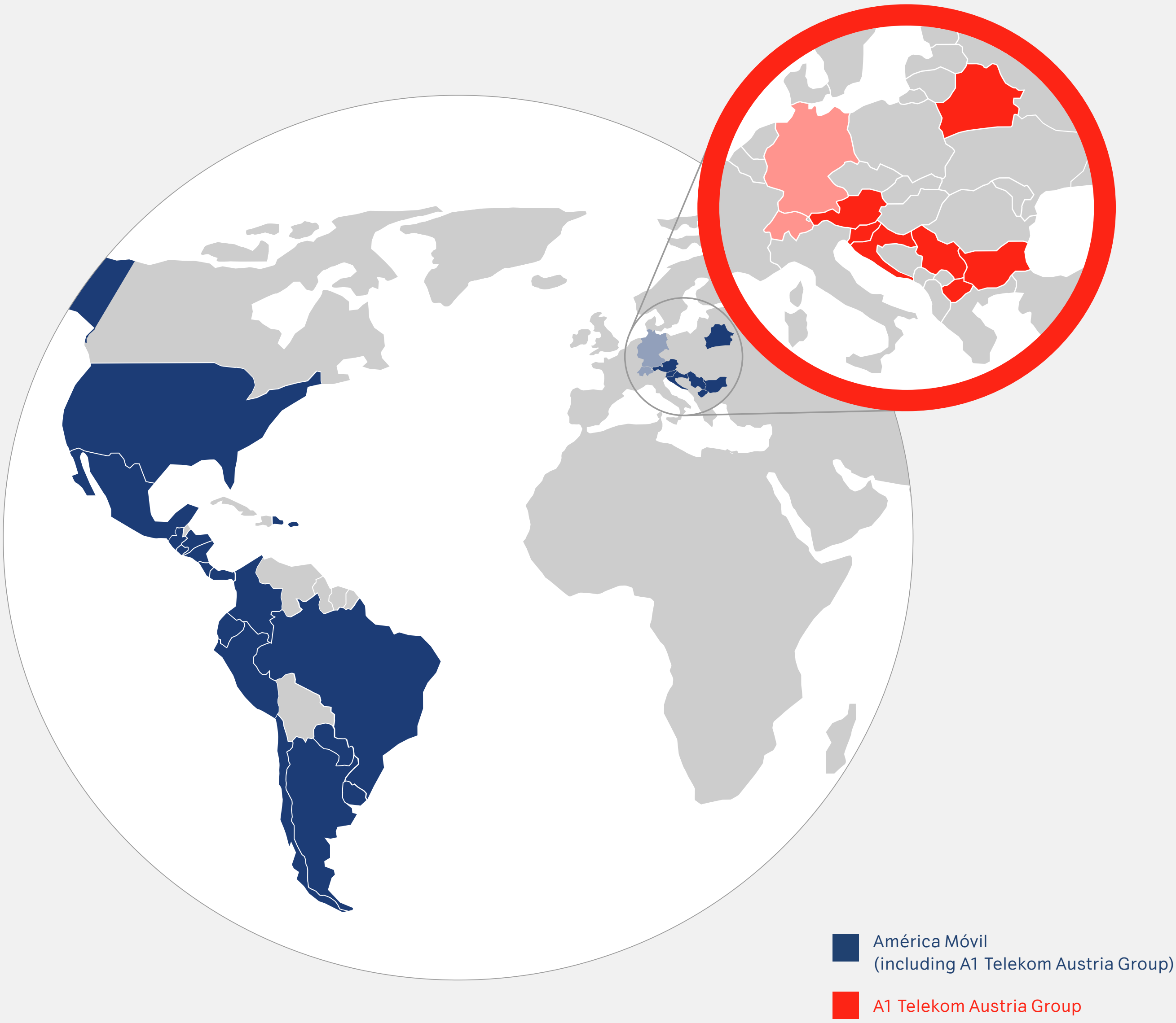
A1 Telekom Austria Group also continuously advances the expansion of its network infrastructure. It thereby focuses on network quality and reliability.

A1 Telekom Austria Group supports opportunities of equal access to digital media for all people. Furthermore, it offers digital solutions with social added value.

A1 Telekom Austria Group is focusing on waste prevention and the recycling of valuable raw materials. At the same time, the Group takes into account ecological standards when expanding its network and works on standard product solutions.

A1 Telekom Austria Group: Part of América Móvil

The A1 Telekom Austria Group has around 24 million mobile and fixed-line customers in seven core markets in Central and Eastern Europe and is a converged operator in six of these markets already. With América Móvil as its majority shareholder, the Group forms part of a world-leading multinational telecommunications group. América Móvil has about 280 million mobile customers and 83 million fixed-line RGUs as well as subsidiaries in 25 countries in North, Central and South America and Europe. As part of América Móvil, the A1 Telekom Austria Group also benefits from economies of scale and the strength of a global corporation, giving it advantages and synergies in areas including product development, technology and procurement.



	Total revenues (in EUR bn)	EBITDA (in EUR bn)	Market potential 1) (in million)	Mobile communications customers (in million)	Revenue-generating units (RGUs) (in million)
A1 Telekom Austria Group	4.4	1.4	41	20.7	6.0
América Móvil	47.7	13.0 2)	929	279.0	82.8

1) Relevant population in footprint
2) Adjusted EBITDA does not include the expense item associated with the arbitrage ruling in Colombia.
Exchange rate EUR / MXN (Mexican Peso, period average): 21.401

Technology and Innovation

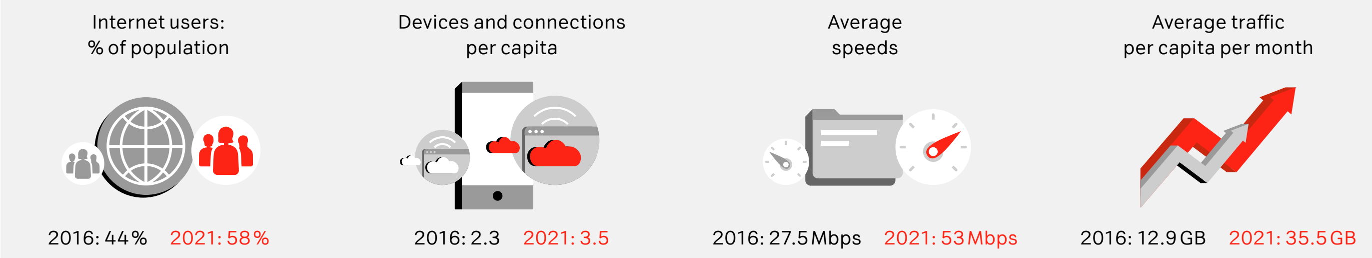
The telecommunications industry is being shaped by an ongoing increase in demand for additional bandwidth and connectivity in relation to more and more connected lives.

Forward-looking infrastructure roll-out

Cisco's[1] projection for the development of data demand between now and 2021 underscores the importance of continuously developing the telecommunications infrastructure. The A1 Telekom Austria Group is accounting for the dynamic increase in data volumes transported via its networks through extensive investment. In the 2017 financial year, a total amount of EUR 736.9 mn (CAPEX) was invested, with one of the areas of focus being broadband expansion.

The convergence of fixed-line and mobile networks is playing an instrumental role in ensuring that the A1 Telekom Austria Group has a high-quality, future-proof network infrastructure. After all, to guarantee efficient, increasingly wider regional coverage with increasingly greater bandwidth is to intelligently combine these two technologies. Which is why the A1 Telekom Austria Group has already established itself as a convergent operator in six of the seven core markets in its operating region (Austria, Bulgaria, Croatia, Belarus, Slovenia, Republic of Macedonia). The forthcoming 5G communications standard, the 'Internet of Things' (IoT) and cloud-based services for the B2B market all require high computing capacity. This is resulting in increasing relevance for data centres as the third pillar of the A1 Telekom Austria Group's infrastructure strategy.

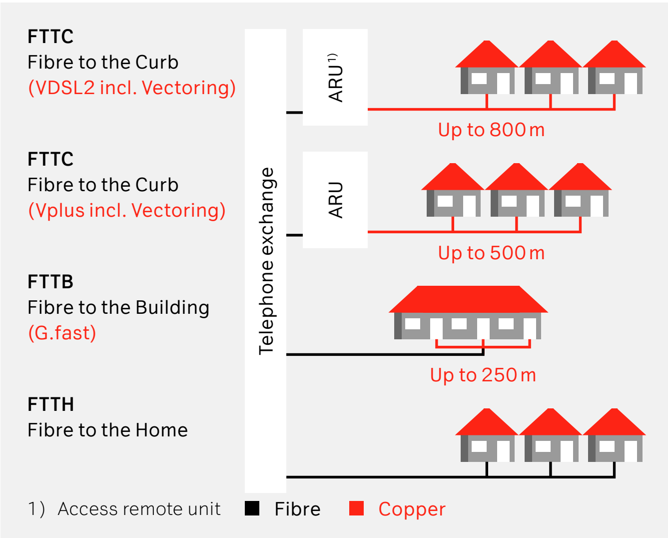
1) Cisco, The Zettabyte Era (2017)



Source: Cisco, VNI Forecast Highlights Tool (2017), Data on a global basis

Fixed-line broadband expansion

Fixed-line broadband expansion is being driven forward by the fibre roll-out in the form of FTTC, FTTB and FTTH (see graphic). In addition to bringing fibre closer to the customer, the performance of remaining copper lines is being increased by combining the noise cancellation technology vectoring with transmission technologies such as VDSL2 and G.fast,



with target transmission rates of several 100 Mbps for medium line distances. G.fast typically provides data rates of approx. 500 Mbps. In lab trials, advanced G.fast technologies already allow transmission rates of several Gbps.

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

Mobile network expansion

The A1 Telekom Austria Group offers the LTE (long-term evolution) mobile communications standard in Austria, Bulgaria, Croatia, Slovenia, the Republic of Serbia and the Republic of Macedonia. The accelerated roll-out of LTE Advanced in 2017 led to a significant improvement in the supply of high-speed mobile Internet in Austria, Croatia, Slovenia, the Republic of Serbia and the Republic of Macedonia. In order to achieve even faster mobile Internet, the A1 Telekom Austria Group is using LTE Carrier Aggregation with 256 QAM, a complex modulation technique, at selected locations in Austria, Croatia and the Republic of Serbia, enabling data rates of up to 400 Mbps. In Slovenia, the use of 4×4 MIMO (multiple input multiple output) during a field test produced data transmission rates of over 850 Mbps. Carrier Aggregation, complex modulation techniques and massive MIMO will also play a key role in 5G since these serve as a technological basis for high bandwidths and the particularly efficient use of available frequency bands.

Data centres: Third infrastructure pillar

State-of-the-art, highly secure data centres will continue to become more important going forward. Which is why

Mobile communications technologies at a glance

1G	2G	3G	4G	5G
No data transmission	9.6–236 Kbps	0.3–42 Mbps	Up to 400 Mbps	Targeted > 1 Gbps
Voice telephony	Voice and first data services	Voice and broadband data services	Voice and high-speed data services	High bandwidth and minimal latency
1974–2001	Since 1994	Since 2003	Since 2010	>2020

they form the third pillar of the A1 Telekom Austria Group's infrastructure, alongside mobile and fixed-line networks. The following technological developments are playing an important role in this respect:

- Network function virtualisation (NFV) can be operated in IT data centres with higher agility and cost-efficient, commercial off-the-shelf hardware.
- Growing customer demand for cloud-based solutions (e.g. SaaS, PaaS, IaaS) via secure, local data centres.
- Applications like the 'Internet of Things' (IoT), Advanced Analytics and 5G develop their full potential through edge computing. Applications with a huge amount of processing power are run in as close proximity as possible to the site where the service is provided in local or regional data centres.

In 2017, this prompted the A1 Telekom Austria Group to lay the groundwork for an ultra-modern data centre in Austria and conclude the construction of a data centre with cutting-edge technology in Belarus. Future-proof technologies like SDN (Software Defined Networking) are an essential part of state-of-the-art data centres, because they enable highly efficient and flexible use of the individual components and services within a data centre. SDN allows network traffic to be programmed and managed centrally, without having to manually access each individual physical network component.

The A1 Telekom Austria Group successfully continued its network infrastructure virtualisation program across all its subsidiaries in 2017. At the beginning of 2017, velcom implemented the first fully virtualised commercial core network in the world in Belarus as part of its 'virtual one core' flagship project.

Excellent network quality in 2017

- Connect Test: Winner (Austria)
- futurezone Netztest: Winner (Austria)
- DMTEL GSM/UMTS/LTE Quality Test: Winner (Belarus)
- Notel RF Benchmark Quality Assurance: Winner (Belarus)
- Ookia Fastest Network in Serbia: Winner (Republic of Serbia)

Digitalisation partner

Through the establishment of A1 Digital as a subsidiary, the Group is highlighting its self-perception as a driver of digitalisation and is focusing on individual solutions for small and medium-sized companies. A1 Digital focuses on two areas in particular: IoT and cloud-based ICT solutions.

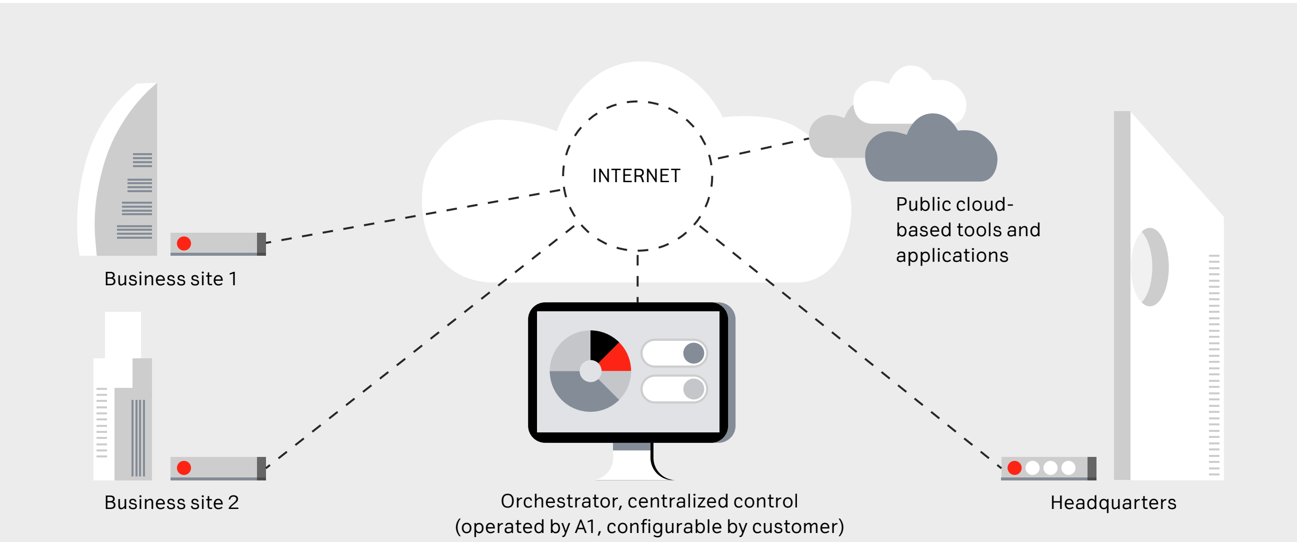
In the first case, increasingly cost-efficient and thus more widely available sensors, screens and more powerful processors provide an abundance of applications and business models—for instance, in the areas of asset tracking, fleet management or smart metering. In the second case, software solutions via cloud-based marketplaces are being made available especially to small and medium-sized companies (Software as a Service (SaaS)). Infrastructure as a Service (IaaS) is reducing the complex and costly acquisition and modernisation of hardware, such as servers, and is thereby also conserving resources. Cloud-based solutions allow

HIGHLIGHT PROJECT

SD WAN

The SDN-based product SD WAN (Software Defined Networking in a Wide Area Network), which has been available to business customers (with a focus on small and medium-sized companies) with multiple locations since 2017, is an important step forward for SDN applications. SD WAN offers the following advantages compared with conventional technologies:

- Simple integration of applications run via the cloud
- Fast, straightforward and secure location connectivity
- The service can run on any already available connectivity



companies to adapt their applications, IT infrastructure, computing power, network capacity and storage in a flexible and scalable manner. This requires less energy than a conventional office infrastructure, and also emits fewer CO_2 emissions (see 'Social and Environmental Responsibility').

Alongside service and consultancy expertise, A1 Digital also prioritises data security and infrastructure quality. Thanks to data centres in Europe, the security of all activities is governed and enforced by EU legislation.

The acquisition of Swiss cloud provider Exoscale in September 2017 is now allowing A1 Digital to offer cloud-based services on this platform, too. Zurich and Geneva are now also available as 'points of delivery' alongside Vienna and Frankfurt.

Sustainability targets 'Technology and Innovation'

2016–2018[2)]

- LTE coverage of 80 % in the A1 Telekom Austria Group
- Coverage of over 60 % of Austrian households with a bandwidth of at least 40 Mbps on a pure fixed-line network (former product logic: coverage of 70 % with 30 Mbps)
- Identification and promotion of marketable innovations, for example via start-up initiatives

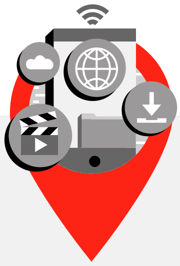
2) Baseline for targets is 2015.

Ecological network design

The A1 Telekom Austria Group's biggest environmental impact is generated through electricity required to operate its networks. This accounts for around 80 % of its total energy demand. Applying the latest RAN (Radio Access Network) equipment in A1 Telekom Austria Group's subsidiaries not only guarantees best quality of service but also aims to achieve energy efficiency. This is why old 2G and 3G equipment is renewed when rolling out LTE. Innovative cooling techniques including hot spot suction, cold aisle containment and heat recovery systems can reduce electricity[1)] consumption by as much as 75 % compared with conventional cooling systems. The A1 Telekom Austria Group's energy efficiency was improved by an overall figure of around 26 % between 2016 and 2017. In 2017, its total energy consumption was 791,790 MWh. Its electricity requirements amounted to 655,355 MWh, of which 62 % was generated from renewable energy sources.

The A1 Telekom Austria Group adheres to the following ecological principles in life cycle management: avoid waste, preserve resources and keep valuable raw materials in the cycle for as long as possible (Reduce—Reuse—Recycle). Out-of-service devices or facilities are systematically dismantled and their components professionally recycled.

1) Energy efficiency is defined as electricity per terabyte of transferred data volume



DIGITALISATION

Technology and Innovation

The A1 Telekom Austria Group's objective is to become the first point of contact and key partner for the digital transformation of companies in order to unlock new potential in digital services, such as cloud and ICT solutions. Digital communications solutions are encompassing an increasing number of areas of life—including in the residential business. Here, the focus lies on services for entire households and convergent product bundles that include, for instance, smart home, TV and music streaming services and cloud solutions. In addition to the virtualisation of the network infrastructure, services are also being embedded in a virtualised, cloud-based infrastructure. This allows for significantly more efficient operating processes at lower costs and quicker launches of new services, thus offering an ideal platform for competitive innovations.

Energy from sustainable sources

Efficiency measures alone are not enough to compensate for total electricity volumes. Which is why the A1 Telekom Austria Group takes steps to ensure that any amount of electricity that cannot be reduced by taking appropriate measures is as sustainable as possible—by using electricity from renewable sources such as solar, hydro and wind power. The A1 Telekom Austria Group's largest solar park opened in Belarus in mid-2016, spans 41 hectares and has 85,000 solar panels, which produce roughly 24 million kWh of electricity per year. In Austria, Bulgaria, Croatia, Belarus, Slovenia and the Republic of Serbia, there are about 100 mobile base stations running on solar and wind power or on hydrogen fuel cells.

Research partnerships

- University of Technology of Vienna, Sofia, Zagreb, Belgrade
- Christian Doppler Laboratory for Wireless Technologies for Sustainable Mobility
- Christian Doppler Laboratory for Dependable Wireless Connectivity for the Society in Motion
- Josef Ressel Centre for User-friendly Secure Mobile Environments
- Brno University of Technology, with a focus on the smart meter, IoT and smart home

Electromagnetic fields

Despite research findings such as those presented by the European Commission's Scientific Committee on Emerging and Newly Identified Health Risks (SCENIHR), which find no causal link between mobile phones and health problems, when it comes to the topic of mobile communications there is constant speculation regarding electromagnetic fields (EMF). The A1 Telekom Austria Group complies with—and even keeps well below—all exposure limits recommended by the ICNIRP/WHO for daily operations involving base stations and mobile devices.

Customer orientation

The A1 Telekom Austria Group meets the needs of its customers with a broad and innovative range of products. This clear focus on customer requirements produces innovations like the A1 hybrid modem or 'A1 Smart Home'. To identify customer requirements and learn how the Group's products and services are being received on the market, the A1 Telekom Austria Group uses a number of information channels, including shops and service lines, social media like Facebook, Twitter and YouTube, customer apps and Google+, and its own support communities.

HIGHLIGHT PROJECT

Intrapreneurship

In 2017, the A1 Telekom Austria Group mobilised the innovation potential of its employees with an intrapreneurship programme. Three business ideas focusing on digitalisation were selected for implementation from a total of 65 projects. The projects will run for a year with the aim of implementing their ideas and concepts within the organisation, once they have reached a certain maturity.

Innovation, R&D

To assert its leadership in the field of technology and infrastructure, the A1 Telekom Austria Group focuses on many areas of research and development (R&D). The topic of innovation has been implemented as a strategic cornerstone. In Austria, A1 promotes innovation by new companies with its 'Start Up Campus' initiative, which provides expertise and infrastructure to help make innovations a reality.

In addition, the A1 Telekom Austria Group is a partner of the Industry 4.0 platform and is addressing the interoperability of IoT platforms within the pan-European H2020 project symbIoTe, which is supported by the European Union and is also expected to bolster research in the IoT. ▪

Data protection

Enormous growth rates in data volumes transmitted are all part and parcel of advancing digitalisation. The A1 Telekom Austria Group makes sure that its customers are on the safe side as they make the most of the associated opportunities and potential of digitalisation.

All companies of the A1 Telekom Austria Group undertake to comply with the most stringent data protection and data security standards. In addition to any legal requirements applicable in the respective countries, all subsidiaries are also bound by any data security standards created for this purpose as well as all other country-specific directives on data security and data protection. A1 in Austria, for instance, has a range of certifications including ISO 27001, ISAE 3402 and ECO Datacenter 3.0, which attest to these high security standards. At A1 in Austria, the Data Privacy department has been responsible for compliance with legal and internal data protection provisions for a number of years now. The position of data officer has also been created within the A1 Telekom Austria Group in response to the broader requirements for companies imposed by the General Data Protection Regulation of the European Union.

A1 Telekom Austria Group data protection certifications

Austria
- ISO 27001
- ISAE 3402
- ECO Datacenter 3.0

Bulgaria
- ISO 27001

Croatia
- ISO 27001

A1 Digital
- ISO 27001
- ISO 27018

Republic of Macedonia
- ISO 27001

Harmonisation of data protection

This General Data Protection Regulation is currently posing a considerable challenge, and will continue to do so in the years ahead. The EU decision taken in May 2016 sought to harmonise data protection law throughout the European Union and subject it to a set of largely standardised rules. Protection of personal data is at the core of the regulation with objectives such as giving affected people more control over their data, making extensive information available on how this data is used, ensuring better protection for children and making it easier to access legal protection. The EU General Data Protection Regulation will enter into force on 25 May 2018, and ever since 2016 the A1 Telekom Austria Group has been working to gradually enact it in the countries covered by the regulation. ▪

Investor Relations

Main focus of Investor Relations' transparent and timely communication in the reporting year was systematic implementation of the Group strategy ensuring solid results despite regulatory intervention, strong share price performance and a successful increase of the ninth benchmark bond.

Shareholder structure

as of 31 December 2017

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

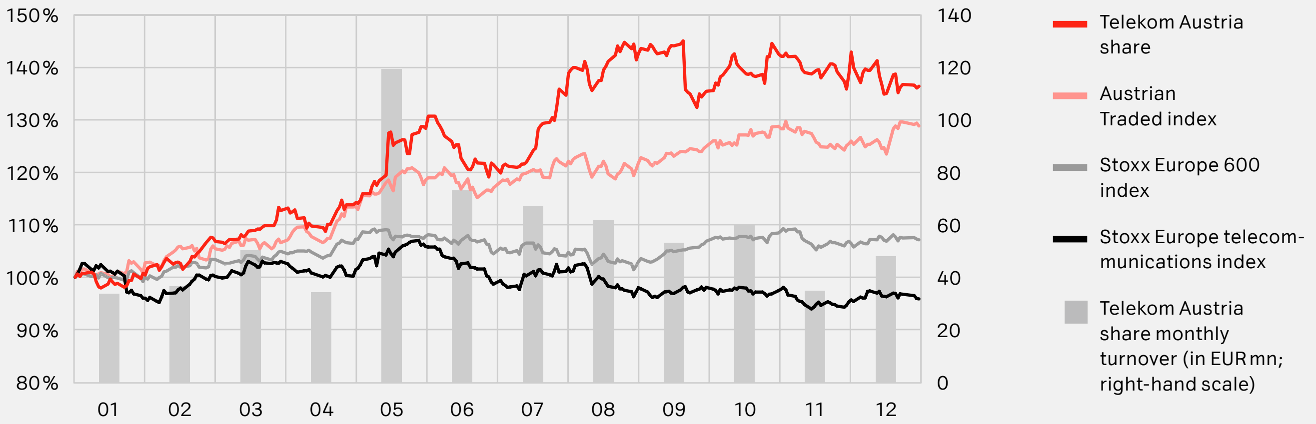
1) As filed for the Extraordinary General Meeting held on 20 September 2017.

There were no holding notifications in the financial year 2017.

Share price performance and sector comparison

The Telekom Austria shares traded sideways at the start of the reporting year and reached their low for the year of EUR 5.50 on 13 January 2017. The price of Telekom Austria shares then increased steadily, and exhibited a particularly strong performance after their inclusion in the MSCI Global Small Cap Index in May. Following the publication of the results for the first half of the year 2017, the shares rose further before losing ground after profit-taking at the end of September 2017. The shares then recovered and reached their high for the year of EUR 8.28 on 27 October 2017, their highest level in five reporting years. After further profit-taking, the share price then took a downturn, closing the year at EUR 7.72 as at 31 December 2017, up 37.8% on the start of the year.

Development of Telekom Austria share price
indexed from 1 January 2017



Key figures about the Telekom Austria share

	2017	2016
Share price low (in EUR)	5.50	4.66
Share price high (in EUR)	8.28	5.73
Share price as of 31 December (in EUR)	7.72	5.61
Market capitalisation as of 31 December (in EUR bn)	5.1	3.7
Average daily stock market turnover (in EUR mn)	2.7	2.6
Number of shares of common stock as of 31 December	664,500,000	664,500,000
Number of shares outstanding as of 31 December	664,084,841	664,084,841
ATX weighting as of 31 December (in %)	1.9	1.9

While the ATX, the benchmark index of the Vienna Stock Exchange, was trading sideways at the start of the year, the Stoxx Telecom industry index posted minor gains before falling away heavily at the end of January 2017. Both indices rose again by the middle of April 2017, but then began to decline as geopolitical tensions mounted. Following some increases in May 2017, this development continued for the sector and the ATX in June, owing in part to the weak oil price. The sector lost some ground again after a recovery in July and August 2017, and moved sideways until the end of the year. By contrast, the ATX rose again by the end of the year, closing 30.6 % higher year-on-year, while the Stoxx Telecom industry index fell by 3.6 % in 2017.

Basic information about the Telekom Austria share

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

Dividend

Based on the improved operational and financial performance of the Group, a new expected dividend level was agreed upon by América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) in 2016. Starting with the financial year 2016, this dividend expectation entails the payment of EUR 0.20 per share to be maintained or increased on a sustainable basis in line with the operational and financial developments of the Group. For the financial year 2017, the Management of Telekom Austria AG again intends to propose a dividend of EUR 0.20 per share to the Annual General Meeting in 2018.

External ratings and outlook

	Rating	Company outlook
Moody’s	Baa2	Positive
S&P	BBB	Positive

Telekom Austria AG outstanding bonds

as of 31 December 2017 (Issuer: Telekom Finanzmanagement GmbH. Hybrid bond issued by Telekom Austria AG)

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

1) Subordinated hybrid bond, called and redeemed at nominal volume plus interest on 1 February 2018 (first call date).
2) Issuance of EUR 500 mn on 30 November 2016; tap issuance of EUR 250 mn on 10 July 2017

Financial debt and ratings

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

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

A bond of EUR 500 mn that matured in January 2017 was repaid as scheduled from the issuing proceeds of a ten-year bond, with a coupon of 1.5%, placed on 30 November 2016. On 10 July 2017, guaranteed by Telekom Austria AG, Telekom Finanzmanagement GmbH successfully increased this bond by a volume of EUR 250 mn. Telekom Austria AG announced on 3 January 2018 that it will repay the hybrid bond of EUR 600 mn issued in 2013 as at 1 February 2018 (first call date).

Financial calendar

Week of 23 April 2018	Results for the First Quarter 2018
20 May 2018	Record Date
30 May 2018	Annual General Meeting
Week of 4 July 2018	Dividend Ex Date
Week of 4 July 2018	Dividend Record Date
Week of 4 July 2018	Dividend Payment Date
Week of 16 July 2018	Results for the First Half 2018
Week of 22 October 2018	Results for the First Nine Months 2018

Status at the editorial deadline.

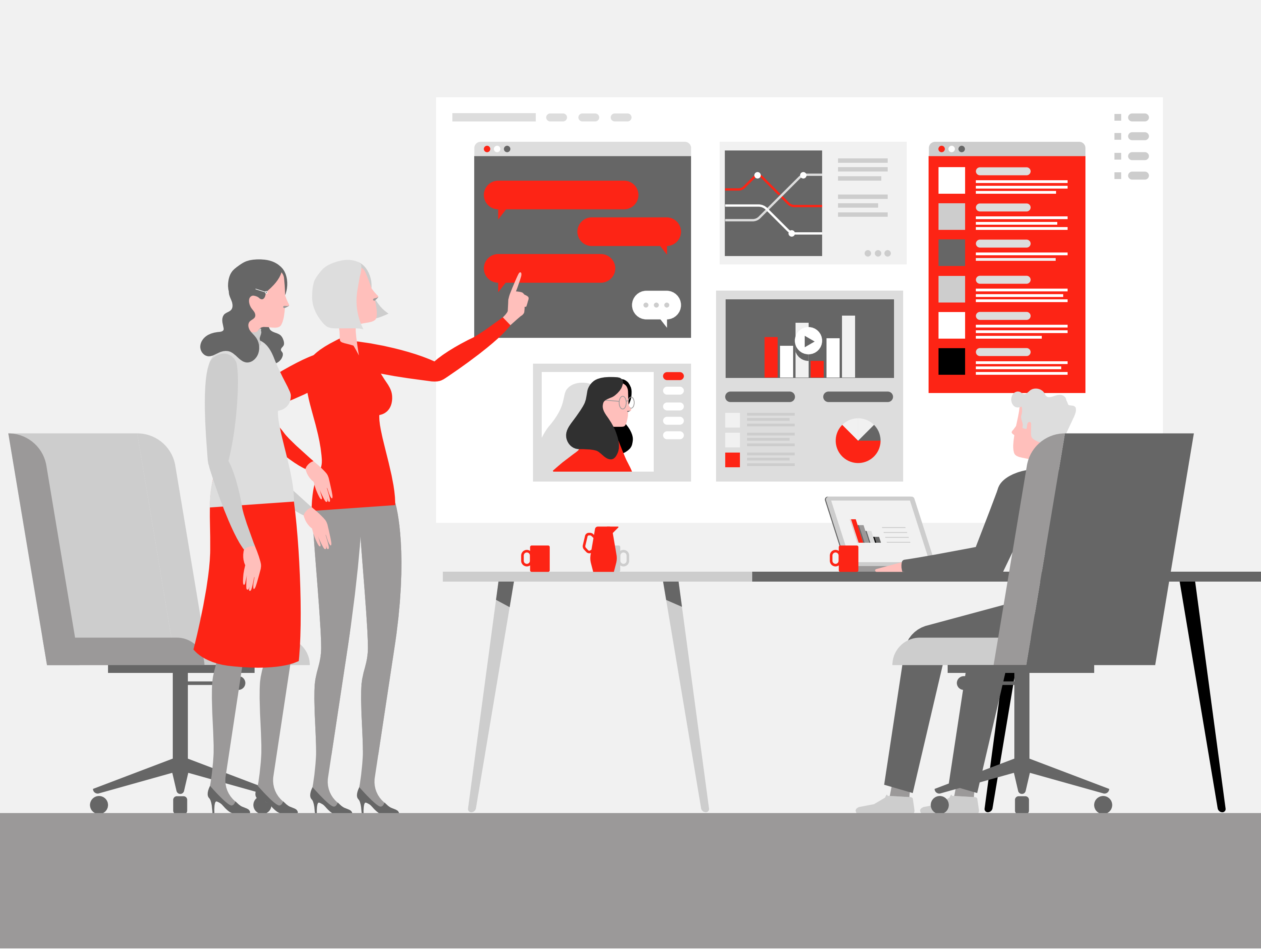
Credit ratings

Telekom Austria AG is regularly rated by Moody's Investors Service and Standard & Poor's Ratings Services. Standard & Poor's confirmed its BBB rating for Telekom Austria AG on 23 May 2017 and raised its outlook to positive. Similarly, Moody's upgraded its outlook to positive while keeping its rating unchanged at Baa2, which was last confirmed on 5 July 2017.

Spread development

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

Telekom Austria AG's five-year CDS spread moved sideways above the 50 bp line in the opening months of 2017, reaching its high for the year at around 55 bp on 28 March. The Markit iTraxx Europe Index also moved sideways during these months, hitting its highest point for the year at around 77 bp on 18 April. Developments until then were mainly influenced by the presidential election in France, Brexit negotiations and the uncertainty over the European Central Bank's monetary policy. Both the company's spread and that of the index continued to decline as the year progressed. The Telekom Austria CDS spread and the Markit iTraxx Europe Index then fell to their lows for the year of around 28 bp and 44 bp respectively towards the end of the year. ▪



Employees

With a common sense of identity, the promotion of constant learning and group-wide uniform guidelines, A1 Telekom Austria Group is positioning itself as 'Digital employer of choice'.

A1 Telekom Austria Group employs approximately 19,000 employees in its footprint. It sees its diversity in culture, age and gender as one of its biggest strengths. The strategy and culture at the company follow the common purpose of 'Empowering digital life'.

This requires fundamental changes in the way internal and external cooperation works. A1 Telekom Austria Group is therefore focusing on the digitalisation and group-wide harmonisation of procedures and processes. Innovative solutions for internal communication and cooperation are paving the way to a group-wide, common sense of identity ('One company'). Together, this 'new' cross-border team spirit, constant learning and the group-wide Guiding Principles are the main drivers of the corporate strategy ('Strategy enablers'). When it comes to positioning the company as an attractive digital employer, the maxim is 'A1 Telekom Austria Group—Digital employer of choice'.

Common sense of identity: 'One company'

Greater cross-divisional and international cooperation is required to forge ahead with the digital transformation as a united force. For this purpose, employees are encouraged to work in multinational project groups, with projects tested in different countries and rolled out across the company if successful. To promote the exchange of information within the Group, additional communication channels were introduced in 2017, such as the regular publications 'A1 Minute' (video compilation of the news from the past two weeks) and digital employee magazine 'A1 Stories', which is also available externally (A1stories.com).

Group-wide Guiding Principles

A1 Telekom Austria Group relies on an actively practised corporate culture, which is conducive to the common purpose of 'Empowering digital life'. Therefore, at the end of 2016, three Guiding Principles were developed and implemented across the Group as guidelines (see box).

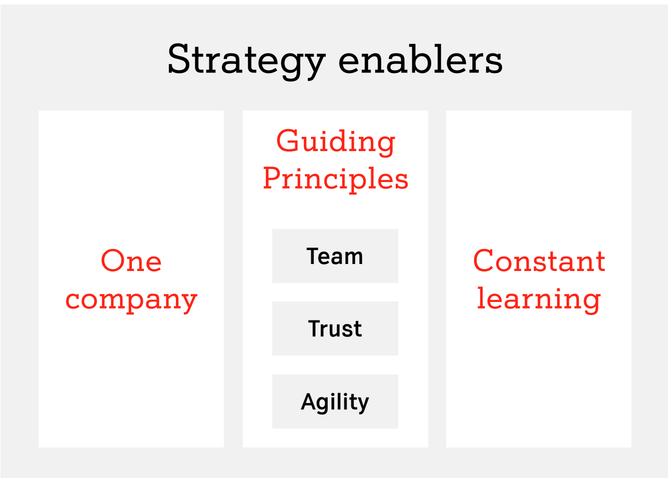
These principles have been strengthened over the course of 2017, with group-wide Guiding Principles workshops, a Guiding Principles campaign and a 'Culture Puls Check' for determining the status of the implementation of the company culture. Across the Group, 52 % of employees took part in the 'Culture Puls Check' and 88 % of employees are familiar with the Guiding Principles. The second part of the 'Culture Puls Check' will take place in 2018 and, when compared with the results of the first part, will show how workshops and campaigns on an active feedback culture within the company, the example set by management and, in particular, the application of the Guiding Principles by all employees have an impact on the immediate work environment.

Guiding Principles of A1 Telekom Austria Group

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

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

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

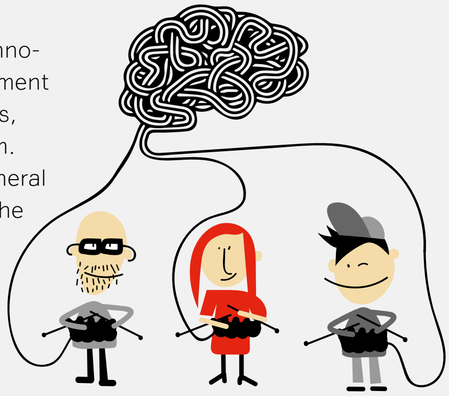


Promoting inquisitiveness: Constant learning

Digitalisation and innovative communication solutions stemming from it are opening up completely new possibilities for the configuration of working and learning worlds. Collaboration independent of space and time as well as exchange over social networks or knowledge platforms provides enormous potential for developing skills as well as promoting the productivity and attractiveness of the working environment as a whole. Accordingly, A1 Telekom Austria Group is increasingly using its central e-learning platform to provide training to all its employees throughout the Group wherever and whenever as well as on the Group's social media platform 'Workplace'. This encourages cross-divisional cooperation within international project groups and virtual teams as well as the transfer of expertise within the Group. All employees also have access to 'competence channels', which provide quarterly webcasts on 'leadership in the digital age', for example. Similar materials are also available on the 'Digital Life', 'Future Network' and 'Sales' channels. This means learning is brought directly back into the workplace, where employees continuously develop alongside their colleagues in teams—online and in real life.

DIGITALISATION

Employees



Staying curious, having a positive attitude to new experiences, thinking and acting innovatively. It is a matter of approach: whether and to what extent you seize the development opportunities available in the digital age. To refine the types of skills that this requires, A1 Telekom Austria Group employees have access to an extensive e-learning platform. It covers a comprehensive range of key issues like technology, business skills and general training, which employees can take advantage of at their own discretion—whatever the time and their location. In 2017, the e-learning platform was expanded significantly through partnerships with global training providers (like coursera and cross knowledge). The plan is to upgrade it further in 2018 with a learning bot and by developing learning paths. In this sense, the Group is promoting a continuous cultural shift towards 'Constant learning'.

The fact that digital learning is encouraged and required at the A1 Telekom Austria Group can also be seen in its extensive e-learning platform. This currently includes 14 learning providers with 894 online courses and virtual classes. In 2017, each employee took part in at least one online class.

A1 Telekom Austria Group also aims to develop essential skills and competencies in the digital age with its 'Fellowship' programme, which has provided top experts with the opportunity to develop their own communities on topics such as big data, artificial intelligence, the 'Internet of Things', etc. while receiving support and training. In doing so, the Group wants to accelerate expert careers, drive forward individual responsibility and the dismantling of hierarchies and, at the same time, further develop digital skills.

In 2017, the 'Intrapreneurship programme' was launched to actively encourage entrepreneurial spirit. The programme gives ambitious employees the opportunity to implement their ideas as internal start-ups without financial risks (see 'Technology and Innovation').

To cover its future needs for young professionals, A1 Telekom Austria Group trains its own apprentices. In 2017, 157 apprentices were trained at A1 in Austria.

Fair and flexible working conditions

At A1 Telekom Austria Group, group-wide performance management standards ensure the focus is on both the quantitatively measurable performance of employees and the 'how aspect' of their daily work, according to the Guiding Principles. The personal development of employees is an important aspect of the performance management process, in which it was integrated in 2016.

The use of mobile and flexible forms of employment was further developed across the Group accordingly last year. In this way, in 2017, the company obtained a new, modern location in the Republic of Serbia and established new office concepts to promote internal communication and implement digital working methods. 2018 will see the modernisation of the Group headquarters in Austria as well as the completion of a new location in the Republic of Macedonia. In these two locations, the focus will be on innovative work models and office solutions as drivers of internal digitalisation.

Other training programmes at A1 Telekom Austria Group

- Young Potential Program (A1 Telekom Austria Group)
- New Manager Program (Austria)
- Talent Management Program (Bulgaria)
- Development@vipnet (Croatia)
- Manager's School (Belarus)
- Strength-based Leadership (Slovenia)
- Development Center (Republic of Serbia)

A1 Telekom Austria Group employees

	2017	2016	Change in %
Austria	8,246.4	8,351.7	-1.3
Bulgaria	3,750.8	3,807.8	-1.5
Croatia	1,679.5	1,287.5	30.4
Belarus	2,575.2	2,247.6	14.6
Slovenia	565.3	532.4	6.2
Republic of Serbia	976.5	916.5	6.5
Republic of Macedonia	818.5	821.5	-0.4
Holding	345.0	237.7	45.2
Total	**18,957.1**	**18,202.6**	**4.1**

Figures as of 31 December. Employees in full-time equivalents.
Increases in 2017 were mainly driven by acquisitions and A1 Digital.

Social dialogue is highly valued at A1 Telekom Austria Group. The European Works Council meets several times a year, with employee representatives from various EU countries. There is also regular exchange between employee representatives at Group and local level. At Group level, in 2017, a memorandum of understanding on employee rights and working conditions and another one on cooperation in the workplace were agreed with the European Works Council. At local level, there are collective agreements in individual countries. One third of the members of the Supervisory Board of Telekom Austria AG are delegated by the employee representatives.

Sustainability targets 'employees'

2016–2018[1)]

- 38 % women in management positions
- Anchoring of flexible work arrangements
- Creating framework conditions for the promotion of constant learning

1) Baseline for targets is 2015.

Diversity: the potential of variety

Diverse teams can handle the incredible variety of challenges posed by today's working life better than individuals. Teams are particularly effective when many different skills and abilities are interlinked. Ultimately, only different perspectives on a challenge can produce comprehensive and efficient solutions. With precisely this in mind, A1 Telekom Austria Group has signed the Diversity Charter. In doing so, it is publically committed to using and preserving the wealth of cultural traditions and skills in its countries.

A1 Telekom Austria Group also takes a clear stance when it comes to gender equality—equal opportunities are a fixed element of all its activities. This is supported by a range of programmes, which aim to inspire women to go into technical professions, for example. A1 Telekom Austria Group has set itself the goal of increasing the proportion of women in management positions at the company to 38 % by 2018. Throughout 2017, the company concentrated on recruiting female experts and managers as well as providing work models that are flexible in terms of location and time and childcare. In Austria, a successful women's network provides female employees with a platform to exchange ideas, share knowledge and support each other. The proportion of women in management positions remained stable at 36 % in 2017. In total, at the end of 2017, the proportion of women at the Group was 38 % compared with 39 % in the previous year. ▪

HIGHLIGHT PROJECT

Digitalisation promotes diversity

Working together simply and efficiently. Independently of space and time. Across different countries and business areas. Without rigid structures or hierarchical boundaries. With strengths like these, digital workplaces are also conducive to diversity within teams. An important aspect for the A1 Telekom Austria Group in this regard is to hire an increasing number of female experts for management and senior management positions. There are already a number of examples to prove that this concept works at a top level. For example, Eva Zehetner, Group Human Resources Director, and Natali Delić, Senior Technical Director for the Republic of Serbia and for Slovenia. Generally speaking, mobile, flexible working and the option of taking on part-time management roles are instrumental in enabling men and women to establish a work-life balance.

Eva Zehetner

Natali Delić

Social and Ecological Responsibility

To ensure that it has a successful sustainability record, the A1 Telekom Austria Group takes into account not only economic criteria, but social and ecological aspects as well. Being an ideal digitalisation partner allows it to make valuable contributions in all three areas.

Digitalisation offers promising prospects for economic development by opening up entirely new options for enhanced efficiency and growth that target an abundance of economic sectors and business models. Accordingly, the A1 Telekom Austria Group began long ago to transform itself from an infrastructure, connectivity and broadband provider into the ideal digitalisation partner. At the same time, the Group also specifically promotes the competent and safe use of digital media to ensure that the associated opportunities and potential are available to as many people as possible in wider society. The A1 Telekom Austria Group also takes steps to ensure that its infrastructure roll-out, operation, maintenance and dismantling activities are as sustainable as possible. The Group consequently plays its part in leveraging the potential of ICT to mitigate climate change. A study undertaken by the Global e-Sustainability Initiative (GeSi) in 2015 has shown that the use of ICT has the potential to cut global CO_2 emissions by 20 % by 2030.

Sustainability management

The A1 Telekom Austria Group implemented a group-wide, integrated sustainability management system back in 2010. The group-wide sustainability strategy was derived from a materiality analysis (see 'Vision and Strategy'). The Corporate Sustainability department is responsible for coordinating and managing sustainability initiatives. As part of Group Communications & Sustainability under the direct responsibility of CEO Alejandro Plater, this department coordinates the implementation of the sustainability strategy with those in charge in the relevant countries.

Social commitment: A1 Internet for All

Studies such as the Global Information Technology Report 2016 by Strategy& project that an increasing rate of digitalisation will result in higher GDP, lower unemployment and greater innovation activity. In light of this, 'digital fitness' is becoming a top priority on both a societal and individual level.

Consequently, with its group-wide initiative 'A1 Internet for All', the A1 Telekom Austria Group is organising a series of free workshops to specifically promote the development of the knowledge and skills required to create equal opportunities for people to leverage the potential of digitalisation. As early as 2011, the Group founded the 'A1 Internet for All' media literacy initiative in Austria und rolled out comparable projects and initiatives in most countries the Group is active in.

The A1 Telekom Austria Group has set itself the goal of training as many as 150,000 participants by 2018—with different workshops aimed at children, young adults, adults and senior citizens. For the children and young adults target group, the priority is to ensure they learn at an early age to shape the digital world and not just to consume it. Some of the content used for these workshops is also being supplied in the form of training materials for lessons. One of the aspects of the initiative in Austria is to invite parents to attend information evenings, where they can learn about children's online usage habits and how they can protect children against any potential dangers. Training sessions for senior citizens focus on breaking down access barriers and encouraging experimentation. Interrelated courses, practical examples for daily digital life and tips on how to use digital media properly help to improve senior citizens' understanding of the Internet. All workshops also touch on security and safety aspects. By 2017, more than 153,000 people participated in media literacy training, meaning the corresponding objective was achieved ahead of schedule.

According to the 2017 scientific evaluation undertaken by the NPO Centre of the Vienna University of Economics, A1 in Austria is playing an instrumental role in closing the 'digital gap'.

HIGHLIGHT PROJECT

Blogging Plus

In autumn 2017, 'A1 Internet for All' rolled out the new workshop series 'Blogging Plus' in Austria, with the aim of establishing a greater understanding of blogging among senior citizens. It explains how a blog works, what topics are suitable for blogs, how to create a blog and what safety aspects need to be considered. Theory is translated into practice in a series of training exercises, using open source technologies to help senior citizens create their first blog posts.

Sustainability targets 'society'

2016–2018

- 150,000 participations in media literacy training [1)]
- Promotion of social projects according to local needs

1) Cumulative figure since 2011.

Products with social value added

Digitalisation can also make daily life easier for socially deprived or physically impaired people. New information and communication technologies have the capacity to help blind or severely visually impaired people, for example, to integrate into the general education system—even without the use of Braille. Vipnet also provides mobile phones featuring larger displays or simplified menu navigation for visually impaired people in Croatia.

Certified environmental management systems

Austria
- EMAS (since 2013)
- ISO 50001 for energy management (since 2008)
- ISO 14001 for environmental management (since 2004)

Slovenia
- EMAS (since 2014)
- ISO 14001 (since 2009)

Republic of Serbia
- ISO 14001 (since 2015)

Republic of Macedonia
- ISO 14001 (since 2016)

SMS and chat messaging are useful for hearing-impaired people, on the other hand. This is why velcom in Belarus offers special rates to people with impaired hearing, while A1 Slovenija offers special tariffs for blind and deaf people including data allowances (unlimited voice calls and text messages).

In a society in which people are progressively ageing, health is naturally of paramount importance. E-health solutions are the future of the healthcare system in many areas. To that end, A1 in Austria is already contributing to provide a 'Medical Data Network'. This network interlinks doctors, hospitals, laboratories and other healthcare institutions. The multimedia hospital bed, also known as the 'E-Care Terminal', is diversifying the conventional hospital bed, enriching everyday hospital life with a number of additional services and supporting the work processes of care staff. Simple applications like those supplied by A1 in Slovenia are also making life easier: The application 'Vem, kaj jem!' ('I know what I'm eating!') helps diabetics to keep track of their blood sugar level. And A1 in Slovenia is simplifying communication between citizens and the authorities with e-government solutions.

Digitalisation and the environment

In its study, the Global e-Sustainability Initiative [2)] suggests that ICT has the potential to uncouple economic growth from increasing global emissions. The CO_2 emissions produced by telecommunications companies originate from their vehicle fleets, heating and cooling, and especially from the electricity consumption of their networks. In this respect, the A1 Telekom Austria Group has set itself the target of reducing CO_2 emissions by 25% by 2020 [3)].

Ensuring that the dynamic increase in data processing and data storage as a result of digitalisation does not result in comparatively more energy and CO_2 requires energy-efficiency-enhancing measures (see 'Technology and Innovation'). However, these measures alone cannot replace the entire amount of electricity required. Which is why the A1 Telekom Austria Group is endeavouring to meet the remaining electricity requirement as sustainably as possible. It is doing so by using electricity from renewable sources such as solar, hydro and wind power: In 2017, 62% of the A1 Telekom Austria Group's energy requirements were covered by renewable energy sources. The A1 Telekom Austria Group also operates two major solar parks—one since 2013 in Austria that produces an annual electricity volume of more than 200,000 kWh and one since 2016 in Belarus that produces an annual electricity volume of 24 million kWh.

In 2017, the employees of the A1 Telekom Austria Group used 5,180 vehicles and travelled a distance of around 105 million kilometres—the primary purpose of which was to perform network maintenance and expansion operations and provide quality assurance and other services to customers. The Group has the same ambition here as it does for energy—to achieve the greatest possible efficiency. The first step is to reduce the number of kilometres travelled. This involves the use of innovative logistics concepts, video conferences and telepresence solutions. The second step is to use more sustainable

2) GeSi, SMARTer2030 (2015)
3) Baseline for target is 2012.

HIGHLIGHT PROJECT

Hybrid exchange

In 2017, velcom in Belarus equipped its first mobile base station with a stand-alone, hybrid power supply system. The mobile base station system now draws its power from several solar panels. To ensure there is an adequate power supply available overnight, this solar energy is stored. Diesel generators are used on a short-term basis in adverse weather conditions only.

propulsion models such as natural-gas-powered, hybrid and electric vehicles. Due to acquisitions, the A1 Telekom Austria Group is only around 0.4 % closer to its target of reducing CO_2 emissions by 25 % between 2012 and 2020.

Internal preservation of resources

Taking action to preserve resources is also important in an office setting. Which is why the A1 Telekom Austria Group has set itself the target of reducing paper consumption by 10 % between 2016 and 2018. Digitalisation of internal work processes is highly important in this respect. An increasing number of mobile devices are being used for field services, for example, because they allow data attachments such as plans and assembly orders to be processed digitally. In Austria alone, this practice saves around 100,000 sheets of paper per year. From 2018 onwards, all driver logbooks will be managed in a purely digitally manner as well. Aside from digitalising internal work processes, switching to double-sided printing as standard and procuring Follow Me printers, internal campaigns also reinforce environmental awareness, motivate employees and involve people actively in environmental measures.

Although it does not manufacture mobile devices itself, the A1 Telekom Austria Group contributes to preserve resources in this respect as well with its mobile phone recycling initiatives. Most of its subsidiaries—some since 2004—allow customers to give back their old mobile phones free of charge. These old devices are passed on to specialist recycling companies, which recycle and reuse 70 % to 80 % of the substances contained in them. In Austria, for example, 100 % of the proceeds from mobile phone recycling are used to fund climate protection projects.

Sustainability targets ‘environment’

2012–2020[1]

- Reducing CO_2 emissions by 25 %

2016–2018[2]

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

1) The baseline for target is 2012.
2) The baseline for targets is 2015.

ICT products providing ecological value

The A1 Telekom Austria Group is operating and maintaining its customers’ IT equipment with its range of housing services. The quality and standards of its data centres ensure optimal security in this respect. The situation is similar for hosting, where the server infrastructure is relocated in a data centre. Relocating the infrastructure means that electricity is used more efficiently and CO_2 emissions are kept to a minimum. Integrated communication solutions like video conferencing make communication with customers and partners more efficient and environmentally friendly. The operation of A1’s network in Austria is 100 % carbon neutral, which reduces not only the company’s own CO_2 emissions, but also the emissions of its customers. Services such as those supplied by subsidiary A1 Digital (see ‘Technology and Innovation’) help to reduce the environmental footprint. ▪

DIGITALISATION

Social and Ecological Responsibility

Information and communication technologies can help to encourage a more ecological way of life by minimising distances driven or flown—e.g. for business trips—and reducing consumption of hardware, energy, paper and other resources. From a social point of view as well, there are considerable advantages to digitalisation since digital media give everyone an equal opportunity for individual or social development.

Compliance

The A1 Telekom Austria Group acts with honesty, fairness and transparency to secure its economic success and reputation in the long term. The compliance management system provides a framework for acting in a responsible manner.

For the A1 Telekom Austria Group, achieving the defined business goals is not the only thing that matters—how it goes about doing so is also essential. The overriding principle is acting with integrity and responsibility towards its employees, customers, shareholders, external creditors and the public.

Prevention and reaction

The A1 Telekom Austria Group owes it to all of its stakeholders to ensure that its standards of integrity are realised as a key component of its corporate culture. Acting with honesty, fairness and transparency is the only way to secure the Group's economic success and reputation in the long term.

To achieve this, the A1 Telekom Austria Group has a sophisticated compliance management system based on the central elements of prevention and reaction. To prevent potential misconduct, the Group has established clear rules for acting ethically and with integrity in all business relationships, and integrated appropriate controls within its business processes.

To enable an appropriate response to potential misconduct, indications and evidence are collected via a dedicated portal and addressed in strict confidentiality as part of a structured process. This allows the remediation of any weaknesses and the continuous improvement of the compliance management system.

A scoping process has identified the following areas as key compliance topics: corruption prevention and integrity, antitrust law, data protection and capital market compliance. Group Compliance ensures the consistent implementation of the corresponding measures and instruments at all business units with the support of the local compliance managers at the subsidiaries. The A1 Telekom Austria Group's compliance management system is consistent with the internationally recognised standards issued by Transparency International and Institut Deutscher Wirtschaftsprüfer (Institute of Public Auditors in Germany). This was confirmed by an independent auditor in 2013. Furthermore, the essential elements of the compliance management system were successfully reviewed for effectiveness in 2016 and 2017 throughout the whole company by Group Internal Audit and Group Compliance.

Issues and instruments in the compliance management system

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

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

Acting with integrity and responsibility

The Code of Conduct is a central instrument in the A1 Telekom Austria Group's compliance management system. It is aimed at all employees and the entire management team and is intended to help foster ethically and legally impeccable conduct in the various decisions that have to be taken every single day. It contains advice and regulations on fair conduct, gifts and personal benefits, confidentiality, conflicts of interest, protecting company assets, indications of violations, communicating the content of the Code of Conduct, and the Group's whistleblowing principles. In 2017, the Code of Conduct was revised and brought into line with the Guiding Principles 'Team, Trust and Agility' that apply throughout the Group to aid the embodiment of the corporate culture (see 'Employees').

Compliance management system

Strategy

- Culture and attitude
- Compliance goals
- Compliance-communciation / reporting
- Continuous improvement / audit / certification

Prevention

- Risk assessment / planning
- Business conduct
- Business process

Reaction

- Tip-off portal
- Detection audit
- Case handling
- Reme-diation

Infrastructure

- Compliance organisation
- Compliance HR
- Compliance IT

This is supplemented by group-wide guidelines providing detailed assistance on concrete topics, such as anti-corruption and conflicts of interest, capital market compliance and anti-trust law. ISO standards for compliance management systems (ISO 19600) and anti-corruption management systems (ISO 37001) have been factored into the 'anti-corruption and conflicts of interest' guidelines.

Target-group-optimised training sessions on compliance issues take place on a regular basis to ensure that the principle of integrity is anchored throughout the company in a sustainable manner. Online training was prioritised in 2017. The topics of anti-corruption, integrity, data protection, information security, antitrust law and capital market compliance were explained in a practical way in a number of mandatory group-wide e-learning modules. Around 3,500 employees and managers were also trained in compliance classroom training in 2017. To clarify any questions they may have, A1 Telekom Austria Group employees can also contact the 'ask.me' compliance helpdesk, which dealt with around 450 questions in 2017.

A matter of corporate culture

Systematic adherence to all rules and regulations in the course of the company's day-to-day work makes compliance a central element of the corporate culture. Key factors include, not least, the example set by senior management and the responsibility of all employees for their own actions. Employees and third parties can use the 'tell.me' whistleblower platform to anonymously report information on potential misconduct in order to sustainably prevent and identify potential risks within the A1 Telekom Austria Group. In 2017, approximately 40 relevant tips were submitted via this compliance instrument and carefully investigated.

The A1 Telekom Austria Group responds to incidents with appropriate sanctions. If an actual case of misconduct is established, the potential consequences range from educational measures and process improvements via reprimands through to dismissals or the termination of business relationships. ▪

HIGHLIGHT PROJECT

Excellence in compliance culture

In 2017, the A1 Telekom Austria Group won the first-ever Austrian Compliance Award in the category 'Excellence in Compliance Culture' and was recognised for the third time for its innovative compliance communications, after having received the European Change Communication Award in 2012 and the Communication Excellence Award in 2013. The jury was particularly impressed by the Group's use of innovative communication methods, such as an internal social media platform, for agile communication and promotion of the compliance culture.

Report by the Supervisory Board

Dear shareholders,

The 2017 financial year was again shaped by systematic implementation of the Group strategy and by strategic course-setting in this age of digitalisation.

Establishing a clear focus on an outstanding customer experience combined with innovative products and services and adhering to a strict cost management policy allowed the Group to get back on track to growth – despite the persistently challenging competitive environment and regulatory intervention. In the year under review, the A1 Telekom Austria Group increased its total revenues and EBITDA by 4.1 % and 3.2 % respectively and demonstrated an improvement in its operating business not only on the domestic market of Austria, but also in the CEE markets. M&A transactions in Croatia and Belarus made an additional positive contribution. In September 2017, the A1 Telekom Austria Group took a further step in strengthening its brand profile and announced its decision to introduce the A1 brand gradually in all countries according to local conditions and thereby harmonise its brands througout the Group. A1 Digital is also expected to open up new potential in the area of digital services.

Telekom Austria shares closed the year at EUR 7.72, up 37.8 % on the previous year and clearly outperforming the sector (-3.6 %).

In the 2017 financial year, the Supervisory Board held six Supervisory Board meetings and numerous committee meetings to discuss in detail the strategic orientation, investment and financing decisions as well as the business performance of the A1 Telekom Austria Group and its subsidiaries. After an extensive discussion on strategic opportunities and challenges as well as potential courses of action to optimise business performance, the budget for 2018 was approved in December 2017.

At the Annual General Meeting on 9 June 2017, the Supervisory Board mandates of Stefan Pinter and Reinhard Kraxner were each extended by one year. In the Extraordinary General Meeting on 20 September 2017, Peter F. Kollmann was elected as a member of the Supervisory Board, following Ronny Pecik's resignation from the Supervisory Board as of 9 June 2017. I would like to take this opportunity to thank Ronny Pecik as a resigned member of the Supervisory Board for his high commitment and good cooperation.

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was also reappointed as the auditor at the Annual General Meeting on 9 June 2017. The Supervisory Board and the Audit Committee discussed the selection of the auditor in detail and made a corresponding recommendation to the Annual General Meeting to appoint Ernst & Young Wirtschaftsprüfungs-GmbH.

The Supervisory Board of Telekom Austria AG is committed to compliance with the Austrian Corporate Governance Code (ACGC) and to responsible corporate management and control aimed at generating sustainable enterprise value. All ten shareholder representatives have declared their independence within the meaning of Rule 53 of the ACGC. Due to the open discussion culture within the Supervisory Board, the self-evaluation of the Supervisory Board as stipulated in Rule 36 of the ACGC is performed every two years. The most recent self-evaluation was performed in the 2016 financial year.

In accordance with Rule 62 of the ACGC, the A1 Telekom Austria Group's compliance with the provisions of the ACGC and the accuracy of its public reporting in association with this are assessed externally every three years. The most recent evaluation, which was performed by Ernst & Young Wirtschaftsprüfungs-GmbH at the beginning of 2017, found no facts that conflicted with the declaration made by the Management Board and the Supervisory Board in the 2016 financial year concerning observance of and compliance with the 'comply or explain' rules or the recommendations of the ACGC.

In 2017, the Audit Committee of the Supervisory Board held five meetings to address financial reporting within the scope of preparing its Annual and Quarterly Financial Statements, and also performed its supervisory duties to monitor the effectiveness of the internal control system, the risk management system and internal auditing. As part of its reporting, Ernst & Young Wirtschaftsprüfungs-GmbH credibly demonstrated its impartiality to the Audit Committee in accordance with Section 270 (1a) of the Austrian Business Enterprise Code (UGB). The findings of the Audit Committee meetings were reported to the Supervisory Board on an ongoing basis.

At its meeting in February 2017, the Staff and Nomination Committee dealt with the extension option of two additional years in the Management Board contracts, which were executed in 2017: the contracts of Alejandro Plater and Siegfried Mayrhofer are thus due to end on 5 March 2020 and 31 May 2020 respectively.

The Annual Financial Statements of Telekom Austria AG and the Consolidated Financial Statements for the year ending 31 December 2017 were issued with unqualified audit opinions by Ernst & Young Wirtschaftsprüfungs-GmbH. The Management Report and the Group Management Report are consistent with the Annual Financial Statements and the Consolidated Financial Statements respectively. After prior consultation with the Audit Committee and following an extensive discussion and review, the Supervisory Board approved the Annual Financial Statements for 2017, which have therefore been adopted in accordance with Section 96 (4) of the Austrian Stock Corporation Act (AktG). After prior consultation with the Audit Committee and following an extensive discussion and review, it also approved the Consolidated Financial Statements prepared in accordance with IFRS as prescribed by Section 245a UGB, the Management Report, the Group Management Report and the Corporate Governance Report. Telekom Austria Aktiengesellschaft publishes a separate consolidated non-financial report in accordance with Section 267a UGB.

The Supervisory Board approves the Management Board's proposal for the distribution of profit, namely the distribution of a dividend of 20 Euro cents per eligible share for the 2017 financial year, with the remaining amount being carried forward to new account.

I would like to conclude by thanking the management and all employees. Their exceptional dedication enabled the A1 Telekom Austria Group to successfully hold its own in what was a challenging market environment in 2017. I would also like to clearly state to the shareholders of Telekom Austria AG that the Supervisory Board will continue to actively support and press ahead with the strategic development of the A1 Telekom Austria Group going forward.

Wolfgang Ruttenstorfer
Chairman of the Supervisory Board
Vienna, February 2018

2017 Consolidated Corporate Governance Report

Commitment of the A1 Telekom Austria Group to the Corporate Governance Code

The shares of Telekom Austria AG have been listed on the Vienna Stock Exchange since November 2000, where the Austrian Corporate Governance Code (ACGC) is generally accepted. The current version of this Code (January 2018) can be viewed at www.corporate-governance.at or www.a1.group.

The Corporate Governance Code pursues the goal of responsible management and control of companies geared towards a sustainable and long-term creation of enterprise value. It aims to ensure a high degree of transparency for all stakeholders and to serve as an important guideline for investors. The Code is based on the provisions of Austrian stock company, stock exchange and capital market law, EU recommendations and the OECD Principles of Corporate Governance. The A1 Telekom Austria Group has been committed to voluntary compliance with the ACGC since 2003. The Group complies with all the legal requirements set out by the ACGC in what are referred to as the 'L' rules.

To explain the deviations from the ACGC's 'C' rules, the A1 Telekom Austria Group has made the following statement regarding Rule 36, Rule 42 and Rule 54 of the ACGC:

- Ad C Rule 36: Due to the open discussion culture within the Supervisory Board, the self-evaluation of the Supervisory Board as stipulated in Rule 36 of the ACGC is performed every two years. The most recent self-evaluation was performed for the 2016 financial year.
- Ad C Rule 42: The shareholder representatives on the Supervisory Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB). The Nomination Committee or the entire Supervisory Board submit nomination proposals to the Annual General Meeting as stipulated by these terms, where required by law.
- Ad C Rule 54: The free float of the company (including treasury shares) is 20.58%. The shareholder representatives on the Supervisory Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB).

In accordance with Rule 62 of the ACGC, the A1 Telekom Austria Group's compliance with the provisions of the ACGC and the accuracy of its public reporting in association with this are evaluated externally every three years. The last evaluation was performed in the first half of 2017 by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., which found that the Consolidated Corporate Governance Report of Telekom Austria AG for the 2016 financial year ending 31 December 2016 meets the legal regulations set out in Section 243b UGB and Section 267a UGB in addition to the requirements of the ACGC and the statements made therein.

Composition of executive bodies of the company and executive body remuneration

The Management Board

The members of the Management Board of Telekom Austria AG as of the end of 2017 were Alejandro Plater, Chief Executive Officer (CEO) and Chief Operating Officer (COO), and Siegfried Mayrhofer, Chief Financial Officer (CFO).

Alejandro Plater
Management Board member (Chief Operating Officer, COO) since 6 March 2015, Chairman of the Management Board (Chief Executive Officer, CEO) and COO since 1 August 2015, with a contract term until 5 March 2020.

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

Alejandro Plater holds Supervisory Board mandates at the following subsidiaries: A1 Telekom Austria AG (Austria), Mobiltel EAD (Bulgaria), Vipnet d.o.o.

(Croatia), Unitary enterprise velcom (Belarus), A1 Slovenija d.d. (Slovenia), Vip mobile d.o.o. (Republic of Serbia), one.Vip DOO (Republic of Macedonia). Alejandro Plater does not hold any supervisory board mandates outside the A1 Telekom Austria Group.

Siegfried Mayrhofer
Chief Financial Officer (CFO): Management Board member since 1 June 2014, with a contract term until 31 May 2020.

Siegfried Mayrhofer, born in 1967, studied Industrial and Mechanical Engineering at the Graz University of Technology.

He began his professional career in 1994 at Voest Alpine Eisenbahnsysteme in the international division for the acquisition of investments. From 1998 to 2000, he served as a consultant to Constantia Corporate Finance for mergers and acquisitions in various industries.

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

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

Report on Management Board remuneration

The Remuneration Committee of the Supervisory Board is responsible for structuring Management Board remuneration. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component was agreed with the Management Board members Alejandro Plater and Siegfried Mayrhofer. This performance-based component is contingent upon the achievement of defined targets and is limited to a maximum of 150% of the basic remuneration. The targets for the reporting year consist of 70% financial figures (revenue (weighting 35%) and operating free cash flow (weighting 35%)) and 30% strategic objectives. The Remuneration Committee decides on the degree of target achievement and the amount of the variable salary component on the basis of the Consolidated Financial Statements and the implementation of strategy. Performance-based remuneration becomes payable after the result for the financial year in question has been resolved, while an advance in the amount of 60% of the fixed salary is paid in 14 instalments over the current financial year.

Members of the Management Board also participate in the long-term incentive programme (LTI). The multi-year share-based incentive programme introduced in 2010 continued in the 2017 reporting year with the issue of the 2017 tranche.

The fifth tranche of the LTI programme (LTI 2014) was paid out in 2017, following the end of the three-year performance period and the determination by the Remuneration Committee of the degree of achievement. The degree of target achievement for LTI 2014 was 60.2%. Detailed information about this can be found in the Notes to the Consolidated Financial Statements and the section on the remuneration of the individual members of the Management Board.

The total expense for basic remuneration, including remuneration in kind, of members of the Management Board in 2017 amounted to EUR 1.026 mn (2016: EUR 1.026 mn), and variable remuneration amounted to EUR 1.087 mn (2016: EUR 1.214 mn). EUR 0.11 mn was spent on LTI 2014 for Management Board members in the 2017 reporting year (amount spent on LTI 2013 in 2016: EUR 0.263 mn).

Assuming 100% target achievement, the members of the Management Board were provisionally allocated the following numbers of notional bonus shares in the context of the new LTI 2017 tranche issued in June 2017: 59,041 shares for Alejandro Plater, 49,500 shares for Siegfried Mayrhofer. Any actual cash settlement will occur after the end of the three-year performance period, i.e. not before 1 June 2020, commensurate with the level of achievement of objectives as determined by the Remuneration Committee.

In terms of old-age provisions, the Management Board members Alejandro Plater and Siegfried Mayrhofer receive a contribution to their voluntary pension plans, which is paid into a corporate pension fund by the company and amounts to 20% of their respective fixed salaries (excluding expense allowances). Members will receive an eventual payout from the corporate pension fund only when they are over 55 years of age and are no longer in a contractual relationship with the company.

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

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

For the companies included in the scope of consolidation, the following applies with regard to the key principles of the remuneration policy: The Chairman of the Supervisory Board of the respective subsidiary is responsible for structuring Management Board remuneration. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component has been agreed with the Management Board members of the respective consolidated subsidiaries. This performance-based component is contingent upon the achievement of defined targets and is limited to an average of 60 % of the basic remuneration. The targets for the reporting year consist of 70 % financial figures and 30 % strategic objectives. The Chairman of the Supervisory Board of the respective subsidiary decides on the degree of target achievement and therefore on the amount of the variable salary component on the basis of the Consolidated Financial Statements, the Annual Financial Statements of the respective company and the implementation of strategy. Performance-based remuneration becomes payable after the result for the financial year in question has been resolved.

Members of the Management Board of the key consolidated subsidiaries participated in the long-term incentive programme (LTI) until the LTI 2016 tranche (issued in the 2016 financial year with a term of 1 January 2016 to 31 December 2018). A new incentive scheme for CEOs of the key consolidated subsidiaries is planned for 2018.

Remuneration of the individual members of the Management Board

Management Board remuneration in EUR '000	Basic remuneration (fixed salary incl. remuneration in kind)		Variable remuneration[1]		Multi-year share-based remuneration (LTI)		Total remuneration[4), 5)]	
	2017	2016	2017	2016	2017	2016	2017	2016
Alejandro Plater	559	558	591	321	–	–	1,149	879
Siegfried Mayrhofer	468	468	497	685	110	62	1,075	1,214
Hannes Ametsreiter[2]	–	–	–	208	–	104	–	312
Günther Ottendorfer[3]	–	–	–	–	–	98	–	98
Total	**1,026**	1,026	**1,087**	1,214	**110**	263	**2,224**	2,503

1) The figures for the variable remuneration for 2016 and 2017 respectively also include the variable remuneration for the years 2015 and 2016, which was paid out in the reporting years 2016 and 2017. (Note: The variable remuneration paid to Alejandro Plater in 2016 did not include any payments for previous years and hence is lower than the remuneration paid to Siegfried Mayrhofer.)
2) Hannes Ametsreiter resigned from his function as CEO as of 31 July 2015 and his employment relationship was terminated at the same date by mutual agreement. In the table above, the variable remuneration in 2016 includes the payment of variable remuneration for the year 2015 until the resignation amounting to EUR 208,000 as well as the share-based remuneration for LTI 2013 of EUR 104,000. The share-based remuneration for LTI 2014 of EUR 71,000 paid in 2017 is not included in the table.
3) Günther Ottendorfer's contract with a term until 31 August 2016 was prematurely terminated as of 5 March 2015. The share-based remuneration for LTI 2014 of EUR 102,000 paid in 2017 is not included in the table.
4) Hans Tschuden's contract with a term until 31 March 2015 was prematurely terminated as of 31 May 2014. The share-based remuneration for LTI 2014 and LTI 2013 of EUR 49,000 and EUR 96,000 respectively paid in 2017 and 2016 is not included in the table.
5) There are deviations in the totals due to rounding.

Long-term incentive programme (LTI)

The A1 Telekom Austria Group's multi-year share-based long-term incentive programme (LTI) introduced in the 2010 financial year continued in 2017, with eligible participants restricted to the company's Management Board. LTI 2017 was issued on 1 June 2017 and has a term of three years.

The LTI is based on the performance-based allocation of notional bonus shares. During the programme, participants must hold shares in Telekom Austria AG, the number of which is determined by the defined number of notional bonus shares for each entitled beneficiary. Any payment is made in cash, not in shares. The amount of the payment depends on the achievement of targets in the form of key figures defined by the Supervisory Board within a three-year performance period, ranging from 0 % to a maximum of 350 % of the participant's investment, with a maximum target achievement of 175 %.

The A1 Telekom Austria Group's long-term incentive programme is consistent with the requirements of the Austrian Corporate Governance Code. The relevant target performance indicators are based on the long-term development of the company. The targets and key performance indicators are determined by the Supervisory Board at the beginning of each tranche. Each performance period is three years long. The following targets and key performance indicators were set for the LTI 2015 tranche issued in the 2015 reporting year: EBITDA (weighting 35 %), free cash flow (weighting 30 %) and a revenue-based indicator (weighting 35 %). The following targets were set for the LTI 2016 and LTI 2017 tranches issued in the 2016 and 2017 reporting years: Return on invested capital (ROIC) (weighting 50 %) and revenue market share (weighting 50 %) of the A1 Telekom Austria Group.

Benefits under the LTI programme in the 2017 reporting year

The fifth LTI tranche (LTI 2014), which had been granted on 1 July 2014, was paid out to the entitled employees of the Group in July 2017 after the end of the three-year performance period and three years after the grant date. The tranche was paid out in line with the target achievement of 60.2 % as determined by the Remuneration Committee of the Supervisory Board at the value of 222,154 notional bonus shares in total (measured using the average price of the company's shares for the fourth quarter of 2016 of EUR 5.23, and therefore EUR 1.16 mn (2016: EUR 1.17 mn)). Of this total, Siegfried Mayrhofer received 21,045 shares or EUR 0.11 mn (2016: EUR 0.062 mn). The following amounts were paid to former Management Board members: 13,604 shares or EUR 0.071 mn to Hannes Ametsreiter (2016: EUR 0.104 mn), 19,510 shares or EUR 0.102 mn to Günther Ottendorfer (2016: EUR 0.098 mn), and 9,348 shares or EUR 0.049 mn to Hans Tschuden (2016: EUR 0.097 mn).

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

As of 31 December 2016, the members of the Management Board hold the following shares, some of which serve to satisfy LTI programme participation requirements:

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

The entry into force of the Market Abuse Regulation on 3 July 2016 means that directors' dealings are no longer disclosed by the Financial Market Authority (FMA) but by the issuer.

Telekom Austria AG operates in accordance with the legal provisions and reports transactions by Management Board and Supervisory Board members and their related parties involving Telekom Austria shares on the company's website.

There were no directors' dealings disclosures in the 2017 reporting year.

Supervisory Board

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

Ronny Pecik resigned from his position on the Supervisory Board of Telekom Austria AG effective from 9 June 2017.

At the Annual General Meeting on 9 June 2017, the Supervisory Board mandates of Reinhard Kraxner and Stefan Pinter were also each extended by one year.

Peter Kollmann was elected to the Supervisory Board at the Extraordinary General Meeting on 20 September 2017.

Independence of the Supervisory Board

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

The free float of the company (including treasury shares) is 20.58 %. The shareholder representatives on the Supervisory Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and ÖBIB.

Supervisory Board members

Name (year of birth)	Profession
Wolfgang Ruttenstorfer, Chairman (1950)	
Carlos García Moreno Elizondo, Vice Chairman (1957)	CFO América Móvil, S.A.B. de C.V. (Mexiko)
Alejandro Cantú Jiménez (1972)	General Counsel América Móvil, S.A.B. de C.V. (Mexiko)
Karin Exner-Wöhrer (1971)	CEO Salzburger Aluminium AG
Peter Hagen (1959)	Business Consultant
Carlos M. Jarque (1954)	Executive Director of International Affairs, Government Relations and Corporate Affairs, América Móvil, S.A.B. de C.V. (Mexiko)
Peter F. Kollmann (1962)	CFO Verbund AG
Reinhard Kraxner (1970)	Assistant General Counsel Treasury/Finance, Philip Morris International Inc. (USA)
Ronny Pecik (1962)	Businessman
Stefan Pinter (1978)	Member of the Management Board, GlaxoSmithKline Pharma GmbH
Oscar Von Hauske Solís (1957)	CEO Telmex Internacional (Mexiko), Chief Fixed-Line Operations Officer América Móvil, S.A.B. de C.V. (Mexiko)

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

1) Term of office ends at the Annual General Meeting dealing with the 2019 financial year (provisionally May 2020).
2) Term of office ends at the Annual General Meeting dealing with the 2017 financial year (30 May 2018).
3) Term of office ends at the Annual General Meeting dealing with the 2018 financial year (provisionally May 2019).
4) Term of office ends at the Annual General Meeting dealing with the 2020 financial year (provisionally May 2021).

Other Supervisory Board mandates and similar functions at other listed companies (as per the ACGC)	First appointed	End of current term of office on Supervisory Board of Telekom Austria AG or date of departure	Independence as per Rule 53 of the ACGC
Flughafen Wien AG, RHI AG, NIS a.d. (Republic of Serbia)	27.05.2010 to 14.08.2014 Reappointed on 27.05.2015	2020[1)]	yes
Royal KPN N.V. (Netherlands)	14.08.2014	2018[2)]	yes
	14.08.2014	2019[3)]	yes
	27.05.2015	2020[1)]	yes
VOEST Alpine AG	25.05.2016	2019[3)]	yes
	14.08.2014	2018[2)]	yes
	20.09.2017	2021[4)]	yes
	14.08.2014	2018[2)]	yes
	14.08.2014	09.06.2017	yes
	14.08.2014	2018[2)]	yes
	23.10.2012	2018[2)]	yes

	30.01.2009 to 03.11.2010, Re-delegated on 26.07.2012		
	Re-delegated on 06.05 2011		
	03.08.2007 to 20.10.2010, Re-delegated on 11.01.2011		
	03.11.2010		
	27.10.2010		

Report on Supervisory Board remuneration

The Annual General Meeting on 9 June 2017 resolved to increase Supervisory Board remuneration starting from the 2016 financial year. It approved remuneration of EUR 40,000 for the Chairman of the Supervisory Board, EUR 30,000 for the Deputy Chairman and EUR 20,000 for all other members of the Supervisory Board. Members of a committee are each paid EUR 10,000, and the Chairman of the committee receives EUR 12,000. (Remuneration for committee members is limited to a committee mandate. This stipulates that committee members are each entitled to only one lot of remuneration, even if they sit on more than one committee.) From 1 January 2017, attendance fees were also increased to EUR 400 per meeting.

Remuneration for the Supervisory Board for 2016 was paid out following the approval of the actions of the Supervisory Board members by the Annual General Meeting in July 2017. Total remuneration, including attendance fees of EUR 0.358 mn, was paid to members of the Supervisory Board in the 2017 financial year (2016: EUR 0.204 mn). In addition, the members of the Supervisory Board are reimbursed for expenses incurred for travel and accommodation in connection with Supervisory Board meetings.

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

Remuneration of Supervisory Board members

Name	Supervisory Board remuneration awarded for 2016 and paid in 2017 (in EUR)	2017 attendance fees (in EUR)
Wolfgang Ruttenstorfer	52,000	5,200
Carlos García Moreno Elizondo	42,000	5,200
Alejandro Cantú Jiménez	30,000	2,000
Elisabetta Castiglioni 1)	11,967	–
Karin Exner-Wöhrer	20,000	2,000
Peter Hagen 2)	18,115	3,600
Carlos M. Jarque	30,000	4,400
Peter Kollmann 3)	–	400
Reinhard Kraxner	20,000	2,400
Ronny Pecik 4)	30,000	2,000
Stefan Pinter	20,000	2,400
Oscar Von Hauske Solís	32,000	4,400
Walter Hotz	–	4,800
Silvia Bauer	–	4,400
Werner Luksch	–	2,000
Alexander Sollak	–	4,800
Gottfried Kehrer	–	2,000

1) Supervisory Board remuneration for the period from 1 January 2016 to 25 May 2016.
2) Supervisory Board remuneration for the period from 25 May 2016 to 31 December 2016.
3) Attendance fee for the period 20 September 2017 to 31 December 2017.
4) Supervisory Board remuneration for 2016 and attendance fee for the period 1 January 2017 to 9 June 2017.

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

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

The A1 Telekom Austria Group complies with established principles to ensure sustainable, value-enhancing corporate development and is committed to the principles of transparency and a policy of open communication. The Group-wide areas of competence and responsibility are clearly regulated by the Articles of Association of Telekom Austria AG and the relevant statutory provisions. In addition, the duties, responsibilities and working methods are also described in greater detail in the Rules of Procedure for the Management Board and the Supervisory Board.

The Management Board defines the strategic focus of the Group in consultation with the Supervisory Board and provides the latter with regular reports on the implementation of the strategy as well as on the company's current situation, including its risk situation. Furthermore, the Supervisory Board is authorised to demand reports from the Management Board at any time on matters concerning the A1 Telekom Austria Group.

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

- As of the end of 2017, the **Remuneration Committee** consisted of Wolfgang Ruttenstorfer (Chairman), Carlos García Moreno Elizondo (Deputy Chairman) and Oscar Von Hauske Solís. This committee is responsible for regulating relationships between the company and the members of the Management Board, including granting approval for additional occupation. Resolutions concerning the appointment of Management Board members (or revocation thereof) and granting stock options in the company are resolved by the Supervisory Board as a whole. There was one such committee meeting during the year.

- In line with the statutory provisions, at five committee meetings the **Audit Committee** dealt primarily with the audit of and preparation for the adoption of the Annual Financial Statements, the audit of the Consolidated Financial Statements, the proposal for the distribution of profit, the Management Report, the Group Management Report and the Corporate Governance Report. High priority was also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. Furthermore, the committee prepared the selection of the auditor and verified the independence of the auditor of the Annual and Consolidated Financial Statements, particularly with regard to the performance of additional services. As of the end of 2017, the Audit Committee consisted of Carlos García Moreno Elizondo, as its Chairman and financial expert (pursuant to Section 92 (4a) AktG), Wolfgang Ruttenstorfer, Oscar Von Hauske Solís, Carlos M. Jarque, Peter Hagen, Peter Kollmann (since 20 September 2017, preceded by Ronny Pecik until 9 June 2017), as well as the employee representatives Silvia Bauer, Walter Hotz and Alexander Sollak.

- The **Staff and Nomination Committee** submits proposals to the Supervisory Board for appointments to positions on the Management Board and Supervisory Board[1)] that have become vacant, and also deals with questions of succession planning. Its members are Oscar Von Hauske Solís (Chairman), Wolfgang Ruttenstorfer, Carlos García Moreno Elizondo, Carlos M. Jarque, Alejandro Cantú Jiménez, Peter Kollmann (since 20 September 2017, preceded by Ronny Pecik until 9 June 2017), Walter Hotz, Werner Luksch and Alexander Sollak. The Staff and Nomination Committee held one meeting in the 2017 financial year.

In the 2017 financial year, the Supervisory Board addressed the strategic orientation of the A1 Telekom Austria Group and its business performance in detail at six meetings of the Supervisory Board and several committee meetings. The main activities of the Supervisory Board in 2017 are compiled in the Supervisory Board's report to the Annual General Meeting.

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

Diversity within the A1 Telekom Austria Group (diversity concept)

The A1 Telekom Austria Group taps its employees' valuable potential by means of continuous further development in an international working environment. After all, diversity and flexibility are the key to the company's success and also form the basis of the A1 Telekom Austria Group's diversity concept. The guiding principles of the A1 Telekom Austria Group are trust, team spirit and agility.

Targets outlined in the A1 Telekom Austria Group's diversity concept for 2016–2018:
- 38% women in managerial positions
- Anchoring of flexible work arrangements
- Creation of a general framework to promote constant learning

Appointment of positions on the Management Board and Supervisory Board of the A1 Telekom Austria Group

When selecting and appointing members of the Management Board, the company and the related decision-making criteria of the Supervisory Board place emphasis on candidates having the necessary skills and expertise to manage a telecommunications company.

The decision is also based on other criteria such as educational background and career history, age, gender and general personality traits.

The shareholder representatives on the Supervisory Board are appointed in line with the terms of the shareholders' agreement between the controlling shareholder América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB)[1)].

1) See also information on C Rule 42

Measures to support women

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

At the subsidiaries of the A1 Telekom Austria Group, three management positions (out of a total of 12) and four Supervisory Board positions are held by women.

As of the end of 2017, the Group-wide proportion of women in management positions was 36% (2016: 36%), and the overall proportion of women at the company was 38% (2016: 39%).

The A1 Telekom Austria Group has made a voluntary commitment to gradually increase the proportion of women in managerial positions to 38% by the end of 2018.

To achieve this, the company is specifically targeting women in the recruitment process while simultaneously pressing ahead with new organizational models and flexible leadership structures on a Group-wide basis such as part-time management, but also functional management in virtual company-wide projects and programmes to ensure the systematic and sustained advancement of women within the scope of the A1 Telekom Austria Group's diversity concept.

In addition, the company promotes a good work-life balance throughout the Group by means of flexible working environment and working time models and sabbaticals. There are a range of facilities on offer to families, which vary from country to country, including childcare initiatives, paternity leave and a baby month. The company also provides an expanded range of information for managers and employees and a women's network with regular scheduled events in Austria.

"Directors and Officers" (D&O) insurance

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

Certified public accountant

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. has credibly demonstrated its impartiality to the Audit Committee of the Supervisory Board, in particular regarding reporting in accordance with Section 270 (1a) of the Austrian Business Enterprise Code (UGB). A detailed analysis by the Audit Committee revealed no legal obstacle to the appointment of Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. The Annual General Meeting on 9 June 2017 appointed Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as the auditor of the Annual and Consolidated Financial Statements for the 2017 financial year.

Report by Group Internal Audit and Risk Management

Group Internal Audit is established as a staff unit of the CFO of Telekom Austria AG with a duty to report to the entire Management Board. There are also local Internal Audit units at all material operating subsidiaries of Telekom Austria AG, which report to Group Internal Audit. All companies, divisions and processes fall within the audit purview of Group Internal Audit without restriction. The associated rights and duties, in addition to the regulations for audit activities, are set out in the Group Internal Audit Charter.

Group Internal Audit performs independent and objective audits throughout the entire Group and reports to the entire Management Board of Telekom Austria AG. Audit subjects are specified as part of an annual audit plan, which is prepared according to risk criteria and supplemented by ad hoc audit orders as required. After an initial joint evaluation by A1 Telekom Austria Group Compliance, reports received via the "tell.me" whistleblowing system are examined by Group Internal Audit.

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

The A1 Telekom Austria Group's risk management system, which the auditor has reported on to the Audit Committee, enables the Group-wide, structured identification, assessment and processing of risks on the basis of a defined risk policy in addition to strategic and operational objectives. The Audit Committee monitors the functionality and suitability of risk management and the effectiveness of the internal control system.

The internal control system of the A1 Telekom Austria Group serves to ensure the effectiveness and profitability of business activities, the integrity and reliability of financial reporting and compliance with all relevant laws and regulations. In addition, Telekom Austria AG implemented an internal control system in accordance with the US Sarbanes-Oxley (SOX) Act in the 2015 financial year. To prevent the passing on or misuse of confidential information that might affect the share price, a Group-wide capital market compliance guideline has been implemented and classified units have been defined within the company.

The A1 Telekom Austria Group has also implemented a Group-wide information security policy that governs the use of confidential information such as customer data, traffic data, content data and business and trade secrets. This policy is supplemented by country-specific guidelines at a local level. Information security and data protection managers have been appointed at all Group subsidiaries. Regular internal and external audits, in addition to staff training, ensure the effective implementation of this corporate policy. In 2005, A1 Telekom Austria AG became the first network operator in Austria to be certified according to the ISO 27001 standard. It was followed by Vipnet d.o.o. in 2007, Mobiltel EAD in 2012 and One.Vip in 2013. The processes stipulated by this standard ensure the highest possible level of data security within the company. Since 2014, A1 Telekom Austria AG has also qualified for ISAE 3402 Type II standard certification with its ITO customers, which is especially relevant for performing IT services. The ICT Services division at A1 Telekom Austria AG is also ISO 20000 certified. The effective implementation of IT service management quality standards prescribed by this standard is ensured on an ongoing basis by means of internal and external audits. Since 2016, A1 Marketplace has also been certified in accordance with the special security measures of ISO 27018.

Certified compliance management system of the A1 Telekom Austria Group

In recent years, the Management Board of Telekom Austria AG has taken numerous measures to comprehensively develop the Group-wide compliance management system. The compliance management system of the A1 Telekom Austria Group was audited according to the German audit standard IDW PS 980 in 2013. The audit and consulting company PwC issued Telekom Austria AG with a positive audit report with no comments, i.e. no suggestions for improvement. In 2016, essential elements of the Group-wide compliance management system were reviewed for effectiveness by Group Internal Audit with a successful outcome.

The Management Board is regularly informed about activities in the area of compliance management and, in particular, the compliance risk assessment and measures taken to prevent corruption and the management of other compliance risks; the Supervisory Board is informed annually. Moreover, the Supervisory Board is informed annually about the company's capital market compliance activities and other relevant changes.

The Group Compliance Director reports directly to the Management Board and is independent in his work. He is supported by experts in the Group Compliance division and the local compliance managers at the subsidiaries of the A1 Telekom Austria Group. The A1 Telekom Austria Group today has a compliance management system that is based on the central elements of prevention and reaction. The compliance measures necessary for this are firmly established in all divisions of the company.

In 2017, approximately 3,500 employees and managers were trained in the areas of corruption prevention and integrity, antitrust law, data protection and capital market compliance in classroom training sessions, while around 17,200 employees and managers received the same training via e-learning. The compliance helpdesk "ask.me" is available to employees to answer any questions. The "ask.me" helpdesk handled around 450 questions in 2017.

The A1 Telekom Austria Group operates a whistleblowing platform ("tell.me") to enable employees and third parties to inform the company about cases of potential misconduct – anonymously if preferred. Around 40% of the approximately 40 tips received in 2017 were substantiated and investigated further. In instances where misconduct was found to have occurred, consequences extended from individual training to the termination of employment, depending on the extent of the transgression.

Changes after the reporting date

On 3 January 2018, the Management Board of Telekom Austria AG resolved to cancel the hybrid bond in accordance with Section 5 (3) of the bond terms and conditions with effect from 1 February 2018 (first repayment date) and to repay the bond plus all interest at its nominal value of EUR 600,000,000 (see Note 27).

In January 2018, the A1 Telekom Austria Group entered into credit lines with a total volume of EUR 540,000,000 and a term of up to twelve months, of which EUR 240,000,000 had been utilised as of 30 January 2018.

Vienna, 30 January 2018
The Management Board

Alejandro Plater, CEO & COO
A1 Telekom Austria Group

Siegfried Mayrhofer, CFO
A1 Telekom Austria Group

Group Management Report

General economic environment[1)]

In 2017, the economic situation in Europe improved. In a forecast published in November of the year under review, the European Commission estimated that economic growth in the European Union would be 2.3 % in 2017 and raised thereby its previous forecast from the spring significantly due to the positive economic situation, with 2.1 % growth expected in 2018. The Austrian economy is expected to grow by 2.6 % in 2017. In Bulgaria, the increase in GDP is estimated at 3.9 % in 2017. In Croatia, the economy is expected to have expanded by 3.2 % in the same period. After two years of negative growth rates, a slight increase in economic output of 0.7 % is expected for Belarus in 2017. Based on European Commission estimates, Slovenia, the Republic of Serbia and the Republic of Macedonia are expected to have seen an increase in economic output of 4.7 %, 2.0 % and 1.7 % respectively in 2017.

The European Central Bank (ECB) continued with its policy of monetary easing using its bond buying programme in the year under review. Within the framework of this programme launched in March 2015, in the year under review the ECB was buying securities in the amount of EUR 80 bn per month until March 2017, reducing this volume to EUR 60 bn as of April 2017. In October 2017, approval was granted for the bond buying programme due to expire at the end of 2017 to be extended through to the end of September 2018 at least.

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

	2016	2017e	2018e
Austria	1.5	2.6	2.4
Bulgaria	3.9	3.9	3.8
Croatia	3.0	3.2	2.8
Belarus	–2.6	0.7	0.7
Slovenia	3.1	4.7	4.0
Republic of Serbia	2.8	2.0	3.3
Republic of Macedonia	2.9	1.7	2.7

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

At the same time, the ECB announced that it would halve the amount of securities bought to EUR 30 bn per month as of January 2018. The ECB kept its key interest rate at 0.00 % during the year under review. Meanwhile, the US Federal Reserve raised its key interest rate from 0.50–0.75 % to 1.25–1.50 % in three stages in March, June and December 2017.

Industry trends and competition

The business performance of the A1 Telekom Austria Group is significantly influenced by a number of external factors. The macroeconomic recovery in recent years continued in 2017, although some countries continued to experience a slower rate of growth with an impact on purchasing power. In 2017, the market environment in both the fixed-line and the mobile communications markets proved to be highly competitive once again, particularly in mature markets. Furthermore, it remains to be seen how the takeover of Tele2 Austria by Hutchinson Drei Austria and the planned acquisition of UPC Austria by T-Mobile Austria will affect the market environment. In the no-frills segment, there was sustained pressure on prices due to the aggressive pricing policy of mobile virtual network operators (MVNOs). Furthermore, regulatory provisions continued to negatively impact revenues and earnings. In particular, the stepwise abolition of retail roaming in the EU as of 30 April 2016 and 15 June 2017 affected the Group's results. Further termination rate cuts in Bulgaria, Croatia, the Republic of Serbia and the Republic of Macedonia also had a negative impact in 2017. The A1 Telekom Austria Group counters these factors through the systematic implementation of its convergence strategy, a clear focus on high-value customers, innovative products and services as well as strict cost management. In the year under review, the A1 Telekom Austria Group agreed to harmonise the brand within the Group. The 'A1' brand will be introduced incrementally throughout the Group according to local market circumstances. During the course of the systematic implementation of its single brand strategy, the Group is operating as A1 Telekom Austria Group since November 2017.

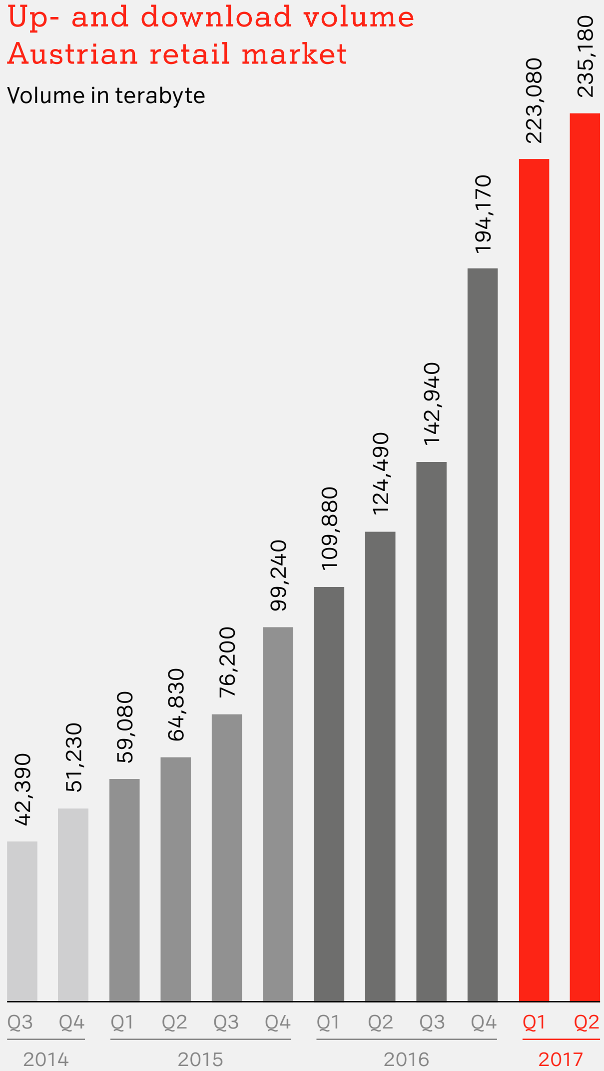
1) Sources: GDP for Belarus: IMF https://www.imf.org/~/media/Files/Publications/WEO/2017/October/pdf/main-chapter/text.ashx?la=en, dated October 2017, page 66; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Serbia and Republic of Macedonia: https://ec.europa.eu/info/sites/info/files/economy-finance/ip063_en.pdf, dated November 2017, pages 160, 187

In Austria, the A1 Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed-line and mobile communications solutions under its A1 brand. The latest market report issued by the regulatory authority, which tracked the most recent market data in Austria up to the end of the second quarter of 2017, underlines the high degree of maturity of the Austrian market and describes the following average trends across all operators:[2)]

- Average monthly revenues generated per mobile customer decreased from EUR 14.3 in the first half of 2016 to EUR 13.4 in the first half of 2017, while total end customer revenues rose by 0.7 % year-on-year. The amount of airtime increased by 5.4 % in comparison to the first half of 2016. The rapid growth in data volume in the first half of the year 2017 continued, with an increase of 95.5 % year-on-year. As previously, the strongest stimulus for this trend came from smartphone users, where an increase of 12.5 % to more than 4.8 million users was recorded.

Up- and download volume Austrian retail market

Volume in terabyte



Source: RTR

- In the Austrian fixed-line market, the number of fixed access lines in the first half of the year decreased by 1.6 % year-on-year. The amount of airtime via the domestic fixed-line network also decreased by 8.5 % in the first half of the year 2017 in comparison to the previous year. The strong demand for broadband solutions continued in 2017 and resulted in an overall rise of 17.0 % to 10.8 million mobile and fixed-line broadband connections. While fixed-line broadband exhibited a moderate increase of 1.1 %, mobile broadband connections experienced dynamic growth of 22.8 % year-on-year.

According to Statistics Austria, the share of Austrian households with Internet access rose from 85 % in 2016 to 89 % in 2017. Broadband lines in households increased from 85 % to 88 % in the same period, while lines at companies remained constant at 98 %.[3)]

In Bulgaria, the trend of previous years continued and the Internet penetration rate across all households increased year-on-year from 63.5 % to 67.3 % in 2017. 85.3 % of these people with Internet access also used a mobile device to access the web (2016: 70.4 %).[4)]

The positive development of the Croatian ICT market and the macroeconomic situation continued in the year under review. Broadband penetration in the fixed-line business increased to 25.3 % in the third quarter of 2017 (Q3 2016: 23.9 %), while mobile broadband penetration increased from 79.0 % to 81.2 % in the same period.[5)]

In Belarus, the ICT market has developed strongly in recent years, which has led to a steady increase in the number of Internet customers and the number of mobile telephone users. While the number of mobile network users stagnated in 2016, the number of Internet users increased. At the end of 2016, the proportion of households with Internet access was 62.5 % (2015: 59.1 %).[6)]

In Slovenia, the Internet penetration rate increased from 78.4 % in the previous year to 81.7 % in the year under review. 85.1 % of these users with Internet access also utilised a mobile device to access the web (2016: 67.5 %).[7)]

2) https://www.rtr.at/de/inf/TK_Monitor_Q2_2017/RTR_Telekom_Monitor_Q2_2017.pdf; A1 Telekom Austria Group calculations
3) http://www.statistik.at/web_de/statistiken/informationsgesellschaft/index.html
4) http://www.nsi.bg/sites/default/files/files/pressreleases/ICT_hh2017_en_ZW9AP4W.pdf; http://www.nsi.bg/sites/default/files/files/pressreleases/ICT_hh2016_en_TSVV05D.pdf
5) https://www.hakom.hr/UserDocsImages/2017/e_trziste/KVA%20ENG%20Q3%202017%20Fixed%20broadband%20penetration.pdf; https://www.hakom.hr/UserDocsImages/2017/e_trziste/KVA%20ENG%20Q3%202017%20Mobile%20broadband%20penetration.pdf
6) http://www.belstat.gov.by/en/ofitsialnaya-statistika/real-sector-of-the-economy/communication-and-ict/communication/annual-data/main-indicators-of-general-use-communications-development/; Statistical Yearbook of the Republic of Belarus, 2017: http://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/statistical-publications-data-books-bulletins/public_compilation/index_8145/, page 342; note: only figures for 2016 are available for Belarus.
7) http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre_Repozitorij/&lang=1; A1 Telekom Austria Group calculations

In the Republic of Serbia, the increase in the number of Internet connections continued, with 68.0 % of households having Internet access in 2017 (2016: 64.7 %). Meanwhile, 90.5 % of all Serbian households also own mobile telephones (2016: 90.2 %) and 68.1 % have a computer (2016: 65.8 %).[1)]

According to the Statistical Office of the Republic of Macedonia, 73.6 % of all Macedonian households had Internet access in the first quarter of 2017 (2016: 75.3 %), thereof 82.5 % also used a mobile device to access the web (2016: 81.0 %).[2)]

Regulation

As the market leader, A1 Telekom Austria Aktiengesellschaft is classified as a provider with substantial market power in Austria and is therefore subject to the corresponding regulatory measures. These include extensive network access and price regulations. The international subsidiaries of the A1 Telekom Austria Group are also subject to far-reaching regulatory provisions in their respective national markets. The relevant regulation for A1 Telekom Austria Aktiengesellschaft in the fixed-line network in Austria has only a limited impact at retail level now but applies in full at wholesale level. This includes obligations to give alternative providers access to infrastructure and services. As such, the trend is developing from physical access towards virtual access at wholesale level (e.g. virtual unbundling; VULA). Decisions on regulation are made not only at national level, but increasingly at European level in order to make harmonised decisions within the EU. For example, this is the case for the European Commission's [3)] roaming and net neutrality regulations, which apply equally to all EU member states.

Fixed-line telecommunication markets

In the spring of 2015, the Austrian regulatory authority initiated the fifth round of the statutory market review process, which is oriented towards the European Commission's 'relevant markets recommendation' of October 2014. Now, at the end of 2017, the final decisions have been issued in almost all markets to be examined. In the summer of 2017, decisions were made as to the key wholesale markets for central and local access. These decisions impacted the year under review as A1 Telekom Austria Aktiengesellschaft was now also able to roll out vectoring technology in unbundled connection areas in order to offer broadband connections with higher bandwidths. Virtual unbundling (VULA) was also confirmed as a direct replacement for the physical unbundling of customer lines. This has now established itself as the new, central type of access for alternative operators. The procedures which are still open at this point in time are not likely to have been completed until the end of the first half of 2018.

Mobile communications markets

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

Glide paths for mobile termination rates

	Jan 16	Jul 16	Jan 17	Jul 17	Jan 18
Austria (EUR)	0.008049	0.008049	0.008049	0.008049	0.008049
Bulgaria (BGN)	0.019	0.019	0.014	0.014	0.014
Croatia (HRK)	0.063[1)]	0.063[1)]	0.063[1)]	0.047[1)]	0.047[1)]
Belarus (BYN)	MTS: 0.025/0.0125 BeST: 0.018/0.009[2)]	MTS: 0.025/0.0125 BeST: 0.018/0.009[2)]	MTS: 0.025/0.0125 BeST: 0.018/0.009[2)]	MTS: 0.025/0.0125 BeST: 0.018/0.009[2)]	MTS: 0.025/0.0125 BeST: 0.018/0.009[2)]
Slovenia (EUR)	0.0114	0.0114	0.0114	0.0114	0.0114
Republic of Serbia (RSD)	3.43	2.75	2.07	2.07	1.43
Republic of Macedonia (MKD)	0.90	0.90	0.63	0.63	0.63

1) National MTRs stated. International MTRs differ.
2) Values that apply to Belarus: prime time/downtime. MTS: Mobile TeleSystems; BeST: Belarus Telecommunications Network

1) http://webrzs.stat.gov.rs/WebSite/repository/documents/00/02/59/78/Saopstenje_2017_engl.pdf
2) http://www.stat.gov.mk/pdf/2017/8.1.17.33.pdf; http://www.stat.gov.mk/pdf/2016/8.1.16.30.pdf
3) Regulation (EU) 2015/2120 of the European Parliament and of the Council of 25 November 2015 laying down measures concerning open Internet access and amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services and Regulation (EU) No. 531/2012 on roaming on public mobile communications networks within the Union.

The new regulation on net neutrality and roaming ('Connected Continent' or the 'Telecom Single Market' package) came into force in 2016. In accordance with the regulation, Internet access service providers are obliged to treat data traffic overall in an equal manner, regardless of the transmitter, receiver, application or device in question. In addition to Internet access services, specialised services can also be offered, although this is subject to certain limitations. However, some details of the implementation of the regulation in terms of both net neutrality and roaming are still to be determined, meaning that the extent of its effects cannot be fully predicted.

As far as roaming in EU member states is concerned, the abolition of retail roaming surcharges as of 15 June 2017 has been implemented. From 30 April 2016 to 14 June 2017, there was a transition period in which network operators were allowed to apply roaming surcharges in the amount of wholesale caps in addition to domestic prices. Following the Communications Committee's (COCOM) approval of the implementing regulation on fair use limits for roaming to be adopted on 12 December 2016, this was formally adopted by the European Commission by the end of 2016 as planned. The named provisions apply to the mobile communications companies of the A1 Telekom Austria Group in the EEA member states of Austria, Bulgaria, Croatia and Slovenia and will have a negative impact on current and future roaming revenues.

In 2016, the European Commission presented the draft of a new directive revising the current framework, access, authorisation and universal service directives and introducing a range of new regulations (European Electronic Communications Code). This initial proposed legislation is being negotiated in the European Parliament and at the level of the EU member states. An agreement shall be made by mid-2018 at the latest. The European Parliament has again brought forward a previous proposal for the abolition of surcharges for international calls within the EU. Policy objectives for a 'gigabit society' and a 5G plan of action were also presented. This will involve both legal and regulatory risks as well as financial risks in future. The frequency allocation of the 3.4–3.8 GHz band is also imminent in Austria. The auction is likely to take place in the second half of 2018.

Information on financial reporting

The A1 Telekom Austria Group reports on seven business segments: Austria, Bulgaria, Croatia, Belarus, Slovenia, the Republic of Serbia and the Republic of Macedonia. The 'Corporate & other, eliminations' segment performs strategic and management functions for all segments in addition to financing agendas and since the first quarter of 2017 has also included A1 Digital International GmbH. The Machine-to-Machine (M2M) business, which has so far been reported in the Austria segment, is part of this company. Therefore, previously reported numbers in the segments Austria as well as in 'Corporate & other, eliminations' will be affected, while Group numbers will not change. Comparative figures were adjusted accordingly. A1 Digital International GmbH focuses on the B2B market and offers digital services to actively support companies in the digitalisation process with the goal of enhancing their success in their field of business.

The presentation and analysis of financial information and key performance indicators until page 64 may differ from the financial information presented in the Consolidated Financial Statements. This is due to the fact that the presentation and analysis are partially based on proforma figures that include M&A transactions between the start of the comparison period and the end of the reporting period.

EU roaming glide path

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

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

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

To reflect the performance on an operational basis, the proforma figures present comparison figures for previous periods as if M&A transactions executed between the start of the comparison period and the end of the reporting period had already been fully consolidated in the relevant months of the comparison period. Alternative Performance Measures (APM) are used to describe the operational performance. Please therefore also refer to the financial information presented in the Consolidated Financial Statements, which do not contain proforma figures, as well as the reconciliation tables provided on page 65.

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

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

Revenue and earnings development

Proforma view Key financials in EUR million	2017 reported	2016 proforma	Change in %
Total revenues	4,382.5	4,254.9	3.0
EBITDA	1,397.3	1,370.4	2.0
% of total revenues	31.9 %	32,2 %	–
Operating income	443.9	496.2	-10.5

Proforma view Costs and expenses in EUR million	2017 reported	2016 proforma	Change in %
Cost of service	1,394.2	1,362.7	2.3
Cost of equipment	584.2	521.9	11.9
Selling, general & administrative expenses	994.9	997.2	-0.2
Other expenses	11.8	2.7	n. m.
Total costs and expenses	**2,985.1**	**2,884.5**	**3.5**
thereof employee costs	793.9	796.6	-0.3
thereof restructuring charges	-18.2	7.2	n. m.
Impairment charges	0.0	2.3	n. a.
Depreciation and amortisation	953.4	871.9	9.4

Reported view in EUR million	2017 reported	2016 reported	Change in %
Net result	345.5	413.2	-16.4
Net cash flow from operating activities	1,174.8	1,195.5	-1.7
Earnings per share (in EUR)	0.48	0.58	-17.6
Free cash flow per share (in EUR)	0.58	0.35	65.8
Capital expenditures[1]	736.9	764.1	-3.6
Net debt	2,331.8	2,339.4	-0.3

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

Revenue and earnings development

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

In the 2017 financial year, the A1 Telekom Austria Group continued with the systematic implementation of its convergence strategy as well as maintaining a clear focus on high-value customers, innovative products and services as well as strict cost management. Negative effects stemming from the stepwise abolition of retail roaming in the EU as of 30 April 2016 and 15 June 2017 came in slightly lower than expected and derive mostly from Austria and Slovenia, while Croatia profited from growth in visitor roaming.

In Austria, the market environment in 2017 was again characterised by no-frills mobile offers and rapidly increasing data volumes. The A1 Telekom Austria Group counteracted these developments in the no-frills segment with competitive national tariffs, for example, while the focus in the premium segment was on data monetisation. As of November 2017, premium tariffs also included 'zero-rated' services enabling certain music and video services to be used independently of data limits. In Bulgaria, mobile business performance in 2017, particularly in the business segment, was again characterised by a difficult competitive environment. The fixed-line business continued its positive development. Overall business in Croatia in 2017 profited from a strong market environment, whereby the fixed-line business was further strengthened by the acquisition of Metronet.

In Belarus, the solid operational performance in 2017 was supported, in contrast to previous years, by positive FX development in the first half of 2017. Based on the period average, the Belarusian Rouble appreciated by 1.0% against the Euro in the year under review. The Slovenian telecommunications market was also characterised by fierce competition in the mobile network in 2017, with a focus on convergence. During April 2017, Si.mobil was successfully rebranded to A1 Slovenija. In the Republic of Serbia, a new product portfolio was introduced following the change of positioning in the market in order to respond to the competitive market environment. The segment Republic of Macedonia continues to be characterised by intense competition.

In September 2017, the A1 Telekom Austria Group took a further step in strengthening its brand profile and announced its decision to introduce the A1 brand stepwise in all markets according to local circumstances and thereby harmonise its brands throughout the Group. This triggered the continuous amortisation of local brand values, which had reached a total of around EUR 350 mn by the end of 2016. The respective companies will amortise the brand values until the phase-out of the old brands, which is expected to have a negative impact on the net result until the financial year 2019, with more than half of the impact in 2017 and Q1 2018. In 2017, the brand value amortisation resulting thereof amounted to EUR 121.8 mn and stemmed primarily from the segment Bulgaria as well as to a lesser extent from the segments Belarus, Croatia and Republic of Macedonia.

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

As of Q1 2017, A1 Digital International GmbH (A1 Digital) is consolidated as part of the segment 'Corporate & other, eliminations'. The M2M (Machine-to-Machine) business, which has so far been reported in the Austria segment, is now part of this company. A1 Digital focuses on the B2B market and offers digital services to actively support companies in the digitalisation process with the goal of enhancing their success in their field of business. In August 2017, A1 Digital acquired a majority holding of Swiss cloud provider Akenes SA, which operates under the Exoscale brand. Exoscale provides infrastructure and services for cloud applications in Europe. Following the acquisition, A1 Digital is now able to offer cloud-based services via this platform.

In order to further strengthen its market position, the A1 Telekom Austria Group carried out targeted M&A activities, whereby the following transactions between the start of the comparison period and the end of the reporting period are highlighted:

2017:
- The acquisition of fixed-line operator Garant (Gomel) in Belarus, consolidated as of 1 August 2017.
- The acquisition of fixed-line operator Metronet in Croatia, consolidated as of 1 February 2017.
- The acquisition of fixed-line provider Atlant Telecom and its subsidiary TeleSet in Belarus, consolidated as of 1 December 2016.

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

In 2017, the one-off effects in total revenues (incl. other operating income) amounted to EUR +23.8 mn (2016: none), EBITDA included one-off effects of EUR +23.8 mn (2016: EUR +21.4 mn). The material one-off effects in 2017 and 2016 are as follows:

2017:
- A positive one-off effect in the Republic of Serbia in the amount of EUR 3.8 mn in Q4 2017 in other operating income, resulting from changed parameters in the calculation of asset retirement obligations.
- A positive one-off effect in Bulgaria in the amount of EUR 5.8 mn in Q3 2017 in other operating income, stemming from a legal settlement.
- A positive one-off effect in Austria in the amount of EUR 10.6 mn in Q1 2017 in fixed-line and other revenues (in solutions & connectivity), resulting from the reversal of an accrual for wholesale services.
- A positive one-off effect of EUR 3.6 mn in the Austria segment in Q1 2017 in other operating income, stemming from a release of an asset retirement obligation.

Key figures of the A1 Telekom Austria Group

(in EUR million)

Proforma view

Total revenues	2017 reported	2016 proforma	Change in %
Austria	2,622.3	2,571.6	2.0
Bulgaria	431.2	412.0	4.7
Croatia	434.9	423.9	2.6
Belarus	390.5	338.8	15.2
Slovenia	216.1	214.1	0.9
Republic of Serbia	230.8	221.1	4.4
Republic of Macedonia	114.0	119.4	-4.5
Corporate & other, eliminations	-57.3	-46.2	-24.1
Total	**4,382.5**	**4,254.9**	**3.0**

EBITDA	2017 reported	2016 proforma	Change in %
Austria	914.2	899.7	1.6
Bulgaria	130.1	125.6	3.6
Croatia	108.0	98.6	9.6
Belarus	181.3	157.4	15.2
Slovenia	40.6	52.8	-23.2
Republic of Serbia	38.4	38.8	-1.2
Republic of Macedonia	30.1	26.1	15.0
Corporate & other, eliminations	-45.3	-28.6	-58.5
Total	**1,397.3**	**1,370.4**	**2.0**

Operating income	2017 reported	2016 proforma	Change in %
Austria	442.1	404.4	9.3
Bulgaria	-85.6	15.4	n. m.
Croatia	12.4	15.0	-17.2
Belarus	123.1	91.7	34.1
Slovenia	10.5	20.1	-47.8
Republic of Serbia	-6.8	-7.8	13.1
Republic of Macedonia	-6.0	-29.5	79.7
Corporate & other, eliminations	-45.8	-13.2	-248.0
Total	**443.9**	**496.2**	**-10.5**

2016:

- A positive EUR 14.4 mn one-off effect in Q3 2016 deriving from the reversal of an accrual for copyrights in Austria, included in cost of service.
- A positive EUR 7.0 mn one-off effect in Austria in cost of equipment in Q1 2016, stemming from the harmonisation of value adjustments for handsets.

Furthermore, positive FX effects of EUR 11.0 mn are included in revenues and EUR 3.3 mn in EBITDA in 2017, stemming from the segments Belarus, Croatia and Republic of Serbia.

In mobile communications, the number of A1 Telekom Austria Group subscribers decreased slightly by 0.2 % to 20.7 million subscribers in the year under review. Declining subscriber numbers in Bulgaria, Austria, Belarus, the Republic of Macedonia and Slovenia were offset in part by an increase in the number of A1 Digital M2M customers as well as growth in Croatia and the Republic of Serbia. The number of mobile subscribers in Austria decreased by 1.9 % in 2017, which was driven by the prepaid segment. Almost all markets saw a shift from prepaid to postpaid offers. The number of revenue-generating units (RGUs) in the Group's fixed-line business decreased by 0.6 % year-on-year (reported: +2.3 %). The decline in RGUs in Austria and Bulgaria, which was driven primarily by voice RGUs, was partially offset by increases in the other markets.

Key figures of the A1 Telekom Austria Group

In the 2017 financial year, the A1 Telekom Austria Group saw an increase in revenues of 3.0% (reported: +4.1%). Adjusted for the one-off and FX effects described above, total revenues rose by 2.2% compared with the previous year (reported: 3.2%). This revenue growth was driven by the strong operational performance in Belarus, as well as higher total revenues in Austria, Bulgaria, Croatia, the Republic of Serbia and Slovenia. These increases were only partly offset by lower total revenues in the Republic of Macedonia. In total, Group service revenues increased by 1.9% (reported: +3.1%) and rose by 1.3% (reported: +2.5%) excluding the above-mentioned one-off effects.

Group total costs and expenses increased by 3.5% year-on-year in the year under review (reported: +4.5%). Investments in high-value customers led to a rise in cost of equipment and higher sales area costs. The cost of service increased, among other things, due to higher roaming and content costs. Restructuring, originating entirely from the Austrian segment, resulted in an income of EUR 18.2 mn in the year under review, stemming primarily from a revaluation due to changed parameters. In the previous year, restructuring charges amounted to EUR 7.2 mn.

EBITDA increased by 2.0% in the 2017 financial year (reported: +3.2%). The growth in Belarus, Austria, Croatia, Bulgaria and the Republic of Macedonia was only partially offset by a decline in Slovenia and the Republic of Serbia. Furthermore, start-up costs of A1 Digital, included in the position ‘Corporate & other, eliminations’, had a negative impact on Group EBITDA. In total, the EBITDA margin decreased slightly from 32.2% in the previous year to 31.9% in the year under review. Adjusted for the one-off and FX effects described above as well as restructuring charges, EBITDA remained stable year-on-year (proforma: –0.3%; reported: +0.9%).

In the year under review, expenses for depreciation and amortisation increased by 9.4% to EUR 953.4 mn (reported: +10.2%) in comparison with the previous year. This increase was primarily due to the brand value amortisation in Bulgaria and to a lesser degree in Belarus, Croatia and the Republic of Macedonia in conjunction with Group-wide rebranding. As a result, operating income declined by 10.5% to EUR 443.9 mn compared with the previous year (reported: –8.8%). Excluding brand value amortisations, the operating income increased by 14.3% (reported: 16.5%).

The following analysis is presented solely on a reported basis.

The A1 Telekom Austria Group recorded a financial result of negative EUR 95.4 mn in the year under review, which means an improvement of 24.8% compared with the previous year. This was mainly due to the EUR 47.2 mn reduction in interest expense. This resulted, on the one hand, from the repayment of a EUR 500 mn bond on 27 January 2017 and favourable refinancing conditions. On the other hand, the previous year was impacted by termination costs for the early repayment of bank debt. FX differences amounted to negative EUR 2.6 mn in the reporting year after positive EUR 10.0 mn in 2016.

Tax expenses of EUR 3.0 mn were reported in the year under review despite further capitalisation of deferred tax assets. In the previous year, the recognition of higher deferred tax assets on tax losses carried forward resulted in a tax benefit of EUR 53.5 mn. Overall, the A1 Telekom Austria Group reported a positive net result of EUR 345.5 mn in the 2017 reporting year (2016: EUR 413.2 mn).

Company Key Figures

Reported view

	2017 reported	2016 reported	Change in %
Earnings per share (in EUR)	0.48	0.58	-17.6
Dividend per share (in EUR)	0.20 1)	0.20	n.a.
Free cash flow per share (in EUR)	0.58	0.35	65.8
ROE	12.1% 2)	15.9%	–
ROIC	6.9% 3)	8.5% 3)	–

1) Proposal to the 2018 Annual General Meeting, which will take place on 30 May 2018.
2) Ratio of net result to average equity employed; serves as an indicator to measure the yield on equity.
3) Total return on invested capital, calculated by net operating profit after tax (NOPAT) divided by the average capital invested. As calculation parameters changed in the reporting period, figures have been adjusted accordingly in the comparison period.

The following analysis is presented solely on a reported basis.

Net assets and financial position

Balance sheet structure
Reported view

in EUR million	31 Dec 2017 reported	As % of the balance sheet total	31 Dec 2016 reported	As % of the balance sheet total
Current assets	1,226.3	16.1	1,438.9	18.1
Property, plant and equipment	2,627.9	34.4	2,550.8	32.1
Goodwill	1,276.3	16.7	1,241.8	15,6
Intangible assets	2,075.9	27.2	2,321.4	29.2
Other assets	431.9	5.7	390.4	4.9
Total assets	**7,638.3**	**100.0**	**7,943.2**	**100.0**
Current liabilities	1,243.7	16.3	1,847.8	23.3
Long-term debt	2,533.6	33.2	2,303.5	29.0
Employee benefits	196.8	2.6	206.3	2.6
Langfristige Rückstellungen	646.9	8.5	731.8	9.2
Other long-term liabilities	79.9	1.0	83.1	1.0
Stockholders' equity	2,937.4	38.5	2,770.7	34.9
Total liabilities and stockholders' equity	**7,638.3**	**100.0**	**7,943.2**	**100.0**

Net assets and financial position

As of 31 December 2017, the balance sheet total declined by 3.8 % year-on-year to EUR 7,638.3 mn.

Current assets fell by 14.8 % to EUR 1,226.3 mn in the period under review resulting from the reduction in cash and cash equivalents, which was partly offset by an increase in receivables. The main reason for the decrease in cash and cash equivalents was the repayment of a EUR 500 mn bond on 27 January 2017, which was partly offset by the tap-issuance of an existing bond of EUR 250 mn on 11 July 2017.

Non-current assets decreased by 1.4 % year-on-year to EUR 6,412.0 mn, as the growth in property, plant and equipment, deferred tax assets and goodwill was more than offset by the reduction in intangible assets. The increase in goodwill as well as in property, plant and equipment was attributable primarily to the acquisition of Metronet in Croatia, while the increase in property, plant and equipment was also impacted by the fibre and LTE rollout in Austria. The reduction in intangible assets resulted from brand value amortisations in connection with Group-wide rebranding and from the amortisation of licences and software. This reduction was partly offset by the increase in intangible assets due to the acquisition of Metronet and a new IRU (Indefeasible Rights of Use) contract in Slovenia.

Current liabilities declined by 32.7 % to EUR 1,243.7 mn in the period under review primarily as a result of the repayment of the EUR 500 mn Eurobond. Liabilities were also driven down by EUR 120 mn due to the exercising of the call option connected with the acquisition of the Telekom Slovenije Group's 45 % stake in Macedonian company one.Vip DOOEL.

Non-current liabilities increased by 4.0 % to EUR 3,457.2 mn in the year under review. Non-current financial liabilities went up as a result of the tap-issuance of EUR 250 mn on 11 July 2017. Non-current provisions declined mainly as a result of payments for restructuring and social plans, and this was only partly offset by an increase in asset retirement obligations.

Dividend payments, which also include coupon payments of EUR 33.8 mn for the EUR 600 mn hybrid bond, increased from EUR 67.2 mn in the previous year to EUR 166.9 mn in 2017 due to the increase in the dividend from EUR 0.05 to EUR 0.20 per share.

The rise in stockholders' equity from EUR 2,770.7 mn at year-end 2016 to EUR 2,937.4 mn at year-end 2017 results from the net income for 2017 less the carried-out profit distribution. This also led to an increase in the equity ratio as of 31 December 2017 to 38.5 % after 34.9 % as of 31 December 2016.

Net debt

Reported view

in EUR million	31 Dec 2017 reported	31 Dec 2016 reported
Long-term debt	2,533.6	2,303.5
Short-term debt	0.6	500.1
Cash and cash equivalents, short-term investments	-202.4	-464.2
Net debt	**2,331.8**	**2,339.4**
Net debt/EBITDA (last 12 months)	1.7	1.7

Net debt

In the 2017 reporting year, the A1 Telekom Austria Group's net debt decreased slightly by 0.3 % to EUR 2,331.8 mn. Dividend payments and the outflow of funds for the acquisition of Metronet were offset by the free cash flow. The net debt to EBITDA ratio remained stable in comparison with the previous year at 1.7 x as of 31 December 2017.

Cash flow

Earnings before income tax (EBT) declined year-on-year by 3.1 % to EUR 348.5 mn, as the higher EBITDA and the improved financial result were more than offset by the brand value amortisation of EUR 121.8 mn in conjunction with the Group-wide rebranding.

Despite the improvement in results of operations, cash flow from operating activities decreased slightly year-on-year by 1.7 % to EUR 1,174.8 mn. This was mainly due to increased needs for working capital compared with the previous year.

Cash flow from investing activities went down by 6.5 % to EUR -770.4 mn in the reporting period, as the cash outflow from the acquisition of Metronet was more than compensated for by a decrease in capital expenditures paid. The latter was also impacted by the fact that the figure for 2016 included greater pay-ments for capital expenditures from 2015, such as the spectrum investments in the Republic of Serbia.

Cash flow from financing activities decreased from EUR -824.3 mn in 2016 to EUR -659.3 mn in the 2017 reporting year. The repayment of a EUR 500 mn bond in January 2017 was partly compensated for by the tap-issuance of EUR 250 mn. Interest payments fell significantly year-on-year by 39.9 % to EUR 99.8 mn due to the reduction in financial liabilities and the use of favourable refinancing. Dividend and hybrid bond coupon payments increased overall from EUR 67.2 mn in 2016 to EUR 166.9 mn in 2017 due to the increase in the dividend from EUR 0.05 to EUR 0.20 per share. There was also an outflow of funds totalling EUR 120 mn in the year under review due to the exercising of the call option connected with the acquisition of the Telekom Slovenije Group's 45 % stake in Macedonian company one.Vip DOOEL.

Overall, cash and cash equivalents went down by EUR 255.1 mn in the year under review compared with a reduction of EUR 451.7 mn in the previous year.

Free cash flow, which is calculated as cash flow from operating activities less capital expenditures paid and interest paid plus proceeds from the sale of plant, property and equipment, increased from EUR 232.0 mn in the previous year to EUR 384.7 mn in the 2017 reporting year. This was mainly attributable to the lower levels of capital expenditures and interest paid as well as operational improvement.

Cash flow

Reported view

in EUR million	2017 reported	2016 reported	Change in %
Earnings before income tax (EBT)	348.5	359.7	-3.1
Net cash flow from operating activities	1,174.8	1,195.5	-1.7
Net cash flow from investing activities	-770.4	-823.5	6.5
Net cash flow from financing activities	-659.3	-824.3	20.0
Adjustment to cash flows due to exchange rate fluctuations, net	-0.2	0.6	n. m.
Net change in cash and cash equivalents	-255.1	-451.7	43.5

Capital expenditures[1)]

In the 2017 year under review, capital expenditures decreased by 3.6 % year-on-year to EUR 736.9 mn. This was due to lower investments in Belarus, Austria and the Republic of Macedonia, which were partially offset by higher capital expenditures in Slovenia, the Republic of Serbia, Croatia and Bulgaria.

In 2017, tangible capital expenditures decreased by 9.5 % to EUR 579.3 mn in comparison with the previous year, as higher investments in the Republic of Serbia, Croatia and Bulgaria were more than compensated for by lower tangible capital expenditures in Austria, Belarus, the Republic of Macedonia and Slovenia. The decline in tangible capital expenditures in Austria was attributable to lower investments in the fibre rollout. In Belarus, tangible capital expenditures declined compared with 2016 as the previous year was affected by the solar power plant project.

The increase in intangible capital expenditures by 27.4 % to EUR 157.6 mn was driven mainly by the capitalisation of a long-term IRU (Indefeasible Rights of Use) contract for fibre-optic lines in Slovenia. Higher investments in Bulgaria, Croatia and Austria also played a role here.

Segment analysis

Segment Austria

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

In 2017, competition in the Austrian mobile market continued to be driven by aggressive promotions including high data allowances in the mobile no-frills business but also data monetisation in the contract business. In this context, A1 Telekom Austria AG is monetising the growth in demand for data by including high data allowances and data roaming in the premium tariffs. As of November 2017, these also included 'zero-rated' services enabling certain music and video streaming services to be used independently of data limits. At the same time, it is addressing the price pressure in the no-frills segment via its no-frills brands bob and YESSS!, for example by means of competitive national tariffs. The company has also introduced attractive regional promotions and target-group-oriented products, for example for the youth segment.

The fixed-line business profited from the increased demand for broadband products with a higher bandwidth. In this context, the hybrid modem—a combination of fixed-line and mobile network—remains a central factor, in addition to classic fibre products, in enabling A1 fixed-line products to be offered with higher bandwidths. As of 1 August 2017, monthly fees were increased for existing customers in the fixed-line business.

In the Austrian broadband market, mobile Wi-Fi routers with unlimited data offers also remain an important element. Convenient unlimited mobile broadband offers therefore complete A1's data-centric premium package. On 26 June 2017, A1 increased the available download speed in its mobile and fixed-line broadband offers to up to 300 Mbps.

In the year under review, the total number of mobile communication subscribers declined by 1.9 % year-on-year, entirely driven by a decrease in the number of prepaid customers. At the same time, the high demand for mobile Wi-Fi routers and high-value tariffs resulted in an increase in postpaid customers. The market share in mobile communications declined to 38.8 % in the year under review (2016: 39.4 %). In the fixed-line business, revenue-generating units (RGUs) decreased by 3.0 % in 2017 due primarily to loss of voice RGUs. While demand for fibre upgrades remained strong and TV RGUs continued to exhibit solid growth (+4.5 % year-on-year), fixed-line broadband RGUs declined by 2.3 % year-on-year. This was attributable both to the ongoing substitution by mobile Wi-Fi routers and to the above-mentioned price increase of 1 August 2017, which resulted in increased churn.

Total revenues in the Austrian segment increased by 2.0 % year-on-year in the year under review, including the positive one-off effects described above in the total amount of EUR 14.2 mn in Q1 2017. Excluding these effects, total revenues rose by 1.4 %. The rise was driven by higher solutions & connectivity and interconnection revenues in the fixed-line segment, increasing revenues from fixed-line services in the residential business as well as higher revenues from the sale of handsets. Revenues from fixed-line services in the residential business increased as the lower airtime revenues were more than offset by higher broadband revenues thanks to strong demand for products with a higher bandwidth and the above-mentioned price increases as well as increased TV revenues. In the mobile business, the lower revenues from mobile services were due to the negative effects from the stepwise abolition of retail roaming in the EU as of 30 April 2016 and 15 June 2017 as well as losses in the prepaid segment. This was somewhat compensated for by increased revenues in the mobile broadband business and the postpaid segment. Revenues from the sale of mobile handsets increased due to higher quantities sold and an updated handset portfolio with a shift to higher-value devices.

The average monthly revenue per user (ARPU) declined year-on-year from EUR 15.8 in 2016 to EUR 15.6 in 2017, which was attributable primarily to negative roaming effects. Excluding roaming, the ARPU in the year under review would have risen slightly in comparison with the previous year. The average monthly revenue per fixed line (ARPL) increased from EUR 28.0 in 2016 to EUR 29.3 in 2017. This was primarily due to upselling measures in the broadband business as well as the above-mentioned price increases.

1) For more detailed figures, we refer to the reconciliation tables as well as the Notes to the Consolidated Financial Statements.

Key performance indicators Austria

Proforma view (= Reported view)

Key financials in EUR million	2017 reported	2016 proforma	Change in %
Total revenues	2,622.3	2,571.6	2.0
thereof wireless revenues	1,228.9	1,235.9	-0.6
thereof service revenues	1,006.2	1,032.0	-2.5
thereof equipment revenues	164.4	146.5	12.2
thereof fixed-line and other revenues	1,393.4	1,335.7	4.3
EBITDA	914.2	899.7	1.6
% of total revenues	34.9 %	35.0 %	–
Operating income	442.1	404.4	9.3
% of total revenues	16.9 %	15.7 %	–

Wireless indicators	2017 reported	2016 proforma	Change in %
Postpaid subscribers (in ’000)	3,779.4	3,709.9	1.9
Prepaid subscribers (in ’000)	1,555.8	1,728.8	-10.0
Wireless subscribers (in ’000)	5,335.2	5,438.7	-1.9
thereof mobile broadband subscribers (in ’000)	947.4	945.4	0.2
ARPU (in EUR)	15.6	15.8	-1.2
Churn (%)	1.7 %	1.7 %	–
Market share	38.8 %	39.4 %	–
Penetration	156.2 %	158.7 %	–

Wireline indicators	2017 reported	2016 reported	Change in %
RGUs (in ’000)	3,390.4	3,495.5	-3.0
thereof fixed broadband RGUs	1,447.3	1,481.0	-2.3
ARPL (in EUR)	29.3	28.0	4.5
Total access lines (in ’000)	2,117.5	2,202.8	-3.9
Unbundled lines (in ’000)	220.3	228.7	-3.7
Fixed-line voice traffic (in million minutes)	1,324.9	1,469.1	-9.8
Mobile and fixed-line broadband penetration in % of households	139.1 %	139.4 %	–

In 2017, total costs and expenses in the Austrian segment rose by 2.2 % year-on-year. Adjusted for the positive one-off effects in total costs and expenses amounting to EUR 21.4 mn for the same period in the previous year as well as the restructuring expenses in 2016 and 2017, total costs and expenses increased by 2.4 % year-on-year. Cost of equipment, interconnection expenses, attributable to increased volumes, and roaming costs in particular experienced an increase. These increases were partially offset by lower network maintenance and advertising costs. Cost of equipment rose primarily due to higher handset subsidies and higher quantities as well as increased costs for ICT equipment.

Costs and expenses

Proforma view (= Reported view)

in EUR million	2017 reported	2016 proforma	Change in %
Cost of service	875.2	846.9	3.3
Cost of equipment	257.3	225.8	13.9
Selling, general & administrative expenses	568.1	600.0	-5.3
Others	7.4	-1.0	n. m.
Total costs and expenses	1,708.1	1,671.8	2.2
thereof employee costs	583.2	616.9	-5.5

The rise in total costs and expenses in the year under review was more than offset by higher total revenues. EBITDA thus increased by 1.6 % in comparison with the previous year. Adjusted for one-off effects in costs and revenues as well as restructuring expenses, EBITDA decreased slightly by 0.4 %.

Depreciation and amortisation decreased by 4.2 % in the period under review compared with the same period last year. This decrease was related to the depreciation of equipment in Q2 2016 related to intercompany transactions and was therefore eliminated and did not affect numbers on a Group level. All in all, operating income in Austria increased by 9.3 % year-on-year.

Segment Bulgaria

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

In 2017, the competitive environment in Bulgaria remained challenging. This was particularly apparent in the business segment, which did improve but continued to perform negatively year-on-year. To counter price pressure, Mobiltel maintained its focus on value-based management and the associated enhanced efforts to retain high-value customers. The fixed-line network performed positively on account of the content strategy as well as increased demand for customised corporate solutions. In Q1 2017, Mobiltel introduced exclusive sports content into its fixed-line product for new and existing customers, which has been charged for from Q2 2017. This supported the increase in revenues from fixed-line services.

Key performance indicators Bulgaria

Proforma view (= Reported view)

Key financials in EUR million	2017 reported	2016 proforma	Change in %
total revenues	431.2	412.0	4.7
thereof service revenues	337.4	324.8	3.9
thereof service revenues	267.0	271.9	-1.8
thereof equipment revenues	57.5	46.9	22.7
thereof fixed-line and other revenues	93.8	87.2	7.6
EBITDA	130.1	125.6	3.6
% of total revenues	30.2 %	30.5 %	–
Operating income	-85.6	15.4	n. m.
% of total revenues	-19.8 %	3.7 %	–

Wireless indicators	2017 reported	2016 proforma	Change in %
Postpaid subscribers (in ’000)	3,500.4	3,509.4	-0.3
Prepaid subscribers (in ’000)	476.8	598.7	-20.4
Wireless subscribers (in ’000)	3,977.1	4,108.1	-3.2
thereof mobile broadband subscribers (in ’000)	422.3	382.4	10.4
ARPU (in EUR)	5.5	5.5	-0.7
Churn (%)	2.2 %	2.0 %	–
Market share	38.7 %	38.4 %	–
Penetration	145.6 %	150.5 %	–

Wireline indicators (proforma)	2017 reported	2016 proforma	Change in %
RGUs (in ’000)	1,005.0	1,018.9	-1.4
thereof fixed-line broadband RGUs	434.8	429.3	1.3

Wireline indicators (reported)	2017 reported	2016 reported	Change in %
ARPL (in EUR)	11.4	10.8	5.9
Total access lines (in ’000)	531.2	542.6	-2.1

The total number of mobile subscribers declined in the year under review by 3.2 % year-on-year, which was primarily attributable to losses in the prepaid segment. The latter were largely a result of the national regulation on limiting the number of prepaid card activations per person, which came into force on 1 July 2017. Smartphone and mobile broadband services expanded in comparison with the previous year as a result of the rising demand for mobile data access. The mobile market share increased from 38.4 % to 38.7 %. The aforementioned focus on value-oriented retention resulted in an increased share of contract customers of 88.0 % (2016: 85.4 %). Total fixed-line revenue-generating units (RGUs) decreased by 1.4 % year-on-year, as the growth in the TV and fixed-line broadband services only partly compensated for the loss in fixed-line voice services.

In the Bulgaria segment, total revenues rose by 4.7 % in 2017 compared with the same period last year. This was driven by the increase in revenues from the sale of handsets and higher revenues from fixed-line services as well as a positive one-off effect in other operating income in Q3 2017 amounting to EUR 5.8 mn as a result of a legal settlement. Excluding this one-off effect, total revenues increased by 3.2 % year-on-year. Wireless service revenues were impacted by pricing pressure in the business segment and regulatory effects from the reduction of interconnection and roaming charges. Fixed-line revenues increased, supported by the launch of the exclusive sports TV package and increased demand for fixed-line corporate solutions as well as the growth in satellite TV subscribers.

The average monthly revenue per user (ARPU) remained stable in comparison with the previous year at EUR 5.5. The average monthly revenue per fixed line (ARPL) increased from EUR 10.8 in 2016 to EUR 11.4 in the year under review supported by the upselling of existing subscribers as well as the billing of exclusive sports content.

The increase in total costs and expenses of 5.1 % in comparison with the previous year was driven primarily by higher equipment costs following increased costs for smartphones. In addition, employee costs increased due to sales initiatives while bad debt expenses rose year-on-year due to lower collections. These cost increases were partially offset by lower network maintenance costs and decreased interconnection costs.

In the Bulgarian segment, increasing total revenues more than offset higher costs and expenses, resulting in an EBITDA increase of 3.6 % in the 2017 year under review. Excluding the above-mentioned positive one-off effect, EBITDA declined by 1.0 % year-on-year. Depreciation and amortisation increased by 95.8 % to EUR 215.7 mn in comparison with the previous year due to the brand value amortisation in the amount of EUR 99.7 mn in conjunction with Group-wide rebranding. This resulted in negative operating income in 2017 in the amount of EUR –85.6 mn (2016: EUR +15.4 mn). Excluding the effects of the brand value amortisation, the operating income decreased by 8.4 % year-on-year.

Segment Croatia

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

The Croatian segment continued its positive operational performance in 2017, which was due to the growth of its fixed-line business and enduring solid mobile trends. The market environment was characterised by the strong demand for larger data packages, bundles and convergent products. Vipnet's mobile business profited from the push towards the higher-value tariff portfolio and mobile Wi-Fi routers, while trends in the fixed-line business remained encouraging on the back of the sales focus on broadband and TV services. The fixed-line business was further strengthened by the acquisition of Metronet. The company has been consolidated as of 1 February 2017. In Q3 2017, Vipnet introduced a new convergent portfolio, with more data included and higher speeds, and introduced new data options for its mobile Wi-Fi routers.

In the year under review, mobile subscribers increased by 3.1 % year-on-year. There were losses in the prepaid segment while the contract subscriber base continued to rise due to the strong growth of mobile Wi-Fi routers as well as the ongoing general shift from prepaid to contract in the market. This led to a value enhancement of the customer base. The mobile market share increased from 36.1 % in the previous year to 36.5 % in the year under review. In the fixed-line business, revenue-generating units (RGUs) rose by 1.3 % year-on-year (reported: +5.5 %), driven primarily by the ongoing solid demand for TV and fixed-line broadband products.

In the Croatian segment, total revenues rose by 2.6 % year-on-year (reported: +9.2 %). This development was attributable primarily to the strong growth in the fixed-line business as well as the significant increase in visitor roaming due to greater elasticity in data usage. Excluding these positive roaming effects, Croatia also saw a rise in revenues from mobile services in the year under review. Equipment revenues declined despite higher sales volumes as revenues per device decreased.

The average monthly revenue per user (ARPU) increased from EUR 11.9 in 2016 to EUR 12.2 in 2017 due to visitor roaming as well as the strong demand for Wi-Fi routers. On a reported basis, the average monthly revenue per fixed line (ARPL) increased from EUR 23.6 in 2016 to EUR 28.0 in the year under review. This was due to the consolidation of Metronet with a higher ARPL. Together with the strong growth in fixed-line RGUs, this led to a 34.6 % increase in reported ARPL-relevant revenues year-on-year.

The 0.5 % increase in costs and expenses in the year under review (reported: +5.4 %) was primarily driven by higher roaming costs as well as revenue-related salesforce costs and commissions.

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

Key performance indicators Croatia

Proforma view

Key financials in EUR million	2017 reported	2016 proforma	Change in %
Total revenues	434.9	423.9	2.6
thereof wireless revenues	313.3	308.0	1.7
thereof service revenues	258.8	249.8	3.6
thereof equipment revenues	48.2	51.2	-5.7
thereof fixed-line and other revenues	121.6	116.0	4.9
EBITDA	108.0	98.6	9.6
% of total revenues	24.8 %	23.2 %	–
Operating income	12.4	15.0	-17.2
% of total revenues	2.9 %	3.5 %	–

Wireless indicators	2017 reported	2016 proforma	Change in %
Postpaid subscribers (in '000)	965.2	846.8	14.0
Prepaid subscribers (in '000)	807.5	873.2	- 7.5
Wireless subscribers (in '000)	1,772.7	1,720.0	3.1
thereof mobile broadband subscribers (in '000)	173.2	131.1	32.1
ARPU (in EUR)	12.2	11.9	2.7
Churn (%)	2.6 %	2.8 %	–
Market share	36.5 %	36.1 %	–
Penetration	117.5 %	114.3 %	–

Wireline indicators (proforma)	2017 reported	2016 proforma	Change in %
RGUs (in '000)	654.1	645.8	1.3
thereof fixed-line broadband RGUs	250.0	248.4	0.6

Wireline indicators (reported)	2017 reported	2016 reported	Change in %
ARPL (in EUR)	28.0	23.6	18.6
Total access lines (in '000)	296.6	284.9	4.1

The slightly higher costs and expenses were more than offset by revenue growth, which led to an EBITDA increase of 9.6 % year-on-year (reported: +22.4 %). As a result of the higher depreciation and amortisation, primarily due to the brand value amortisation in the amount of EUR 7.5 mn in conjunction with Group-wide rebranding, this led to a 17.2 % lower operating income (reported: +32.1 %). Excluding the effects of the brand value amortisation, the operating income increased by 32.6 % year-on-year (reported: 111.4 %).

Segment Belarus

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

In Belarus, strong operational developments continued to face macroeconomic challenges, although there were some improvements and the GDP increased slightly by 0.7 % in 2017 (IMF estimation; 2016: -2.6 %). In this context, the government is maintaining its focus on stabilising inflation, which came in at 4.6 % in 2017, and keeping in place the caps on certain price increases. In the year under review, velcom continued with its consolidation strategy in the fixed-line business with the acquisition of Garant (Gomel). The company has been consolidated as of 1 August 2017. Since September 2017, after opening its own data centre, velcom has also been able to offer cloud services and digital products (Infrastructure as a Service, Platform as a Service). Moreover, inflation-linked price increases in the amount of 9 % were implemented for the mobile business as of 12 April 2017. This followed a price increase in the fixed-line business as of 1 March 2017.

In comparison with the previous year, the mobile customer base in the Belarus segment declined by 1.6 %, which was attributable primarily to the prepaid and also the postpaid segment.

1) Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period. In the Belarus segment, this applies to the acquisition of fixed-line operator Garant (Gomel) in Belarus, consolidated as of 1 August 2017, and the acquisition of fixed-line provider Atlant Telecom and its subsidiary TeleSet in Belarus, consolidated as of 1 December 2016.

Revenue-generating units (RGUs) in the fixed-line business at the end of 2017 amounted to 463,400, including the 159,600 RGUs from acquired fixed-line provider Garant (Gomel).

Total revenues in the Belarusian segment increased by 15.2% year-on-year (reported: +21.6%), driven by continuing solid operational growth on the back of inflation-linked price increases and strong demand for data. Revenues from the sale of handsets also increased due to the changeover to a portfolio with more expensive handsets and higher sales volumes. The supportive FX development in the first half of 2017 was almost completely offset by a devaluation in the second half of the year. Overall, the Belarusian Rouble appreciated by 1.0% compared with the same period last year (period average used respectively). On a local currency basis, total revenues rose by 14.1% in comparison with the previous year (reported: +20.5%).

Costs and expenses increased by 15.3% in the year under review (reported: +23.5%). On a local currency basis, the increase amounted to 14.2% (reported: 22.3%). The increase resulted mostly from increasing equipment costs and higher personnel costs due to inflation-linked salary increases as well as higher roaming costs.

In the Belarusian segment, the increasing revenues more than offset higher costs and expenses, which resulted in an increase in EBITDA by 15.2% (reported: 19.6%). Belarus recorded the highest EBITDA margin in the Group, at 46.4% in the year under review (2016: 46.4%). Excluding the positive FX effects amounting to EUR 1.8 mn, EBITDA in Belarus increased by 14.1% year-on-year (reported: 18.5%). Together with lower depreciation in comparison with the previous year as a result of the solar power plant project in 2016, the operating income improved by 34.1% (reported: 40.2%).

Key performance indicators Belarus

Proforma view

Key financials in EUR million	2017 reported	2016 proforma	Change in %
Total revenues	390.5	338.8	15.2
thereof wireless revenues	359.8	310.8	15.8
thereof service revenues	273.1	242.5	12.6
thereof equipment revenues	71.5	58.4	22.4
thereof fixed-line and other revenues	30.6	28.0	9.5
EBITDA	181.3	157.4	15.2
% of total revenues	46.4%	46.4%	–
Operating income	123.1	91.7	34.1
% of total revenues	31.5%	27.1%	–

Wireless indicators	2017 reported	2016 proforma	Change in %
Postpaid subscribers (in ’000)	3.964.5	3,972.5	-0.2
Prepaid subscribers (in ’000)	899.7	972.3	-7.5
Wireless subscribers (in ’000)	4,864.2	4,944.9	-1.6
thereof mobile broadband subscribers (in ’000)	303.2	391.6	-22.6
ARPU (in EUR)	4.7	4.1	13.7
Churn (%)	1.7%	1.6%	–
Market share	42.5%	43.2%	–
Penetration	120.5%	120.3%	–

Wireline indicators (proforma)	2017 reported	2016 proforma	Change in %
RGUs (in ’000)	463.4	429.3	8.0
thereof fixed-line broadband RGUs	212.0	204.0	3.9

Wireline indicators (reported)	2017 reported	2016 reported	Change in %
ARPL (in EUR)	7.3	7.9	-7.7
Total access lines (in ’000)	306.4	179.3	70.9

Key performance indicators Slovenia

Proforma view (= Reported view)

Key financials in EUR million	2017 reported	2016 proforma	Change in %
Total revenues	216.1	214.1	0.9
thereof wireless revenues	180.7	180.0	0.4
thereof service revenues	132.9	135.7	-2.0
thereof equipment revenues	43.5	40.1	8.5
thereof fixed-line and other revenues	35.4	34.1	3.8
EBITDA	40.6	52.8	-23.2
% of total revenues	18.8%	24.7%	–
Operating income	10.5	20.1	-47.8
% of total revenues	4.8%	9.4%	–

Wireless indicators	2017 reported	2016 proforma	Change in %
Postpaid subscribers (in '000)	605.8	591.8	2.4
Prepaid subscribers (in '000)	97.5	122.5	-20.4
Wireless subscribers (in '000)	703.3	714.3	-1.5
thereof mobile broadband subscribers (in '000)	46.8	39.8	17.7
ARPU (in EUR)	15.6	15.8	-1.7
Churn (%)	1.7%	1.5%	–
Market share	29.1%	30.1%	–
Penetration	116.0%	115.1%	–

Wireline indicators (proforma)	2017 reported	2016 proforma	Change in %
RGUs (in '000)	183.0	172.0	6.4
thereof fixed-line broadband RGUs	70.4	70.2	0.2

Wireline indicators (reported)	2017 reported	2016 reported	Change in %
ARPL (in EUR)	35.4	35.4	-0.2
Total access lines (in '000)	70.5	70.2	0.3

Segment Slovenia

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

In April 2017, Si.mobil was successfully rebranded to A1 Slovenija. The rebranding affects the entire brand presence in Slovenia and strengthens the positioning in the market as a convergent brand. In 2017, the Slovenian telecommunications market was still characterised by the fierce competition in the mobile market with a focus on convergent tariffs with high discounts and tariffs with high data allowances. In order to follow market demand, A1 Slovenija also increased the data volumes included in its packages in September 2017.

In the 2017 financial year, the number of mobile subscribers declined by 1.5%, as losses in the prepaid segment were only partially offset by an increase in post-paid customers. Total fixed-line revenue-generating units (RGUs) increased by 6.4% year-on-year, mainly driven by higher demand for IPTV and voice telephony.

Total revenues in Slovenia increased by 0.9% year-on-year, as lower revenues from mobile services were more than offset by increasing equipment revenues and increasing revenues from fixed-line services. Mobile service revenues declined as a result of negative roaming impacts and lower monthly fees due to the enduring highly competitive environment. Equipment revenues rose on the back of higher sales prices due to higher-value handsets. Fixed-line service revenues increased due to price adjustments for TV products as of 1 March 2017 and RGU growth.

Costs and expenses increased by 8.8% and were primarily driven by higher equipment costs following the shift to higher-value handsets and rising roaming costs. Content costs increased as a result of more TV RGUs and price increases for TV rights, while advertising costs also increased due to the above-mentioned rebranding.

Higher revenues were more than offset by higher costs and expenses in the year under review and resulted in a significant decrease in the EBITDA of 23.2% year-on-year. Despite the lower depreciation and amortisation, the operating income declined by 47.8% year-on-year.

Segment Republic of Serbia

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

In 2017, the segment Republic of Serbia continued to be characterised by a highly competitive market with aggressive convergent offers including high discounts. Vip mobile counteracted this market environment by changing its positioning in the market and subsequently introducing a new product portfolio with attractive flat-rate tariffs in June 2017. Additionally, results were impacted by regulatory headwinds due to termination rate cuts in January 2017.

Compared with the same period last year, the contract share increased significantly from 57.7 % in 2016 to 62.7 % in 2017. The total number of customers increased by 1.7 % year-on-year. This was entirely attributable to the postpaid segment, supported by high gross additions as a result of the new tariffs mentioned above and the high demand for mobile Wi-Fi routers.

Total revenues increased by 4.4 % year-on-year as a result of higher equipment revenues, which increased as a result of higher sales prices, and the positive one-off effect resulting from changed parameters in the calculation of asset retirement obligations. Excluding this one-off effect, total revenues increased by 2.6 % year-on-year. Increased monthly fees were fully offset by lower interconnection revenues, prescribed by regulation, and by lower airtime revenues.

In the year under review, total costs and expenses increased by 5.5 % year-on-year, mainly driven by higher equipment costs due to mobile Wi-Fi routers and higher handset prices. The higher costs were also attributable to higher bad debts as well as increasing personnel and advertising costs as a result of sales initiatives. These increases were partly compensated for by lower interconnection expenses due to the above-mentioned termination rate cuts.

In the Republic of Serbia, the higher total revenues did not entirely offset the higher costs and expenses, resulting in a 1.2 % decline in EBITDA. Excluding the abovementioned one-off effect, EBITDA decreased by 11.0 % year-on-year. Together with somewhat lower depreciation and amortisation than in the previous year, this resulted in negative operating income of EUR –6.8 mn (2016: EUR –7.8 mn) in the year under review.

Key performance indicators Republic of Serbia

Proforma view (= Reported view)

Key financials in EUR million	2017 reported	2016 proforma	Change in %
Key financials	230.8	221.1	4.4
thereof wireless revenues	224.6	213.9	5.0
thereof service revenues	139.6	139.9	–0.2
thereof equipment revenues	76.4	69.8	9.5
EBITDA	38.4	38.8	–1.2
% of total revenues	16.6 %	17.6 %	–
Operating income	–6.8	–7.8	13.1
% of total revenues	–2.9 %	–3.5 %	–

Wireless indicators	2017 reported	2016 proforma	Change in %
Postpaid subscribers (in ’000)	1,367.8	1,236.8	10.6
Prepaid subscribers (in ’000)	814.9	908.5	-10.3
Wireless subscribers (in ’000)	2,182.8	2,145.3	1.7
thereof mobile broadband subscribers (in ’000)	140.2	98.1	42.9
ARPU (in EUR)	5.4	5.6	-3.8
Churn (%)	3.2 %	3.3 %	–
Market share	24.1 %	22.4 %	–
Penetration	128.6 %	135.0 %	–

Segment Republic of Macedonia

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

In 2017, performance in the Macedonian segment continued to be characterised by intense competition. Both the private customer and business customer sectors experienced a challenging competitive environment. Customer retention was the biggest challenge for all market players. In the fixed-line market, customers are leaning towards multiple-play offers rather than maintaining multiple single-play subscriptions. This increases the competitive advantage of convergent operators such as one.Vip. In order to profit from the demand for data and attract a larger number of customers with broadband products, one.Vip introduced Wi-Fi routers in May 2017.

In the year under review, one.Vip's mobile customer base declined by 2.8% year-on-year as customers continued to move from multiple prepaid to single contract subscriptions.

In the fixed-line business, the number of revenue-generating units (RGU) increased by 8.4% compared with the previous year. The RGU growth was driven by strong demand for convergent packages.

Total revenues decreased by 4.5% year-on-year, mostly due to a decline in interconnection revenues stemming from a mobile termination rate cut as well as lower transit revenues in the fixed-line segment.

Costs and expenses decreased by 10.0% year-on-year. The decline was attributable to lower interconnection expenses due to a termination rate cut as well as cost savings on account of the synergies created following the merger with ONE.

Overall, the decrease in total revenues was more than offset by lower total costs and expenses, and in 2017 EBITDA increased by 15.0% year-on-year. Depreciation and amortisation declined by 35.3% year-on-year due to the depreciation that resulted from the merger in the previous year. Overall, the negative operational results improved from EUR -29.5 mn in 2016 to EUR -6.0 mn in 2017.

Key performance indicators Republic of Macedonia

Proforma view (= Reported view)

Key financials in EUR million	2017 reported	2016 proforma	Change in %
Total revenues	114.0	119.4	-4.5
thereof wireless revenues	87.7	92.4	-5.1
thereof service revenues	80.6	82.8	-2.6
thereof equipment revenues	6.4	7.0	-8.9
thereof fixed-line and other revenues	26.3	27.0	-2.6
EBITDA	30.1	26.1	15.0
% of total revenues	26.4%	21.9%	–
Operating income	-6.0	-29.5	79.7
% of total revenues	-5.2%	-24.7%	–

Wireless indicators	2017 reported	2016 proforma	Change in %
Postpaid subscribers (in '000)	647.4	641.0	1.0
Prepaid subscribers (in '000)	424.9	462.6	-8.2
Wireless subscribers (in '000)	1,072.3	1,103.6	-2.8
thereof mobile broadband subscribers (in '000)	2.6	2.3	13.5
ARPU (in EUR)	6.1	6.1	0.7
Churn (%)	2.1%	2.5%	–
Market share	47.8%	49.5%	–
Penetration	108.1%	107.7%	–

Wireline indicators (proforma)	2017 reported	2016 proforma	Change in %
RGUs (in '000)	340.7	314.3	8.4
thereof fixed-line broadband RGUs	114.6	102.0	12.3

Wireline indicators (reported)	2017 reported	2016 reported	Change in %
ARPL (in EUR)	12.3	12.3	-0.6
Total access lines (in '000)	149.3	141.8	5.3

Reconciliation tables—additional performance measures and further details on the above-mentioned figures

The following tables present all the proforma tables from the previous section on a reported as well as on a proforma basis. Additionally, the difference between reported and proforma values is also provided and stems from the M&A activities between the start of the comparison period and the end of the reporting period mentioned on page 51. Alternative performance measures are used to describe the operational performance. Further explanations are provided to give additional, useful and relevant detail on the company's performance.

ARPL (reported)

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

ARPL-relevant revenues

in EUR million	2017 reported	2016 reported	% change
Austria	758.4	746.4	1.6
Bulgaria	73.4	70.3	4.5
Croatia	101.2	77.8	30.1
Belarus	19.3	1.5	n. m.
Slovenia	29.9	29.8	0.5
Republic of Serbia	n. a.	n. a.	n. a.
Republic of Macedonia	21.2	21.0	0.6

Access lines

in '000	2017 reported	2016 reported	% change
Austria	2,117.5	2,202.8	-3.9
Bulgaria	531.2	542.6	-2.1
Croatia	296.6	284.9	4.1
Belarus	306.4	179.3	70.9
Slovenia	70.5	70.2	0.3
Republic of Serbia	n. a.	n. a.	n. a.
Republic of Macedonia	149.3	141.8	5.3

ARPU (proforma)

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

in EUR million	2017 reported	2016 reported	Change in %
Wireless service revenues	2,139.0	2,146.2	-0.3

Free cash flow (reported)

in EUR million	2017 reported	2016 reported	% change
Net cash flow from operating activities	1,174.8	1,195.5	-1.7
Capital expenditures paid	-705.4	-816.5	13.6
Proceeds from sale of plant, property and equipment	15.1	18.9	-20.1
Interest paid	-99.8	-166.0	39.9
Free cash flow	384.7	232.0	65.8

Belarus Key Financials in EUR and BYN

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

Belarus Key Financials

in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Total revenues	390.5	321.0	21.6	338.8	15.2	17.9
Total costs and expenditures	-209.2	-169.4	-23.5	-181.5	-15.3	-12.0
EBITDA	181.3	151.5	19.6	157.4	15.2	5.9

in BYN million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Total revenues	851.8	707.1	20.5	746.5	14.1	39.4
Total costs and expenditures	-456.4	-373.3	-22.3	-399.7	-14.2	-26.5
EBITDA	395.5	333.8	18.5	346.7	14.1	12.9

Presentation of proforma reconciliation

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

- The acquisition of fixed-line operator Garant (Gomel) in Belarus, consolidated as of 1 August 2017.
- The acquisition of fixed-line operator Metronet in Croatia, consolidated as of 1 February 2017.
- The acquisition of fixed-line provider Atlant Telecom and its subsidiary TeleSet in Belarus, consolidated as of 1 December 2016.

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

Group summary

Key financials in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Total revenues	4,382.5	4,211.5	4.1	4,254.9	3.0	43.4
EBITDA	1,397.3	1,354.3	3.2	1,370.4	2.0	16.1
% of total revenues	31.9%	32.2%	–	32.2%	–	–
Operating income	443.9	486.7	-8.8	496.2	-10.5	9.5

Costs and expenses in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Cost of service	1,394.2	1,346.5	3.5	1,362.7	2.3	16.1
Cost of equipment	584.2	521.9	12.0	521.9	11.9	0.0
Selling, general & administrative expenses	994.9	986.1	0.9	997.2	-0.2	11.1
Others	11.8	2.7	n. m.	2.7	n. m.	0.0
Total costs and expenses	**2,985.1**	**2,857.2**	**4.5**	**2,884.5**	**3.5**	**27.3**
thereof employee costs	793.9	787.1	0.9	796.6	-0.3	9.6
thereof restructuring charges	-18.2	7.2	n. m.	7.2	n. m.	0.0
Impairment charges	0.0	2.3	n. a.	2.3	n. a.	0.0
Depreciation and amortisation	953.4	865.3	10.2	871.9	9.4	6.6

Segment Croatia

Key financials in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Total revenues	434.9	398.3	9.2	423.9	2.6	25.6
thereof wireless revenues	313.3	307.9	1.8	308.0	1.7	0.1
thereof service revenues	258.8	249.9	3.6	249.8	3.6	- 0.1
thereof equipment revenues	48.2	51.2	- 5.8	51.2	-5.7	0.0
thereof fixed-line and other revenues	121.6	90.5	34.4	116.0	4.9	25.5
EBITDA	108.0	88.3	22.4	98.6	9.6	10.3
% of total revenues	24.8%	22.2%	–	23.2%	–	–
Operating income	12.4	9.4	32.1	15.0	-17.2	5.6
% of total revenues	2.9%	2.4%		3.5%	–	–

Wireline indicators in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
RGUs (in ’000)	654.1	620.1	5.5	645.8	1.3	25.7
thereof fixed-line broadband RGUs	250.0	234.4	6.7	248.4	0.6	14.0

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

Segment Belarus

Key financials in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Total revenues	390.5	321.0	21.6	338.8	15.2	17.9
thereof wireless revenues	359.8	309.0	16.5	310.8	15.8	1.9
thereof service revenues	273.1	242.5	12.6	242.5	12.6	0.0
thereof equipment revenues	71.5	58.4	22.4	58.4	22.4	0.0
thereof fixed-line and other revenues	30.6	12.0	155.0	28.0	9.5	16.0
EBITDA	181.3	151.5	19.6	157.4	15.2	5.9
% of total revenues	46.4%	47.2%	–	46.4%	–	–
Operating income	123.1	87.8	40.2	91.7	34.1	3.9
% of total revenues	31.5%	27.4%	–	27.1%	–	–

Wireline indicators in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute Abweichung (proforma—reported)
RGUs (in ’000)	463.4	279.4	65.9	429.3	8.0	149.9
thereof fixed-line broadband RGUs	212.0	132.0	60.6	204.0	3.9	72.0

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

Revenues

in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Austria	2,622.3	2,571.6	2.0	2,571.6	2.0	0.0
Bulgaria	431.2	412.0	4.7	412.0	4.7	0.0
Croatia	434.9	398.3	9.2	423.9	2.6	25.6
Belarus	390.5	321.0	21.6	338.8	15.2	17.9
Slovenia	216.1	214.1	0.9	214.1	0.9	0.0
Republic of Serbia	230.8	221.1	4.4	221.1	4.4	0.0
Republic of Macedonia	114.0	119.4	-4.5	119.4	-4.5	0.0
Corporate & other, eliminations	-57.3	-46.2	-24.1	-46.2	-24.1	0.0
Total revenues	**4,382.5**	**4,211.5**	**4.1**	**4,254.9**	**3.0**	**43.4**

EBITDA

in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Austria	914.2	899.7	1.6	899.7	1.6	0.0
Bulgaria	130.1	125.6	3.6	125.6	3.6	0.0
Croatia	108.0	88.3	22.4	98.6	9.6	10.3
Belarus	181.3	151.5	19.6	157.4	15.2	5.9
Slovenia	40.6	52.8	-23.2	52.8	-23.2	0.0
Republic of Serbia	38.4	38.8	-1.2	38.8	-1.2	0.0
Republic of Macedonia	30.1	26.1	15.0	26.1	15.0	0.0
Corporate & other, eliminations	-45.3	-28.6	-58.5	-28.6	-58.5	0.0
Total EBITDA	**1,397.3**	**1,354.3**	**3.2**	**1,370.4**	**2.0**	**16.1**

Depreciation & amortisation

in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Austria	-472.2	-493.0	4.2	-493.0	4.2	0.0
Bulgaria	-215.7	-110.2	-95.8	-110.2	-95.8	0.0
Croatia	-95.6	-78.8	-21.2	-83.5	-14.4	-4.7
Belarus	-58.2	-63.7	8.7	-65.7	11.3	-1.9
Slovenia	-30.1	-32.7	8.0	-32.7	8.0	0.0
Republic of Serbia	-45.1	-46.6	3.2	-46.6	3.2	0.0
Republic of Macedonia	-36.0	-55.7	35.3	-55.7	35.3	0.0
Corporate & other, eliminations	-0.5	15.4	n. m.	15.4	n. m.	0.0
Total depreciation & amortisation	**-953.4**	**-865.3**	**-10.2**	**-871.9**	**- 9.4**	**- 6.6**

EBIT

in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Austria	442.1	404.4	9.3	404.4	9.3	0.0
Bulgaria	-85.6	15.4	n. m.	15.4	n. m.	0.0
Croatia	12.4	9.4	32.1	15.0	-17.2	5.6
Belarus	123.1	87.8	40.2	91.7	34.1	3.9
Slovenia	10.5	20.1	-47.8	20.1	-47.8	0.0
Republic of Serbia	-6.8	-7.8	13.1	-7.8	13.1	0.0
Republic of Macedonia	-6.0	-29.5	79.7	-29.5	79.7	0.0
Corporate & other, eliminations	-45.8	-13.2	-248.0	-13.2	-248.0	0.0
Total EBIT	**443.9**	**486.7**	**-8.8**	**496.2**	**-10.5**	**9.5**

Capital expenditures[1)]

in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Austria	435.5	460.3	-5.4	460.3	-5.4	0.0
Bulgaria	81.3	73.0	11.3	73.0	11.3	0.0
Croatia	84.7	76.3	11.0	81.0	4.6	4.7
Belarus	47.1	73.7	-36.1	73.8	-36.2	0.1
Slovenia	41.8	26.8	56.2	26.8	56.2	0.0
Republic of Serbia	35.1	25.9	35.7	25.9	35.7	0.0
Republic of Macedonia	21.3	35.4	-39.8	35.4	-39.8	0.0
Corporate & other, eliminations	-10.0	-7.2	-37.5	-7.2	-37.5	0.0
Total capital expenditures	**736.9**	**764.1**	**-3.6**	**768.9**	**-4.2**	**4.8**

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

Capital expenditures—tangible

in EUR million	2017 reported	2016 reported	% change
Austria	361.2	391.3	-7.7
Bulgaria	53.8	52.6	2.3
Croatia	69.3	67.2	3.1
Belarus	37.9	65.8	-42.4
Slovenia	19.3	20.2	-4.5
Republic of Serbia	26.0	19.2	35.2
Republic of Macedonia	17.9	30.9	-42.3
Corporate & other, eliminations	-6.0	-6.9	11.9
Total capital expenditures-tangible	**579.3**	**640.4**	**-9.5**

Capital expenditures—intangible

in EUR million	2017 reported	2016 reported	% change
Austria	74.3	68.9	7.9
Bulgaria	27.5	20.4	34.3
Croatia	15.4	9.1	68.8
Belarus	9.1	7.8	16.4
Slovenia	22.5	6.6	241.8
Republic of Serbia	9.1	6.6	37.3
Republic of Macedonia	3.5	4.5	-22.7
Corporate & other, eliminations	-3.9	-0.4	n. m.
Total capital expenditures—intangible	**157.6**	123.7	**27.4**

Consolidated non-financial statement

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

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

Shareholder structure and capital disclosures

At the end of 2017, a total of 51.00% or 338,895,000 shares of Telekom Austria Aktiengesellschaft were held by América Móvil B.V., Netherlands ('América Móvil B.V.'; formerly Carso Telecom B.V.), a wholly owned subsidiary of América Móvil, S.A.B. de C.V. ('América Móvil'). The Republic of Austria holds 28.42% via Österreichische Bundes- und Industriebeteiligungen GmbH ('ÖBIB'), while the remaining 20.58% of the shares are in free float. 0.1% or 0.4 million shares of the latter were held by the company itself. Employee shares that are being held in a collective custody account are also part of the free float. The associated voting rights are exercised by a custodian (notary). The total number of no-par value shares remains at 664,500,000.

	2017	2016	Change in %
Treasury shares	415,159	415,159	0.0

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

Standard change-of-control clauses that could ultimately lead to the termination of contracts affect the majority of financing agreements. None of these clauses came into effect in the 2017 financial year or up until the date of this report.

The following information concerning the shareholders' agreement is based solely on publicly available information.) The company has no additional information. The shareholders' agreement between ÖBIB, América Móvil and América Móvil B.V., Netherlands ('América Móvil B.V.'; formerly 'Carso Telecom B.V.'), came into force on 27 June 2014 (see Note (27)). Under the terms of the shareholders' agreement, the parties have undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria Aktiengesellschaft by exercising their voting rights on a concerted basis. The shareholders' agreement also contains provisions on the joint exercise of voting rights in the committees of the company for the election of Supervisory Board and Management Board members and restrictions on the sale of shares. The Supervisory Board of the company consists of ten shareholder representatives, of which eight members are nominated by América Móvil B.V. and two by ÖBIB. ÖBIB has the right to nominate the chairman of the Supervisory Board. América Móvil B.V. has the right to nominate the deputy chairman. The Management Board of the company consists of three members. Two members are nominated by América Móvil B.V., while one member of the Management Board, namely the Chief Executive Officer (CEO), is nominated by ÖBIB. On 24 July 2015, the Chief Executive Officer responsibilities of Telekom Austria Aktiengesellschaft were allocated to Alejandro Plater as of 1 August 2015, as proposed by the two majority shareholders América Móvil and ÖBIB. The Extraordinary General Meeting on 14 August 2014 also amended the Articles of Association to state that, as long as the Republic of Austria directly or indirectly holds at least 25% plus one share of the share capital of the company, resolutions on capital increases and the issue of instruments containing a conversion right or a conversion obligation for shares of the company and amendments to the provisions of the Articles of Association relating to capital increases and such instruments shall require a majority of at least three quarters of the share capital represented at the vote on the resolution.

ÖBIB and América Móvil B.V. have agreed that at least 24% of the shares of the company should be in free float while the shareholders' agreement is in place. This minimum free float

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

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

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

Changes to the Management Board and the Supervisory Board

At the Annual General Meeting on 9 June 2017, the Supervisory Board mandates of Stefan Pinter and Reinhard Kraxner were extended. In the Extraordinary General Meeting on 20 September 2017, Peter F. Kollmann was elected as a member of the Supervisory Board, following Ronny Pecik's resignation from the Supervisory Board on 9 June 2017.

Cash use policy

The A1 Telekom Austria Group pursues a conservative finance strategy, with a solid investment grade rating of Baa2 by Moody's and BBB by Standard & Poor's at its core. This orientation ensures a solid balance sheet structure with moderate

Telekom Austria Aktiengesellschaft: members of the Supervisory Board

Name (year of birth)	Date of first appointment	End of current term of office/leaving date
Alejandro Cantú Jiménez (1972)	14.08.2014	2019 2)
Karin Exner-Wöhrer (1971)	27.05.2015	2020 3)
Carlos García Moreno Elizondo, first Deputy Chairman (1957)	14.08.2014	2018 1)
Peter Hagen (1959)	25.05.2016	2019 2)
Carlos M. Jarque (1954)	14.08.2014	2018 1)
Peter F. Kollmann (1962)	20.09.2017	2021 4)
Reinhard Kraxner (1970)	14.08.2014	2018 1)
Ronny Pecik (1962)	23.05.2012	09.06.2017
Stefan Pinter (1978)	14.08.2014	2018 1)
Wolfgang Ruttenstorfer, Chairman (1950)	27.05.2010 to 14.08.2014, reappointed on 27.05.2015	2020 3)
Oscar Von Hauske Solís (1957)	23.10.2012	2018 1)
Members of the Supervisory Board delegated by the Staff Council		
Silvia Bauer (1968)	30.01.2009 to 03.11.2010, re-delegated on 26.07.2012	
Walter Hotz (1959)	re-delegated on 06.05.2011	
Werner Luksch (1967)	03.08.2007 to 20.10.2010, re-delegated on 11.01.2011	
Alexander Sollak (1978)	03.11.2010	
Gottfried Kehrer (1962)	27.10.2010	

1) The term of office ends at the Annual General Meeting for the 2017 financial year (30 May 2018).
2) The term of office ends at the Annual General Meeting for the 2018 financial year (provisionally May 2019).
3) The term of office ends at the Annual General Meeting for the 2019 financial year (provisionally May 2020).
4) The term of office ends at the Annual General Meeting for the 2020 financial year (provisionally May 2021).

There were no changes in the Management Board of Telekom Austria Aktiengesellschaft in 2017.

leverage (Net debt to EBITDA) as well as financial flexibility for investments and unrestricted access to debt capital markets. In the 2017 year under review, the company rating of the A1 Telekom Austria Group was confirmed by both Standard and Poor's (BBB) and Moody's (Baa2), and the outlook was increased to 'positive'.

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

Risk management

Principles and methods

As one of the leading telecommunications companies in Austria as well as Central and Eastern Europe, the A1 Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. The A1 Telekom Austria Group's risk management system analyses risk areas systematically, assesses the potential impact, improves existing risk avoidance and risk elimination measures, and reports on the status and developments in the Supervisory Board. In this process, the A1 Telekom Austria Group relies on close cooperation between Group officers and the local risk officers. The risk management system is made up of seven risk categories. '1. Market and strategic risks' (business risks in budget and business plan, risk from disruptive business models, competitive risks) are handled by the Group Controlling division. '2. Compliance risks' (anti-corruption, capital market compliance) are monitored by the Group Compliance division. Part '3. Physical risks' contains risks that may influence the guaranteed availability and security of the services offered, such as technical or topographical risks, which are covered by business interruption management. '4. Cyber risks' are countered both technologically and procedurally by expert teams. Under '5. Operational risks', matters such as invoicing processes, collection of receivables and securing critical human resources are managed. '6. Financial risks', such as liquidity, credit, foreign currency exchange rate, transfer and interest rate risks, are handled by Treasury. '7. Political, legal and regulatory risks' come under the responsibility of the legal experts and the regulatory departments at corporate and national level.

Risk management is performed by analysing risks and opportunities in connection with the short-term and medium-term planning and ongoing business operations. One key element for risk management is to develop effective measures for reducing and perceiving risks. These are continuously updated by way of monthly performance calls (MPC) and leadership team meetings (LTM) and by analysing critical deviations and initiated measures. The overall risk situation of this risk category is derived from the sum of the individual risks.

In addition to the fixed-line and mobile communications market in Austria, the A1 Telekom Austria Group holds leading positions in six other telecommunications markets abroad. This ensures diversification in terms of both sectors and geographical regions. The risk sets of the respective markets vary, which is why risk management is the responsibility of the local operational units. Risk management is controlled by the holding company. In addition to the regular operating meetings (MPC) and strategic meetings (LTM), a multi-year plan is created. This close integration of business planning and risk management ensures appropriate risk control.

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

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

Risks

1. Market and strategic risks

High competitive intensity in the A1 Telekom Austria Group's markets is leading to sharp price reductions in both mobile communications and data traffic. Additional competition is arising from innovative and efficient over-the-top players (OTTs), which are able to offer their services without owning a network. Accordingly, there is a risk that growth in traffic volumes will not be sufficient to offset these price declines. In addition, the monitoring of key macroeconomic indicators in order to assess any changes in consumer behaviour is an important aspect of risk management as well as strategic pricing and product design.

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

2. Compliance risks

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

Data protection risks are a relevant section of compliance risks. The products and services of the A1 Telekom Austria

Group are subject to data protection and data security risks, particularly with regard to unauthorised access to customer, partner or employee data. Violations of the EU General Data Protection Regulation (GDPR), which comes into force on 25 May 2018, may result in considerable legal and financial risks. To minimise potential risk, the EU General Data Protection Regulation has been implemented in interdisciplinary projects within the A1 Telekom Austria Group since early 2016. Technical and organisational measures have also been implemented on the basis of risk assessments. All companies of the A1 Telekom Austria Group undertake to comply with the most stringent data protection and data security standards.

3. Physical risks

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

Environmental risks

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

4. Cyber risks

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

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

5. Operational risks

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

The A1 Telekom Austria Group counters personnel-related risks in various ways. For example, young talents are recruited as part of the '1A Career' programme, which focuses on graduates, students, trainees and apprentices and ensures diversity in the company. The risk of losing key employees is counteracted by means of forward-looking skill management and succession planning and Group-wide talent management. Managers operate in accordance with Group-wide corporate values with the dimensions 'Team', 'Trust' and 'Agility'. The internal A1 Learning Hub development platform (formerly the A1 Telekom Austria Business School) develops employees' skills and abilities and serves as a platform for the Group-wide transfer of expertise. A central e-learning platform provides training at any time and in any place throughout the Group. In addition to business-plan-oriented cost planning, human resources planning includes measures aimed at encouraging employee mobility. Managers are faced with the challenge of getting more out of fewer resources while preventing burnout.

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

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

Around 47% of employees in the Austrian segment have civil servant status. This corresponds to around 20% at Group level. To address the structure of employee costs, the Austrian segment has developed not only several social plans in cooperation with employee representatives, but also models that enable employees with civil servant status to transfer to government ministries. Civil servants are also encouraged to take part in internal mobility initiatives within the context of integrated skill management.

6. Financial risks

The A1 Telekom Austria Group is exposed to liquidity, credit, foreign currency exchange rate, transfer and interest rate risks (see Note (32)).

Investment risks

In general, the A1 Telekom Austria Group counters investment risks through measures such as the active management of equity investments by means of target requirements, coordination processes and, where acquisitions of equity interests are concerned, thorough due diligence and enterprise valuation (see Notes (16) and (17)).

7. Political, legal and regulatory risks

Telecommunications services offered by a provider with significant market power are subject to extensive network access and price regulations. In Austria, the A1 Telekom Austria Group is classified as this kind of provider in several sub-markets. Regulation at wholesale level restricts operational flexibility with regard to products. There is also an obligation to provide access to infrastructure and fixed-line services to alternative providers. The foreign subsidiaries are also subject to regulatory frameworks. Additional regulatory rulings, such as a reduction in mobile and fixed-line termination rates as a result of the European Commission's recommendation on termination rates, could negatively affect the A1 Telekom Austria Group's earnings development.

As described in the 'Regulation' section, a new regulation on net neutrality and roaming (previously known as 'Connected Continent' or the 'Telecom Single Market' package) came into force in 2016 with extensive consequences for A1 and other subsidiaries within the EU. The Body of European Regulators has issued guiding principles on net neutrality in order to specify how the regulation should be applied in more detail. The regulation and the guiding principles are open to interpretation on the subjects of both net neutrality and roaming, so that harmonised, uniform implementation within the EU is not guaranteed. Therefore the extent of their effects cannot be fully predicted and may vary between member states. In turn, this gives rise to legal, regulatory and financial uncertainty.

The draft of the European Electronic Communications Code described in the 'Regulation' section includes policy objectives for a 'gigabit society' and a 5G plan of action. In this context, the European Parliament has again brought forward a previous proposal for the abolition of surcharges for international calls within the EU. This will involve both legal and regulatory risks as well as financial risks in the future.

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

Internal control system for financial reporting

Telekom Austria Aktiengesellschaft has an internal control system (ICS) for the financial reporting process, as required by law. The ICS is intended to provide reasonable assurance regarding the reliability, completeness and accuracy of external financial reporting in compliance with international and national accounting standards. Regular internal reporting to Management and the review of the internal control system by Internal Audit also ensure that weaknesses are identified promptly and reported and eliminated accordingly. The most important content and principles apply to all A1 Telekom Austria Group subsidiaries. The effectiveness of the ICS is reviewed, analysed and assessed at regular intervals. At the end of each year, the Group's Management carries out an assessment of the relevant companies with the involvement of the respective business units. Based on the findings of this assessment and the defined criteria, Management stated the internal control system to be effective as of 31 December 2017.

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

Outlook

A1 Telekom Austria Group outlook for the full year 2018
In 2017, A1 Telekom Austria Group managed to grow revenues and EBITDA via a clear focus on high-value customers and attractive fixed-line propositions, both on a reported and pro-forma basis. This was achieved despite the fact that most of the Group's mobile markets continued to be characterised by intense competition and regulatory burdens. The macroeconomic headwinds slowed down further in most segments. Results were negatively impacted by the stepwise abolition of retail roaming in the EU during the last two years. The Belarusian Rouble showed in contrast to the forgone years a stable development versus the Euro (+1.0% year-on-year based on period average). Cost efficiencies enabled the translation of the solid revenue growth into an EBITDA increase. Moreover, results profited from acquisitions in the fixed-line business.

In the reporting year, the A1 Telekom Austria Group decided to harmonise its brands throughout the Group and to roll out the 'A1' brand in a gradual manner throughout the Group depending on local circumstances. This triggered the amortisation of local brand values, which had reached a total of around EUR 350 mn by the end of 2016. The respective companies will amortise the brand values until the phase-out of the old brands, which is expected to have a negative impact on the net result until the financial year 2019, with more than half of the impact in 2017 and Q1 2018. In 2017, the brand value amortisation resulting thereof amounted to EUR 121.8 mn and stemmed primarily from the segment Bulgaria as well as to a lesser extent from the segments Belarus, Croatia and Republic of Macedonia.

For the full year 2018, most of the market dynamics mentioned above are expected to remain.

Both in Austria and in the CEE markets, the competitive environment in mobile markets is anticipated to continue, while the demand for fixed-line services is expected to remain a positive driver across all markets. In the CEE segments, operational results are expected to benefit increasingly from measures taken in the past as well as from the macroeconomic improvements with GDP growth forecasted in all markets (see page 46).

The negative roaming impact is anticipated to amount to approximately 1.0% to 1.5% of Group EBITDA for the full year 2018. Contrary to the supportive FX development in 2017, the operational performance in Belarus is expected to be negatively affected by a devaluation of the Belarusian Rouble.

In this business environment, the Management of A1 Telekom Austria Group remains committed to its growth strategy and is concentrating on the following focus areas: exceling in the core business, expansion of products and services as well as value-accretive mergers and acquisitions. As in the previous year, results should gain support from ongoing efforts to continuously increase operating efficiency.

For the year 2018, the Management of A1 Telekom Austria Group expects to achieve modest growth in total revenues on a reported basis.

A1 Telekom Austria Group remains committed to the LTE rollout across its markets as well as the accelerated fibre deployment in Austria. Capital expenditures before spectrum investments and acquisitions are expected to remain stable in 2018.

Whilst the Management of A1 Telekom Austria Group acknowledges the limited predictability of the Belarusian Rouble, it expects the currency to devalue by approximately 10% versus the EUR (period average) in 2018.

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

In order to ensure its financial flexibility, A1 Telekom Austria Group remains committed to maintaining its Baa2/BBB ratings from Moody's and Standard & Poor's.

Vienna, 30 January 2018
The Management Board

Alejandro Plater, CEO & COO
A1 Telekom Austria Group

Siegfried Mayrhofer, CFO
A1 Telekom Austria Group

Consolidated financial statements 2017[1)]

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

TELEKOM AUSTRIA AG – Consolidated Statements of Comprehensive Income

in TEUR	Notes	2017	2016
Service revenues (incl. other operating income)		3,878,051	3,761,113
Equipment revenues		504,432	450,349
Total revenues (incl. other operating income)	(5)	**4,382,483**	**4,211,463**
Cost of service		-1,394,198	-1,346,550
Cost of equipment		-584,243	-521,873
Selling, general & administrative expenses		-994,910	-986,117
Other expenses		-11,784	-2,672
Total cost and expenses	(6)	**-2,985,135**	**-2,857,211**
Earnings before interest, tax, depreciation and amortisation - EBITDA		**1,397,347**	**1,354,251**
Depreciation and amortisation	(14)(15)	-953,435	-865,271
Impairment	(15)	0	-2,319
Operating income - EBIT		**443,912**	**486,661**
Interest income		14,329	13,841
Interest expense		-95,274	-142,514
Interest on employee benefits and restructuring and other financial items, net		-11,220	-9,739
Foreign currency exchange differences, net		-2,594	10,013
Equity interest in net income of associated companies		-678	1,427
Financial result	(7)	**-95,437**	**-126,972**
Earnings before income tax - EBT		**348,474**	**359,690**
Income tax	(28)	-3,006	53,515
Net result		**345,468**	**413,205**
Attributable to:			
Equity holders of the parent		319,151	387,518
Non-controlling interests	(33)	1,005	374
Hybrid capital owners	(27)	25,313	25,313
Basic and diluted earnings per share attributable to equity holders of the parent, in Euro	(8)	**0.48**	**0.58**
Other comprehensive income items:			
Items that may be reclassified to profit or loss:			
Effect of translation of foreign entities	(4)(27)	-32,450	-7,678
Realised result on hedging activities, net of tax	(32)	4,380	4,380
Unrealised result on securities available-for-sale, net of tax	(9)(18)	198	106
Realised result on securities available-for-sale, net of tax	(7)	-33	59
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations, net of tax		8,181	-6,564
Total other comprehensive income (loss)		**-19,724**	**-9,697**
Total comprehensive income (loss)		**325,744**	**403,508**
Attributable to:			
Equity holders of the parent		299,424	377,821
Non-controlling interests	(33)	1,008	374
Hybrid capital owners	(27)	25,313	25,313

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

TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

	Notes	31 December 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents	(9)	202,390	457,460
Short-term investments	(18)	0	6,733
Accounts receivable: Subscribers, distributors and other, net	(10)	679,292	636,474
Receivables due from related parties	(11)	944	925
Inventories, net	(12)	87,442	82,463
Income tax receivable	(28)	2,807	12,818
Other current assets, net	(13)	253,376	241,994
Total current assets		**1,226,251**	**1,438,866**
Non-current assets			
Property, plant and equipment, net	(14)	2,627,919	2,550,754
Intangibles, net	(15)	2,075,878	2,321,394
Goodwill	(16)	1,276,342	1,241,823
Investments in associated companies	(17)	33,971	40,820
Long-term investments	(18)	12,891	8,383
Deferred income tax assets	(28)	327,077	286,431
Other non-current assets, net	(19)	57,947	54,723
Total non-current assets		**6,412,026**	**6,504,328**
TOTAL ASSETS		**7,638,277**	**7,943,194**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term debt and current portion of long-term debt	(20)	-566	-500,065
Accounts payable	(21)	-784,243	-852,619
Accrued liabilities and current provisions	(22)	-265,855	-299,022
Income tax payable	(28)	-35,935	-26,474
Payables due to related parties	(11)	-554	-6,418
Deferred revenues	(23)	-156,570	-163,218
Total current liabilities		**-1,243,722**	**-1,847,816**
Non-current liabilities			
Long-term debt	(24)	-2,533,607	-2,303,496
Deferred income tax liabilities	(28)	-41,619	-63,073
Deferred revenues and other non-current liabilities	(25)	-38,270	-20,000
Asset retirement obligation and restructuring	(22)	-646,852	-731,833
Employee benefits	(26)	-196,842	-206,251
Total non-current liabilities		**-3,457,190**	**-3,324,652**
Stockholders' equity			
Capital stock		-1,449,275	-1,449,275
Treasury shares		7,803	7,803
Additional paid-in capital		-1,100,148	-1,100,148
Hybrid capital		-591,186	-591,186
Retained earnings		-491,948	-306,338
Other comprehensive income (loss) items		690,137	670,409
Equity attributable to equity holders of the parent	(27)	**-2,934,617**	**-2,768,734**
Non-controlling interests		-2,748	-1,993
Total stockholders' equity		**-2,937,365**	**-2,770,727**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**-7,638,277**	**-7,943,194**

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

TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows

	Notes	2017	2016
Earnings before income tax - EBT		348,474	359,690
Items not requiring the use of cash and other reconciliation:			
Depreciation	(14)	532,354	546,732
Amortisation of intangible assets	(15)	421,082	318,538
Impairment of intangibles	(15)	0	2,319
Equity interest in net income of associated companies	(17)	678	-1,427
Result on sale of investments	(7)	-76	-3,851
Result on sale of property, plant and equipment	(5)(6)	5,684	-2,743
Net period cost of labour obligations and restructuring	(7)(22)(26)	-5,511	23,050
Foreign currency exchange differences, net	(7)	2,594	-10,013
Interest income	(7)	-14,329	-13,841
Interest expense	(7)	99,100	144,679
Other adjustments		-10,807	-1,927
Changes in financial positions:			
Accounts receivable: Subscribers, distributors and other, net	(10)	-40,049	-12,201
Prepaid expenses	(13)	6,696	5,536
Due from related parties	(11)	-19	-46
Inventories	(12)	-5,919	-3,640
Other assets	(13)(19)	-15,772	-16,111
Employee benefits and restructuring	(22)(26)	-108,450	-111,476
Accounts payable and accrued liabilities	(21)(22)	-264	2,900
Due to related parties	(11)	-5,864	4,590
Deferred revenues	(23)(25)	-6,629	-517
Interest received	(7)	14,329	13,841
Income taxes paid	(28)	-42,491	-48,550
Net cash flow from operating activities		1,174,810	1,195,531
Capital expenditures paid	(31)	-705,422	-816,463
Dividends received from associates	(17)	-0	1,264
Proceeds from sale of plant, property and equipment	(14)	15,141	18,944
Purchase of investments	(18)	-45	-7,285
Proceeds from sale of investment	(18)	2,620	6,017
Acquisition of businesses, net of cash acquired	(33)	-86,731	-26,024
Sale of shares of associated companies	(17)(33)	4,052	0
Net cash flow from investing activities		-770,386	-823,546
Long-term debt obtained	(24)(31)	248,762	494,248
Repayments of long-term debt	(24)(31)	-522,000	-1,083,305
Interest paid	(7)	-99,841	-166,047
Change in short-term debt	(20)(31)	1,857	-1,944
Dividends paid	(27)	-166,885	-67,242
Acquisition of non-controlling interest	(33)	-1,235	0
Deferred consideration paid for business combinations	(33)	-120,000	0
Net cash flow from financing activities		-659,342	-824,290
Adjustment to cash flows due to exchange rate fluctuations, net	(4)	-152	589
Net change in cash and cash equivalents		-255,070	-451,716
Cash and cash equivalents beginning of period	(9)	457,460	909,176
Cash and cash equivalents end of period	(9)	202,390	457,460

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

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

in TEUR	Common stock Par value	Treasury shares at cost	Additional paid-in capital	Hybrid capital	Retained earnings
At 1 January 2016	1,449,275	-7,803	1,100,148	591,186	-47,978
Net result	0	0	0	0	412,830
Other comprehensive income (loss)	0	0	0	0	0
Total comprehensive income	0	0	0	0	412,830
Distribution of dividends	0	0	0	0	-58,515
At 31 December 2016	1,449,275	-7,803	1,100,148	591,186	306,338
Net result	0	0	0	0	344,464
Other comprehensive income (loss)	0	0	0	0	0
Total comprehensive income	0	0	0	0	344,464
Distribution of dividends	0	0	0	0	-158,131
Change in reporting entities	0	0	0	0	-722
At 31 December 2017	1,449,275	-7,803	1,100,148	591,186	491,948

See accompanying Notes to the Consolidated Financial Statements.
The use of automated calculation systems may give rise to rounding differences.
The tax benefit resulting from the accrued interest attributable to hybrid capital holders is included in the distribution of dividends (see Note (27)).
In the change in reporting entities, non-controlling interests relating to acquisitions as well as acquisitions effected within the business year are netted (see Note (33)).

	Remeasurement of defined benefit plans	Available-for-sale reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
	-30,772	-387	-32,848	-596,705	2,424,115	1,907	2,426,022
	0	0	0	0	412,830	374	413,205
	-6,564	166	4,380	-7,678	-9,697	0	-9,697
	-6,564	166	4,380	-7,678	403,133	374	403,508
	0	0	0	0	-58,515	-288	-58,803
	-37,336	-221	-28,468	-604,384	2,768,734	1,993	2,770,727
	0	0	0	0	344,464	1,005	345,468
	8,181	165	4,380	-32,454	-19,727	3	-19,724
	8,181	165	4,380	-32,454	324,736	1,008	325,744
	0	0	0	0	-158,131	-318	-158,449
	0	0	0	0	-722	65	-657
	-29,155	-56	-24,088	-636,837	2,934,617	2,748	2,937,365

TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements

(1) Segment Reporting

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

2016 (in TEUR)	Austria	Bulgaria	Croatia	Belarus
External revenues	2,547,271	407,630	390,333	320,964
Intersegmental revenues	24,290	4,413	8,017	8
Total revenues (incl. other operating income)	**2,571,560**	**412,044**	**398,350**	**320,972**
Segment expenses	-1,671,846	-286,468	-310,092	-169,443
EBITDA	**899,714**	**125,576**	**88,257**	**151,529**
Depreciation and amortisation	-492,984	-110,154	-78,842	-63,726
Impairment	-2,319	0	0	0
Operating income - EBIT	**404,411**	**15,422**	**9,416**	**87,803**
Interest income	2,058	2,813	3,608	1,548
Interest expense	-19,336	-947	-10,249	-3,121
Other financial result	-7,177	-298	2,991	2,561
Equity interest in net income of associated companies	1,763	0	0	0
Earnings before income tax - EBT	**381,719**	**16,990**	**5,766**	**88,791**
Income taxes	-47,654	-1,381	-1,486	-14,271
Net result	**334,065**	**15,609**	**4,280**	**74,520**
EBITDA margin	34.8%	30.5%	22.2%	47.2%
Capital expenditures - intangible	68,910	20,448	9,139	7,849
Capital expenditures - tangible	391,342	52,580	67,200	65,826
Total capital expenditures	**460,252**	**73,028**	**76,339**	**73,675**
Assets by segment	4,931,469	952,644	611,695	441,438
Property, plant and equipment	1,629,594	251,685	210,492	214,927
Goodwill	708,211	242,691	102,203	11,018
Brand names and patents	158,351	244,903	25,301	76,184
Licenses and rights of use	1,025,520	43,858	59,336	32,266
Other intangible assets	198,716	80,559	44,043	23,322
Investments in associated companies	4,329	0	0	0
Liabilities by segment	-2,489,071	-174,188	-416,041	-101,702

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

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

Slovenia	Serbia	Macedonia	Corporate & Other	Eliminations	consolidated
210,997	214,140	117,997	6,205	-4,075	4,211,463
3,121	7,008	1,431	912	-49,200	0
214,118	**221,148**	**119,428**	**7,118**	**-53,275**	**4,211,463**
-161,331	-182,322	-93,285	-32,917	50,493	-2,857,211
52,787	**38,826**	**26,143**	**-25,799**	**-2,782**	**1,354,251**
-32,704	-46,607	-55,672	-116	15,535	-865,271
0	0	0	0	0	-2,319
20,082	**-7,781**	**-29,529**	**-25,915**	**12,753**	**486,661**
2,344	512	293	37,899	-37,235	13,841
-1,157	-1,770	-1,586	-141,533	37,185	-142,514
-79	-1,184	-66	258,028	-254,502	274
0	0	0	-336	0	1,427
21,191	**-10,224**	**-30,888**	**128,143**	**-241,798**	**359,690**
-949	28	807	122,080	-3,660	53,515
20,242	**-10,196**	**-30,081**	**250,223**	**-245,458**	**413,205**
24.7%	17.6%	21.9%	n.a.	n.a.	32.2%
6,597	6,636	4,471	0	-387	123,663
20,160	19,231	30,934	4	-6,853	640,424
26,757	**25,867**	**35,405**	**4**	**-7,241**	**764,086**
421,962	360,648	214,335	7,710,269	-7,701,265	7,943,194
65,766	77,444	86,187	0	14,659	2,550,754
147,632	0	30,068	123,465	-123,465	1,241,823
1,971	2,980	7,311	0	0	517,001
62,416	149,337	33,961	0	0	1,406,694
20,756	14,851	15,373	107	-28	397,699
0	0	0	36,491	0	40,820
-64,716	-115,982	-92,249	-3,594,178	1,875,660	-5,172,468

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

The Management Board of A1 Telekom Austria Group, which regularly meets in Management Board meetings, acts as the chief operating decision maker. Members of the Management Board are the Group CEO, the Group COO and the Group CFO (see Note (35)). The Management Board focuses on revenue, EBITDA and capital expenditure (CAPEX).

The accounting policies of the segments are the same as those of A1 Telekom Austria Group (see Note (3)). The segments offer the following services and products (for brand names, see Note (15)):

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

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

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

Belarus: mobile telephone services, internet access, value-added services, wholesale services, sale of end-user terminal equipment, convergent products as well as IP television. From 2011 to 2014, hyperinflation accounting according to IAS 29 was applied to the subsidiary in Belarus. All non-monetary items of the statement of financial position as well as all items of stockholders' equity were restated for changes in the general price index from the date of initial recognition. These amounts were treated as the basis for the carrying amounts in 2015.

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

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

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

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

The column Corporate & Other comprises mainly holding companies, the group financing company as well as, starting 2017, A1 Digital. In the first quarter 2017, the Austrian subsidiary Telekom Austria Group M2m GmbH (M2M) was renamed A1 Digital International GmbH (A1 Digital). A1 Digital offers innovative digital products, cloud and IoT services as well as Machine-to-Machine (M2M) business. Business activities focus on the CEE region and Germany and will be further expanded internationally. In 2016, M2M was presented in the Segment Austria. Comparative figures were adjusted accordingly.

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

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

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

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

(2) The Company

Telekom Austria Aktiengesellschaft (Telekom Austria AG) is incorporated as a joint stock corporation under the laws of the Republic of Austria and is located in Austria, Lassallestrasse 9, 1020 Vienna. Telekom Austria AG and its subsidiaries (A1 Telekom Austria Group, previously Telekom Austria Group) provide the services and products listed in the Segment Reporting (see Note (1)) in Austria, Bulgaria, Croatia, Belarus, Slovenia and Macedonia. In September 2017, it was decided to use the brand A1 on a group-wide basis, see Note (15). As part of the consistent implementation of the brand strategy, Telekom Austria AG also operates under the group brand "A1 Telekom Austria Group".

The ultimate parent company of A1 Telekom Austria Group is América Móvil, S.A.B. de C.V. (América Móvil), which is located in Mexico. The Federal Republic of Austria, through Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB), is the second significant shareholder of A1 Telekom Austria Group. América Móvil's and ÖBIB's stakes in A1 Telekom Austria Group are disclosed in Note (27).

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

(3) Basis of Presentation

Functional currency

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

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

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

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

	Exchange rates at 31 December		Average exchange rates for the year	
	2017	2016	2017	2016
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.5137	7.5597	7.4635	7.5332
Czech Koruna (CZK)	25.5350	27.0210	26.3345	27.0345
Hungarian Forint (HUF)	310.3300	309.8300	309.2175	311.4161
Serbian Dinar (CSD)	118.4727	123.4723	121.4206	123.1089
Swiss Franc (CHF)	1.1702	1.0739	1.1112	1.0901
Rumanian Leu (RON)	4.6585	4.5390	4.5683	4.4903
Turkish Lira (TRY)	4.5464	3.7072	4.1186	3.3419
Macedonian Denar (MKD)	61.4950	61.4791	61.5748	61.5952
Belarusian Rouble (BYN)	2.3553	2.0450	2.1816	2.2029
US Dollar (USD)	1.1993	1.0541	1.1291	1.1070
Great Britain Pound (GBP)	0.8872	0.8562	0.8765	0.8195
Bosnian Convertible Mark (BAM)	1.9558	1.9558	1.9558	1.9558
Polish Zloty (PLN)	4.1770	4.4103	4.2577	4.3630

Accounting

A1 Telekom Austria Group prepared the Consolidated Financial Statements as of 31 December 2017 in compliance with the International Financial Reporting Standards (IFRS/IAS), issued by the International Accounting Standards Board (IASB), the interpretations of the IFRS Interpretations Committee (IFRIC) and the interpretation of the former Standards Interpretation Committee (SIC), effective as of 31 December 2017 and as endorsed by the European Union, as well as in accordance with the supplemental regulations of Section 245a of the Austrian Commercial Code (UGB).

Significant accounting policies

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

Changes in accounting policies

The following amendments to existing and new IFRS are effective as of 1 January 2017.

IAS 12	Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses
IAS 7	Statement of Cash Flows - Disclosure Initiative (Amendments to IAS 7)
All IFRSs	Annual Improvements 2014 – 2016

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

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

		Effective *	Effective**
IFRS 15	Revenue from Contracts with Customers	1 January 2018	1 January 2018
IFRS 9	Financial Instruments	1 January 2018	1 January 2018
IFRS 16	Leases	1 January 2019	1 January 2019
IFRS 15	Revenue from Contracts with Customers - Clarifications	1 January 2018	1 January 2018
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018	not endorsed
All IFRSs	Annual Improvements 2014 – 2016	1 January 2017/ 1 January 2018	not endorsed
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	not endorsed
IAS 40	Transfers of Investment Property (Amendments to IAS 40)	1 January 2018	not endorsed
IFRIC 23	Uncertainty over Tax Treatments	1 January 2019	not endorsed
IFRS 9	Amendments: Prepayment Features with Negative Compensation	1 January 2019	not endorsed
All IFRSs	Annual Improvements 2015 – 2017	1 January 2019	not endorsed
IAS 28	Amendments: Long-term Interests in Associates and Joint Ventures	1 January 2019	not endorsed

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

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

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

In 2016, Telekom Austria Group initiated a group-wide two-phase project for the implementation of IFRS 15. In phase I, employees were first trained and the main changes resulting from the initial application of IFRS 15 were analysed. In phase II, the analyses of contracts were continued with a special focus on the adaption of IT and system processes. A software allowing for IT-based mass data processing in the portfolios according to the accounting and disclosure requirements of IFRS 15 was implemented. The project for the introduction of IFRS 15 is substantially completed.

As of 1 January 2018, A1 Telekom Austria Group initially applies IFRS 15, electing the modified retrospective approach for the initial application in accordance with the transition guidance. The following table presents the expected quantitative effects of the initial application of IFRS 15 on the Consolidated Statements of Financial Position as of 1 January 2018 including detailed explanations (see columns a) to f)):

in TEUR at 1 January 2018	Total	a)	b)	c)	d)	e)	f)
Accounts receivable: Subscribers, distributors and other, net (10)	29,015	155,852	-17,550			-109,288	
Inventories (12)	14,959		14,959			0	
Contract assets	145,639					145,639	
Contract cost	42,316				42,316	0	
Prepaid expenses (13)	-35,562		-35,562			0	
Other assets (13)	-17,565					-17,565	
Instalment sales (13)(19)	-149,802	-149,802				0	
Contract liabilities	-166,412			-155,238		-11,174	
Accrued liabilities (22)	19,688			18,483		1,205	
Deferred revenues (23)(25)	171,184			136,755		34,428	
Deferred taxes	-11,108					0	-11,108
Stockholders' equity	-42,352	-6,050	38,152	0	-42,316	-43,246	11,108

For references relating to the Notes, see brackets.

Actual effects at 1 January 2018 may differ from expectations as the functionality of controls assuring that the amounts recognised, which are calculated by IT systems, are in conformity with IFRS 15 has not been completely examined yet and the requirements of revenue recognition according to IFRS 15 might change in the year of initial application.

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

   Starting 2018, this leads to an improvement in EBITDA, as instalment sales revenues that have been recognised previously at the present value with the interest component reported in the financial result shall now be recognised at their full amount in revenues. In addition, starting 2018, the total amount of instalment sales receivables is reported in accounts receivable: subscribers, distributors and other, net.

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

   According to IAS 18, subsidies to dealers have been recognised in prepaid expenses at the date of sale of mobile devices and expensed over the minimum contractual term. According to IFRS 15, these subsidies are treated as a reduction in revenue. Thus the prepaid expenses are derecognised and the effect expected at 1 January 2018 is recognised directly in equity.

   Starting 2018, the classification of dealers as agents leads to a later recognition of equipment revenues effected via dealers. At the same time, the fact that subsidies are recognised as a reduction in revenue in 2018 will lead to a shift from expenses to equipment revenues.

c) Provisions for customer rebates and deferred income are qualified as contract liabilities according to IFRS 15 and are reclassified accordingly.

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

   Starting 2018, this results in a later recognition of expense, yet no further significant impact on EBITDA is expected.

e) As described in Note (5), A1 Telekom Austria Group has previously allocated the majority of transaction prices of multiple-element arrangements to goods and services based on a determination of a separable value to the customer for each deliverable on a standalone basis. IFRS 15 requires the identification of separate performance obligations in multiple-elements arrangements based on certain criteria as well as the allocation of transaction prices to the performance obligations in proportion to the fair values of the underlying goods and services (stand-alone selling prices).

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

   Certain major business customers are granted, in addition to standardised multiple-element subsidies, further volume discounts on hardware and partly on services during the term of the service contract. According to IFRS 15, these are included in the multiple-element calculation as well.

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

   Starting 2018, the change in the allocation of transaction prices leads to a shift from service revenues to equipment revenues; the relating effect on EBITDA is not significant. For fixed-line telephone services, the application of the criteria of IFRS 15 for identifying performance obligations results in a later revenue recognition in 2018, which is not expected to be significant.

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

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

A1 Telekom Austria Group initially applies IFRS 9 at 1 January 2018, electing the modified retrospective approach for initial application in accordance with the transition guidance. The initial application of IFRS 9 in A1 Telekom Austria Group has effects on the classification and measurement of financial assets which are not significant overall. The business model of A1 Telekom Austria Group is 'hold to collect' and 'hold to collect and sell', respectively, and no derivative financial instruments are held. The contractual cash flows of non-derivative financial instruments mainly consist of principal and interest. A1 Telekom Austria Group elected to measure all equity instruments held as of 31 December 2017 at fair value. Financial investments carried at cost are now recognised at their fair value, which leads to an increase in equity of TEUR 493 at 1 January 2018.

The loss allowance of accounts receivable trade is measured in accordance with the simplified approach of IFRS 9 at an amount equal to lifetime expected losses. Due to the good credit quality of the customers, the current measurement of accounts receivable according to the method of incurred loss only differs insignificantly from the required method of lifetime-expected credit losses, thus the adoption of IFRS 9 does not have a significant impact on the Consolidated Financial Statements (see Note (32)). The application of lifetime-expected credit loss on contractual assets according to IFRS 15 leads to a reduction in equity of TEUR 2,275 at 1 January 2018 (this effect is included in column (e) of the table on IFRS 15).

As at 31 December 2017, A1 Telekom Austria Group only invests short-term with counterparties with investment grade rating, the requirement of IFRS 9 to recognise expected credit losses has only an insignificant impact on the Consolidated Financial Statements for all other financial assets (see Note (32)).

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

IFRS 16 introduces fundamental innovations that affect especially the lessees' recognition of leases in the financial statements. Generally, all leases have to be recognised based on the "right of use approach". For lessors, the classification of IAS 17 into operating lease and financing lease remains unchanged.

The application of IFRS 16 will affect net assets, financial position and results of operations of A1 Telekom Austria Group:

While, up to now, current payments have been recognised in rental and lease expense and future payment obligations for operating leases only have to be disclosed in the Notes, the majority of the resulting rights and obligations will have to be recognised as rights of use and lease obligations. At the initial application, A1 Telekom Austria Group expects a significant increase of the balance sheet total due to the increase in leasing obligations and a similarly high increase in rights of use.

In the Statement of Comprehensive Income there will be a shift from rental and lease expenses, which is reported in EBITDA, to depreciation and interest expense. For future minimum lease payments for non-cancellable operating lease contracts according to IAS 17, see Note (29).

The overall impact will be analysed in a group-wide project for the implementation of IFRS 16. Quantitative effects cannot be reliably estimated prior to the completion of the project. In the course of the project, a software allowing for IT-based mass data processing is introduced and workflow processes are adapted. A1 Telekom Austria Group plans to apply the modified retrospective approach for the initial application of IFRS 16.

(4) 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 A1 Telekom Austria Group's accounting policies. Additionally, at the reporting date, Management has made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty which bear a significant risk of necessitating a material adjustment to the carrying amounts of assets and liabilities within the next financial year. For all sensitivity analyses, the remaining parameters of the original calculation remain unchanged, thus no possible correlation effects are taken into account.

a) Employee benefit plans: The measurement of the various pension and other post-employment benefit plans as well as service awards is based on a method that uses various parameters, such as the expected discount rate, rate of compensation increase, rate of employee turnover and pension and salary increase. Changes in these parameters could result in higher or lower expenses (see Note (26)).

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

c) The estimated useful lives of property, plant and equipment and intangible assets subject to depreciation and amortisation represent the estimated periods during which the assets will be in use. With respect to changes in depreciation and amortisation resulting from changes in the useful lives, see Note (14).

d) Share-based compensation: Obligations under the long-term incentive programme are measured based on the fair value, which depends on expected target achievement and the expected share price at vesting date. Compensation expense and liabilities could differ from the estimated amount as of the reporting date if the underlying parameters were to change (see Note (30)).

e) Deferred taxes: In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all 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 will become deductible. If A1 Telekom Austria Group does not generate sufficient taxable income, deferred tax assets cannot be realised and therefore will not be recognised (see Note (28)).

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

g) Allowances for doubtful accounts receivables are based on the estimated probability of default of receivables: Deviation of actual from the estimated payment behaviour of customers may result in higher or lower expenses (see Note (32)).

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

(5) Revenues

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

in TEUR	2017	2016
Service revenues	2,138,992	2,146,301
Equipment revenues	467,229	419,519
Other operating income	102,755	86,629
Wireless revenues	**2,708,975**	**2,652,449**
Service revenues	1,636,304	1,528,183
Equipment revenues	37,203	30,830
Fixed-line and other revenues	**1,673,507**	**1,559,013**
Total revenues (incl. other operating income)	**4,382,483**	**4,211,463**

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

A1 Telekom Austria Group generates revenues from fixed-line services and mobile communication services to individuals, commercial and non-commercial organisations and other national and foreign carriers.

Fixed-line services include access fees, domestic and long distance services including internet, fixed-to-mobile calls, international traffic, voice value-added services, interconnection, call centre services, data and ICT solutions, television services and public payphone services.

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

Certain arrangements that A1 Telekom Austria Group enters into provide for the delivery of multiple deliverables by A1 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, A1 Telekom Austria Group determines that such arrangements are divided into separate 'units of accounting' based on a determination of a separable value to the customer for each deliverable on a standalone basis. The total arrangement consideration is allocated to the units of accounting based on the relative fair value and after taking into consideration any uncertainty of future revenues.

A1 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 A1 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 partly 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 A1 Telekom Austria Group independently from other services. Revenue on such installation work is recognised when the setup is completed.

A1 Telekom Austria Group has entered into a limited number of agreements with other telecommunication operators outside of Austria whereby A1 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. A1 Telekom Austria Group does not recognise revenue or liabilities to the counterparty under such agreements apart from the trade revenue arising from subscriber transactions under normal tariff plans if the services transacted under such agreements are equivalent. The benefits and costs of such swap agreements are reflected in A1 Telekom

Austria Group's results of operations in the periods in which they are realised through reduced interconnection revenues and expenses, respectively.

A1 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 to the other components of the contract.

Other operating income includes mainly bad debt recovery, collection fees, penalties, revenues from sale of electricity and rental income.

In 2017 and 2016, other operating income includes research and educational tax credits amounting to TEUR 1,649 and TEUR 1,515, respectively.

(6) Cost and Expenses

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

in TEUR	2017	2016
Cost of equipment	584,243	521,873
Employee expenses, including benefits and taxes	793,851	787,065
Other operating expenses	1,607,041	1,548,273
Total costs and expenses	**2,985,135**	2,857,211

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

in TEUR	2017	2016
Own work capitalised	56,684	72,003

Own work capitalised represents the work performed for own purposes consisting mainly of employee costs and direct overheads capitalised primarily as part of property, plant and equipment. For the capitalisation of internally developed software, see Note (15).

The following table provides an allocation of the depreciation and amortisation to the items of the Statement of Comprehensive Income:

in TEUR	2017	2016
Cost of service	683,038	698,208
Cost of equipment	27,346	27,137
Selling, general & administrative expenses	243,052	139,925
Depreciation and amortisation	**953,436**	865,271

The increase in selling, general & administrative expenses is basically due to the amortisation of the local brands because of the roll-out of the brand A1 (see Note (15)).

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

in TEUR	2017	2016
Audit fees	1,298	854
Other reviews	184	284
Other services	142	0
Fees EY	**1,623**	1,138

The expenses in 2017 also include charges for 2016. In 2017 and 2016, other reviews relate to expenses incurred for the issuance of bonds (see Note (24)).

(7) Financial Result

in TEUR	2017	2016
Interest income on loans and receivables	13,811	13,044
Interest income on bank deposits	387	604
Interest income on available – for-sale financial assets	130	193
Interest income	**14,329**	13,841

in TEUR	2017	2016
Interest expense on financial liabilities	88,053	132,946
Interest capitalised	-5,833	-6,801
Interest expense on asset retirement obligations	4,720	4,702
Interest expense on deferred considerations	8,333	11,667
Interest expense	**95,274**	142,514

Interest is recognised using the effective interest method in accordance with IAS 39. The decrease in interest expense on financial liabilities is mainly due to the favourable refinancing for the redemption of a bond in January 2017 as well as the premature redemption of bank debt in 2016 (see Note (24)). Interest expense on deferred considerations relates primarily to one.Vip in Macedonia (see Note (33)).

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to prepare for its intended use. In 2017 and 2016, interest capitalised on internally developed software as well as on qualifying assets of property, plant and equipment (see Notes (14) and (15)) was based on an interest rate of 3.3% and 4.0%, respectively. In 2017 and 2016, the calculation of interest capitalised for licenses was based on an interest rate of 3.125%, which is derived from a specific financing facility.

in TEUR	2017	2016
Interest expense on employee benefit obligations	3,117	3,694
Interest expense on restructuring provision	4,824	8,293
Fees for unused credit lines	2,312	2,165
Dividends received	-471	-563
Gain on disposal of available-for-sale securities transferred from other comprehensive income	-44	-24
Loss on disposal of available-for-sale securities transferred from other comprehensive income		103
Result from other investments	-32	-3,931
Interest on taxes	1,514	0
Interest on employee benefits and restructuring and other financial items, net	**11,220**	9,739

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

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

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

In 2017, the result from other investments mainly relates to paybox Bank as, in June 2016, VISA Inc. acquired 100% of the shares in VISA Europe Limited from the member banks. Up to that date, paybox Bank, as a member of VISA Europe Limited, held one share which was exchanged for a consideration of TEUR 2,920 and 1,060 preferred shares in VISA Inc. amounting to TEUR 1,011.

in TEUR	2017	2016
Foreign exchange gains	10,359	20,986
Foreign exchange losses	-12,953	-10,973
Foreign exchange differences	**-2,594**	10,013

The foreign exchange losses 2017 mainly result from currency fluctuations of the Belarusian Rouble, which were to a large extent compensated by foreign exchange gains relating to the Serbian Dinar and the Croatian Kuna.

(8) Earnings per Share

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

	2017	2016
Net result attributable to owners of the parent in TEUR	319,151	387,518
Weighted average number of common shares outstanding	664,084,841	664,084,841
Basic and diluted earnings per share in Euro	**0.48**	0.58

For the number of shares see Note (27)

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

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred as of 31 December 2017 and 2016.

(9) Cash and Cash Equivalents

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

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

in TEUR, at 31 December	2017	2016
Accounts receivable, gross	898,399	848,722
Allowances	-219,106	-212,247
Accounts receivable, net	679,292	636,474

At 31 December 2016, accounts receivable: subscribers, distributors and other in an amount of TEUR 382 had a maturity of more than twelve months and were non-interest bearing.

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

(11) Related Party Transactions

The significant shareholders América Móvil and ÖBIB are considered related parties due to their stake in Telekom Austria AG allowing them to control and to exercise significant influence, respectively. Through América Móvil, A1 Telekom Austria Group is also related to its subsidiaries. Through ÖBIB, A1 Telekom Austria Group is related to the Republic of Austria and its subsidiaries, which are mainly ÖBB Group, ASFINAG Group and Post Group as well as Rundfunk und Telekom Regulierungs-GmbH (RTR), all of which qualify as related parties. A1 Telekom Austria Group has determined the kind and amount of the transactions concluded with these related parties. In 2017 and 2016, revenues generated with these related parties were approximately 3% of the total revenues in the segment Austria. In 2017 and 2016, services received from the related parties mentioned above mainly relate to postage fees, transportation, commissions, roaming and fees to RTR and amount to approximately 6% and 7%, respectively, of total cost and expenses (excluding employee expenses) in the segment Austria.

A1 Telekom Austria Group is obligated to provide communication services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis. The contract with the government concluded in July 2016 specifies the reimbursement of Euro 10.00 per customer per month for customers having a valid official notice. The total reimbursement recorded as revenue in the service period was TEUR 13,419 and TEUR 14,532 in 2017 and 2016, respectively.

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

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

in TEUR	2017	2016
Revenues (incl. other operating income)	1,591	1,817
Expenses	10,759	25,517

In 2017 and 2016, the expenses relate mainly to advertising and marketing services provided by media.at-Group, which was sold on 18 July 2017 (see Note (17)).

At 31 December 2017 and 2016, accounts receivable due from related parties and accounts payable due to related parties, as recognised in the Consolidated Statements of Financial Position, relate primarily to Telecom Liechtenstein and subsidiaries of América Móvil. At 31 December 2016, accounts payable due to related parties also relate to media.at-Group (see Note (17)).

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

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

in TEUR	2017	2016
Short-term employee benefits	7,393	7,544
Pensions	538	487
Other long-term benefits	229	1,887
Termination benefits	685	142
Share-based payments	1,752	630
Compensation of key management	**10,599**	**12,705**
Expenses for pensions and severance for other employees	21,142	21,116
Expenses for pensions and severance for Management Board	235	233

For members of the Management Board of Telekom Austria AG, see Note (35).

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

(12) Inventories

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

As of 31 December 2017 and 2016, the carrying amount of merchandise measured at fair value less cost to sell amounted to TEUR 47,482 and TEUR 43,002, respectively. The net amount relating to the valuation of merchandise that is recognised in cost of equipment is the following:

in TEUR	2017	2016
Write-down/ reversals of write-down of inventories	-973	7,777

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

(13) Other Current Assets

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

in TEUR, at 31 December	2017	2016
Advances to employees	16,920	17,521
Rent	11,106	9,498
Marketing expenses	38,421	38,005
Concession fees	22,559	21,596
Other	14,777	23,804
Prepaid expenses	**103,782**	**110,424**

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

in TEUR, at 31 December	2017	2016
Instalment sales	116,785	93,666
Finance lease receivables	0	161
Other financial assets	10,077	11,224
Financial assets	126,862	105,051
Fiscal authorities	4,932	10,113
Customer loyalty programme deferrals	17,565	16,155
Advance payments	1,617	4,391
Government grants	8,264	0
Other non-financial assets	8,136	10,479
Non-financial assets	40,512	41,138
Other current assets, gross	167,374	146,189
Less allowance for financial assets	-15,231	-11,982
Less allowance for non-financial assets	-2,550	-2,637
Other current assets	149,594	131,569

Instalment sales receivables relate to mobile handsets and tablets and equal the present value of the instalments less already amortised amounts. As of 31 December 2017 and 2016, respectively, the instalment sales receivables relate to all segments.

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

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

(14) Property, Plant and Equipment

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 (see Note (22)). Value-added tax (VAT), which is charged by suppliers and refunded by the tax authorities, is not included in cost.

Maintenance and repairs are expensed as incurred, while replacements and improvements are 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.

in TEUR	Telephonic plant in operation and equipment	Land and buildings & leasehold improvements	Other assets	Construction in progress and advances	Inventories for operation of the plant	Total
Cost						
At 1 January 2016	9,795,792	869,576	439,124	199,746	96,417	11,400,654
Additions	275,644	11,016	21,309	253,952	139,081	701,002
Disposals	-373,542	-7,808	-27,934	-267	-9,466	-419,017
Transfers	253,670	2,825	40,189	-220,737	-85,315	-9,368
Translation adjustment	1,600	352	1,471	-598	90	2,915
Changes in reporting entities	18,091	176	1,474	166	253	20,160
At 31 December 2016	9,971,254	876,137	475,633	232,261	141,061	11,696,346
Additions	245,001	10,541	29,989	229,625	97,515	612,670
Disposals	-305,532	-6,873	-61,729	-1,037	-7,764	-382,935
Transfers	319,405	4,745	21,521	-213,683	-104,153	27,835
Translation adjustment	-29,298	-3,455	-8,266	-3,991	273	-44,736
Changes in reporting entities	81,965	1,296	3,779	1,624	167	88,831
At 31 December 2017	10,282,795	882,392	460,926	244,799	127,099	11,998,011
Accumulated depreciation and impairment						
At 1 January 2016	-7,984,453	-618,009	-357,029	0	-31,729	-8,991,220
Additions	-464,438	-29,163	-39,258	0	-13,873	-546,732
Disposals	362,508	6,002	27,355	0	5,050	400,915
Transfers	282	20	-46	0	0	257
Translation adjustment	-1,222	-299	413	0	57	-1,051
Changes in reporting entities	-6,651	-76	-1,034	0	0	-7,761
At 31 December 2016	-8,093,974	-641,526	-369,598	0	-40,495	-9,145,592
Additions	-452,321	-25,977	-43,006	0	-11,051	-532,354
Disposals	295,367	4,828	60,606	0	2,929	363,730
Transfers	-22,026	-129	-251	0	0	-22,405
Translation adjustment	16,615	521	3,537	0	-92	20,580
Changes in reporting entities	-51,485	-54	-2,511	0	0	-54,051
At 31 December 2017	-8,307,823	-662,338	-351,223	0	-48,708	-9,370,092
Carrying amount at						
31 December 2017	1,974,972	220,054	109,703	244,799	78,391	2,627,919
31 December 2016	1,877,281	234,611	106,035	232,261	100,566	2,550,754

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

Depreciation on property, plant and equipment is calculated using the straight-line method. If an event or circumstance indicates that the assets may be impaired, they are tested for impairment (see impairment test in Note (15)). Property, plant and equipment under finance lease and leasehold improvements are amortised using the straight-line method over the lease term or the estimated useful life of the asset, whichever is shorter. The useful lives are:

	Years
Transmission equipment	3-20
Cables and wires	2-20
Communications equipment	2-20
Buildings and leasehold improvements	3-50
Furniture, fixtures and other	2-25
Other assets	2-17

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

As of 31 December 2017 and 2016, the carrying amount of land amounted to TEUR 59,347 and TEUR 57,534, respectively.

In 2016, the estimated useful lives of certain communications networks and other equipment of the merged company "ONE" in the segment Macedonia were reduced due to technological harmonisation, which led to an increase in depreciation of TEUR 15,655.

Government grants for assets totalling TEUR 10,727 and TEUR 4,226 were deducted from acquisition cost in 2017 and 2016, respectively.

At 31 December 2017 and 2016, purchase commitments for property, plant and equipment amount to TEUR 153,005 and TEUR 150,233, respectively.

Sensitivity analysis

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

in TEUR	2017	2016
Decrease due to extension by one year	243,924	187,017
Increase due to reduction by one year	356,251	220,507

Due to the amortisation of local brands (see Note (15)), the reduction of useful life by one year results in a significant increase, as brands may be completely amortised within a year.

(15) Intangibles

in TEUR	Licenses and rights of use	Brand names and patents	Software	Customer base	Advances/ construction in progress	Total
Cost						
At 1 January 2016	**2,471,602**	**653,852**	**1,228,799**	**1,127,032**	**47,282**	**5,528,567**
Additions	21,130	3,160	38,240	0	61,133	123,663
Disposals	-346,172	-518	-40,991	0	-238	-387,919
Transfers	3,919	-633	52,394	0	-46,313	9,368
Translation adjustment	-2,736	-954	448	-1,110	-320	-4,672
Changes in reporting entities	349	3,243	1,245	5,433	89	10,360
At 31 December 2016	**2,148,093**	**658,150**	**1,280,135**	**1,131,356**	**61,633**	**5,279,367**
Additions	26,216	2,234	44,549	0	84,573	157,572
Disposals	-1,943	-51,487	-50,614	-41,298	-63	-145,404
Transfers	-21,467	2,994	64,243	1,906	-75,510	-27,835
Translation adjustment	1,641	-8,606	-6,552	-34,760	-665	-48,943
Changes in reporting entities	5,768	3,907	7,232	23,830	0	40,737
At 31 December 2017	**2,158,307**	**607,192**	**1,338,995**	**1,081,033**	**69,968**	**5,255,494**

in TEUR	Licenses and rights of use	Brand names and patents	Software	Customer base	Advances/ construction in progress	Total
Accumulated amortisation and impairment						
At 1 January 2016	**-956,047**	**-130,791**	**-928,254**	**-1,005,619**	**0**	**-3,020,712**
Additions	-127,968	-11,591	-137,656	-41,324	0	-318,538
Impairment	0	-496	-1,685	-138	0	-2,319
Disposals	342,851	0	40,777	0	0	383,628
Transfers	-1,110	1,037	-184	0	0	-257
Translation adjustment	1,004	693	-455	-243	0	1,000
Changes in reporting entities	-130	-1	-388	-258	0	-776
At 31 December 2016	**-741,399**	**-141,148**	**-1,027,844**	**-1,047,581**	**0**	**-2,957,973**
Additions	-127,404	-127,442	-142,452	-23,784	0	-421,082
Impairment	0	0	0	0	0	0
Disposals	1,780	51,468	50,481	41,298	0	145,027
Transfers	21,960	756	-310	0	0	22,405
Translation adjustment	798	-153	5,358	34,148	0	40,151
Changes in reporting entities	-3,052	0	-5,094	0	0	-8,145
At 31 December 2017	-847,317	-216,521	-1,119,860	-995,918	0	-3,179,616
Carrying amount at						
31 December 2017	1,310,990	390,671	219,135	85,114	69,968	2,075,878
31 December 2016	1,406,694	517,001	252,291	83,775	61,633	2,321,394

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

Intangible assets with finite useful lives are recognised at acquisition cost and amortised over their respective useful lives. If an event or circumstance indicates that the intangible assets may be impaired, they are tested for impairment (see impairment test). Intangible assets are amortised using the straight-line method over their estimated useful lives:

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

* See also terms in the following table.

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

Licenses are recorded at cost and amortised on a straight-line basis. The following table sets forth the terms and total cost incurred for each of the major license agreements:

	GSM licenses	UMTS licenses	LTE licenses
License cost	1,028,154	316,860	640,395
End of the term	2023-2031	2019-2031	2024-2033

A1 Telekom Austria Group holds mobile telecommunication licenses provided by regulatory authorities in Austria, Croatia, Slovenia, Serbia, Bulgaria, Belarus and Macedonia.

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

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

in TEUR	
2018	451,325
2019	230,469
2020	179,497
2021	150,923
2022	127,426
Thereafter	775,980

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

in TEUR	Austria	Bulgaria	Croatia	Belarus	Slovenia	Macedonia	Corporate & Other	Total
At 1 January 2016	158,847	243,704	25,855	73,665	4,856	6,530	0	513,457
Impairment	–496	0	0	0	0	0	0	–496
Amortisation	0	0	–824	–237	–3,465	–1,264	0	–5,790
Translation adjustment	0	0	271	–487	0	10	0	–206
Changes in reporting entities	0	0	0	3,242	0	0	0	3,242
At 31 December 2016	158,351	243,704	25,301	76,184	1,391	5,276	0	510,207
Impairment	0	0	0	0	0	0	0	0
Amortisation	0	–99,697	–7,473	–12,983	–1,391	–1,664	0	–123,207
Translation adjustment	0	0	198	–9,089	0	–4	–35	–8,929
Changes in reporting entities	0	0	1,404	561	0	0	1,942	3,907
At 31 December 2017	158,351	144,007	19,431	54,673	0	3,609	1,907	381,978

Regarding the changes in business combinations, see Note (33).

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

If Management intends to discontinue the use of a brand name in the foreseeable future, its carrying amount is amortised over the remaining estimated useful life. In September 2017, Management decided to harmonise the brands in A1 Telekom Austria Group. Depending on the respective markets, the Austrian brand "A1" will be rolled out to all segments until the third quarter 2019 at the latest, and the local brands are amortised accordingly in the relevant segments (see amortisation in the table changes in the carrying values of brand names by segment).

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

in TEUR, at 31 December	2017	2016
A1 Telekom Austria	144,910	144,910
Cable Runner	491	491
YESSS!	12,950	12,950
Total Austria	**158,351**	**158,351**
Mobiltel	144,007	243,704
Total Bulgaria	**144,007**	**243,704**
Vipnet	18,576	25,301
Metronet	855	0
Total Croatia	**19,431**	**25,301**
velcom	54,673	73,125
Atlant Telecom	0	3,059
Total Belarus	**54,673**	**76,184**
Si.mobil	0	1,049
AMIS Slovenia	0	341
Total Slovenia	**0**	**1,391**
one	3,609	5,276
Total Macedonia	**3,609**	**5,276**
Exoscale	**1,907**	**0**
Total Corporate & Other	**1,907**	**0**
Total Brand Names	**381,978**	**510,207**
Thereof with indefinite useful live	160,258	500,481
Thereof with definite useful live	221,720	9,726

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

The following table provides details about self-developed software reported in line item software.

in TEUR, at 31 December	2017	2016
Total cost	120,965	123,957
Accumulated amortisation	-97,531	-100,774
Carrying amount	23,435	23,183
Additions	1,922	1,546

In 2017 and 2016, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

As of 31 December 2017 and 2016, purchase commitments for intangible assets amounted to TEUR 25,852 and TEUR 31,422, respectively.

Impairment test

In the event that facts and circumstances indicate that A1 Telekom Austria Group's property, plant and equipment or intangible assets with finite useful lives may be impaired, an evaluation of recoverability is performed, regardless of whether they are to be held and used or to be disposed of. In accordance with IAS 36, an impairment loss is recognised when an asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. Fair value is the amount obtainable from the sale of the asset in an arm's length transaction. Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Impairment charges are recorded separately in the Consolidated Statements of Comprehensive Income. If there is any indication that the impairment recognised in prior periods no longer exists, A1 Telekom Austria Group considers the need to reverse all or a portion of the impairment charge.

Brand names classified as intangible assets with indefinite useful lives are tested for impairment in the fourth quarter of each year in accordance with IAS 36, as described in Note (16). 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.

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

(16) Goodwill

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

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

in TEUR	Austria	Bulgaria	Croatia	Belarus	Slovenia	Macedonia	A1 Digital	Total
At 1 January 2016	**708,211**	**242,691**	**100,745**	**0**	**147,632**	**30,433**	**0**	**1,229,712**
Translation adjustment	0	0	1,048	250	0	56	0	1,354
Acquisitions	0	0	410	10,768	0	-421	0	10,757
At 31 December 2016	**708,211**	**242,691**	**102,203**	**11,018**	**147,632**	**30,068**	**0**	**1,241,823**
Translation adjustment	0	0	515	-1,533	0	-8	-138	-1,164
Acquisitions	0	0	23,322	4,662	0	0	7,698	35,682
At 31 December 2017	**708,211**	**242,691**	**126,041**	**14,146**	**147,632**	**30,060**	**7,560**	**1,276,342**

For details of acquisitions, see Note (33).

The acquisition cost of goodwill was as follows:

in TEUR, at 31 December	2017	2016
Segment Austria	712,231	712,231
Segment Bulgaria	642,691	642,691
Segment Croatia	131,078	107,210
Segment Belarus	459,386	523,817
Segment Slovenia	175,556	175,556
Segment Macedonia	35,171	35,180
A1 Digital	7,560	0
Total cost	2,163,673	2,196,684

Accumulated impairment charges of goodwill amount to:

in TEUR, at 31 December	2017	2016
Segment Austria	4,020	4,020
Segment Bulgaria	400,000	400,000
Segment Croatia	5,037	5,007
Segment Belarus	445,240	512,799
Segment Slovenia	27,924	27,924
Segment Macedonia	5,111	5,112
Accumulated impairment	887,332	954,861

Impairment test

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.

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

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

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

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

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

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

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

	Growth rates perpetual annuity		Pre-tax interest rates*	
	2017	2016	2017	2016
Segment Austria	1.1%	0.6%	6.8%	7.0%
Segment Bulgaria	1.6%	0.8%	7.4%	7.8%
Segment Croatia	2.9%	2.2%	9.2%	9.6%
Segment Belarus	9.7%	10.8%	20.0%	24.3%
Segment Slovenia	1.2%	0.6%	8.2%	8.4%
Segment Macedonia	0.3%	-0.3%	9.5%	10.1%
A1 Digital	1.1%	n.a.	6.5%	n.a.

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

At 31 December 2017 and 2016, the value in use in the segment Austria amounts to TEUR 6,743,288 and TEUR 4,300,514, respectively, in the segment Bulgaria to TEUR 1,182,835 and TEUR 858,913, respectively, in the segment Croatia to TEUR 389,824 and TEUR 273,314, respectively, in the segment Belarus to TEUR 1,110,626 and TEUR 662,083, respectively, in the segment Slovenia to TEUR 411,851 and TEUR 418,159, respectively, in the segment Macedonia to TEUR 202,172 and TEUR 192,491, respectively, and in the cash generating unit A1 Digital the value in use amounts to TEUR 467,318.

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

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

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 2017 and 2016:

Pre-tax interest rates*	2017	2016
Segment Austria	13.3%	10.9%
Segment Bulgaria	11.0%	8.4%
Segment Croatia	11.1%	10.7%
Segment Belarus	45.6%	43.7%
Segment Slovenia	9.2%	9.7%
Segment Macedonia	13.8%	13.6%
A1 Digital	26.5%	n.a.

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

With respect to the substantial markets, the following table sets forth the changes in revenues, cost drivers and capital expenditure which would lead to the carrying amounts equalling the value in use at 31 December 2017 and 2016:

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

2016	Revenues	Cost	Capital expenditures
Segment Austria	-5.5%	9.4%	25.3%
Segment Bulgaria	-1.6%	2.7%	8.0%
Segment Croatia	-1.7%	2.6%	8.1%
Segment Belarus	-14.0%	33.9%	89.3%
Segment Slovenia	-2.8%	4.2%	18.7%
Segment Macedonia	-5.7%	9.5%	30.1%

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

(17) Investments in Associates

Investments in associates accounted for using the equity method as of 31 December 2017 and 2016 as well as their allocation to the segments are set forth in Note (33).

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

in TEUR	2017	2016
At 1 January	**40,820**	40,428
Dividends received	0	-1,264
Recognised income	-529	1,427
Changes in reporting entities	-4,200	0
Translation adjustment	-2,120	230
At 31 December	**33,971**	40,820

In 2016, the investment in media.at is included in the investments in associates with the proportionate total consolidated equity of the media.at-Group.
Dividends received are reported in the net cash flow from investing activities.

On 18 July 2017, A1 Telekom Austria Group sold its 25.3% stake in media.at for a consideration paid in cash of TEUR 4,052 and recognised a loss of TEUR 148 in line item equity interest in net income of associated companies.

The following table provides the net income of the associated companies representing the total amounts and not A1 Telekom Austria Group's proportionate share:

in TEUR	2017	2016
Net income	690	7,135

In 2016, the financial information of media.at-Group is based on its reporting period 1 July to 30 June.
Net income equals total comprehensive income.

The following table provides the difference between the investment in associates and their proportional equity as well as their allocation to the segments.

in TEUR, at 31 December	2017	2016
Proportional equity	14,661	16,974
Goodwill	10,882	14,043
Purchase price allocation	8,428	9,804
Investments in associates	**33,971**	**40,820**
Segment Austria	0	4,329
Corporate & Other	33,971	36,491

(18) Investments

in TEUR, at 31 December	2017	2016
Marketable securities short-term - available-for-sale	0	6,733
Short-term investments	**0**	**6,733**

in TEUR, at 31 December	2017	2016
Other investments carried at cost	1,546	1,468
Other long-term investments	580	923
Marketable securities - available-for-sale, long-term	10,765	5,992
Long-term investments	**12,891**	**8,383**

Marketable securities available-for-sale serve partially as coverage for the provision for pensions in Austria and as a cash reserve for paybox Bank AG according to the requirements of the Capital Requirements Regulation, the 'Internal Liquidity Adequacy Assessment Process' and contractual obligations to the licensor VISA. In accordance with IAS 39, A1 Telekom Austria Group carries these securities at fair value. Unrealised gains and losses resulting from the change in their fair value are recorded in other comprehensive income (OCI), net of income tax.

Other investments carried at cost include investments in unquoted equity instruments (investments) which are not carried at fair value because their fair value cannot be reliably determined. These relate mainly to CEESEG AG. As the stake in CEESEG AG can only be disposed of at the initial indexed purchase price and due to the absence of an active market, this equity instrument is carried at acquisition cost.

As of 31 December 2017 and 2016, respectively, other long-term investments comprise fixed deposits.

(19) Other Non-current Assets

in TEUR, at 31 December	2017	2016
Finance lease receivables	0	2,419
Instalment sales	49,606	43,612
Other financial assets	1,555	1,588
Financial assets	**51,161**	**47,619**
Other non-financial assets	**8,557**	**8,528**
Other non-current assets, gross	**59,718**	**56,147**
Less allowance for financial assets	-1,771	-1,424
Other non-current assets	**57,947**	**54,723**

For information on instalment sales receivables, see Note (13). Until November 2017, instalment sales contracts in Belarus were only concluded with terms of less than twelve months. As of 31 December 2016, the finance lease receivables contained a contract relating to indefeasible rights of use of dark fibre that was prematurely terminated in 2017.

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

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

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

in TEUR, at 31 December	2017	2016
Current portion of long-term debt	0	499,953
Short-term debt	17	35
Current portion of lease obligations	549	77
Short-term debt	**566**	500,065

For further information regarding the current portion of long-term debt and lease obligations, see Notes (24) and (29). Further funding sources are listed in Note (32).

(21) Accounts Payable

Accounts payable consist of the following items:

in TEUR, at 31 December	2017	2016
Fiscal authorities	63,097	56,797
Social security	10,483	10,474
Employees	35,546	16,311
Long-term incentive program	2,823	1,327
Employees - transferred to government	1,249	4,084
Prepayments from customers	11,903	13,252
Government	142	130
Other non-financial liabilities	4,153	4,225
Current non-financial liabilities	**129,395**	106,600
Suppliers	592,032	553,747
Deferred consideration from business combinations	19	111,667
Accrued interest	29,990	49,624
Cash deposits received	9,921	8,710
Other current financial liabilities	22,886	22,271
Current financial liabilities	**654,848**	746,019
Accounts payable	**784,243**	852,619

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 and jubilee payments. Additionally, as of 2017 liabilities due to employees comprise unused vacation days which were reported in provision for employees until 2016 (see Note (22)).

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

The liabilities regarding employees – transferred to government include compensation for reductions in salaries, lump sum payments for any shortfall in pension payments as well as one-off payments to civil servants of A1 Telekom Austria Group (see Note (22)).

At 31 December 2017 and 2016, accounts payable amounting to TEUR 20,788 and TEUR 8,277, respectively, have a maturity of more than twelve months.

For purchase price liabilities from business combinations, see Note (33). Accrued interest includes interest on bonds (see Note (24)). In 2017 and 2016, other current financial liabilities include mainly customer deposits.

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

in TEUR	Restructuring	Employees	Customer allowances	Asset retirement obligation	Legal	Other	Total
At 31 December 2016	613,541	122,971	20,190	226,633	13,197	34,322	1,030,854
Additions	9,146	37,943	16,992	8,240	2,390	10,959	85,669
Changes in estimate	4,807	0	0	17,702	0	0	22,510
Used	-97,390	-59,052	-16,355	-2,557	-645	-18,218	-194,217
Released	-33,535	-4,773	-2,344	-6,181	-1,726	-3,601	-52,159
Accretion expense	4,824	0	0	4,720	0	0	9,545
Reclassifications*	-436	8,130	0	0	0	-1,429	6,264
Translation adjustment	0	-126	0	-864	8	-320	-1,303
Changes in reporting entities	0	116	0	0	77	5,351	5,544
At 31 December 2017	500,957	105,208	18,483	247,692	13,301	27,065	912,706
Thereof long-term							
31 December 2017	399,159	0	0	247,692	0	0	646,852
31 December 2016	505,200	0	0	226,633	0	0	731,833

* Reclassification to current liabilities and short-term portion of employee benefit obligations.

In establishing provisions, Management assesses if there is a present obligation to a third party, the payment is probable and the amount can be estimated reliably. A1 Telekom Austria Group records provisions based on the best estimate of the expenditure required to settle the present obligation.

A1 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 A1 Telekom Austria Group does not expect an outflow of funds in the following financial year, provisions and accrued liabilities are reported as short-term as the timing of such outflows cannot be controlled by A1 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 A1 Telekom Austria Group but who cannot be laid off due to their status as civil servants. These employment contracts are onerous contracts under IAS 37, as the unavoidable cost related to the contractual obligation exceeds the future economic benefit. The restructuring programme also includes social plans for employees whose employments will be terminated in a socially responsible way. In 2009 and every year from 2011 to 2017, new social plans were initiated which provide for early retirement, special severance packages and golden handshake options. Due to their nature as termination benefits, these social plans are accounted for according to IAS 19. At 31 December 2017 and 2016, the corresponding liability amounts to TEUR 482,858 and TEUR 589,468 and includes 1,879 and 2,021 employees, respectively.

Provisions for restructuring are recorded at their net present value. In 2017 and 2016, the rates of compensation increase used to measure the provisions are the same as those used for employee benefit obligations (see Note (26)). The following table provides the discount rates used, which are determined based on the Mercer Yield Curve Approach taking into account the respective maturities, as well as the fluctuation rate, which is only applied to provisions for onerous contracts according to IAS 37.

	2017	2016
Employees permanently leaving the service process	1.25%	1.25%
Social plans	0.75%	0.75%
Civil servants transferred to the government	1.25%	1.25%
Employee turnover rate	27.4%	34.3%

Changes in the provision are recognised in employee expense and reported in the line item selling, general and administrative expenses, while the accretion expense is reported in the financial result in the line item interest expense on restructuring provision (see Note (7)). A part of the provision was released since a number of employees returned to regular operations, were transferred to the government or opted for schemes such as golden handshakes, special severance packages and early retirement to an extent not foreseeable at the time of the measurement of the provision in the previous year. The change in estimates is due to adjustments of the rate of compensation for civil servants released from work (see Note (26)) as well as an adjustment of the employee turnover rate. The employee turnover rate takes into consideration employees leaving in the future as well as temporary re-employment within A1 Telekom Austria Group and is only applicable to the provision for employees permanently leaving the service process and not to provisions for social plans.

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

As of 31 December 2017 and 2016, the provision for the transfer of civil servants to the government amounts to TEUR 18,099 and TEUR 24,073 and comprises 176 and 193 employees, respectively. For information on the liability for employees transferred to the government, see Note (21).

Weighted average duration

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

in TEUR, at 31 December	2017	2016
Employees permanently leaving the service process	7.6	8.3
Social plans	3.4	3.6
Civil servants transferred to the government	6.7	7.1

Sensitivity analysis

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

in TEUR, at 31 December 2017	1 percentage point increase	1 percentage point decrease
Change in discount rate	–20,334	19,268
Change in rate of compensation	17,998	–16,987
in TEUR, at 31 December 2016		
Change in discount rate	–27,965	26,584
Change in rate of compensation	25,258	–23,719

A change in the fluctuation rate applied to the provision for onerous contracts would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR, at 31 December	2017	2016
5 percentage points increase	–7,595	–9,536
5 percentage points decrease	7,593	9,426

Employees

The provisions for employees mainly contain bonuses and the short-term portion of employee benefit obligations for severance, service awards and pensions (see also Note (26)). At 31 December 2016, unused vacation days amounting to TEUR 20,560, which were used in 2017, were reported in provisions for employees. In 2017, the addition to unused vacation days is included in liabilities due to employees (see Note (21)).

In its judgement of 11 November 2014, the European Court of Justice (ECJ) decided that the Austrian law determining the reference date for salary increments for Austrian civil servants (this date determines the length of service and thus the date for being advanced into the next salary level) is not in conformity with European Union law. Thus, at 31 December 2017 and 2016, A1 Telekom Austria Group recognised a provision for back payments in its financial statements of TEUR 50,487 and TEUR 49,069, respectively.

Customer rebates

The provision contains rebates earned by customers but not paid as of the reporting date.

Asset retirement obligation

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

A1 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.

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

Additionally, A1 Telekom Austria Group records asset retirement obligations for buildings concerning obligations for the disposal of hazardous substances and warfare material as well as the decontamination of land when decommissioning a building. A1 Telekom Austria Group records asset retirement obligations for buildings and rented premises under operating leases in accordance with the obligation to refurbish the sites at the expiration of the lease contracts. Furthermore, based on the Universal Service Ordinance (Universaldienstverordnung) an asset retirement obligation for the decommissioning of payphones was recorded in 2016.

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

	2017	2016
Discount rate	1.5%–10.9%	1.5%–13.3%
Inflation rate	2.0%–6.7%	1.0%–9.9%

The discount rate applied to the calculation of asset retirement obligations reflects current market expectations with regard to interest effects as well as specific risks of the obligation. In 2017, the discount rate in the non-eurozone is based on the risk-free interest rate of German federal bonds with a maturity of 30 years , adapted for country-specific risk by the Damodaran Rating based default spread. For those countries whose currencies are not tied to the Euro, the respective inflation differential according to the OECD is taken into account as well. In the eurozone, the discount rate is based on government bonds with matching maturities. In 2016, the discount rates were based on the risk-free interest rates of Austrian government bonds with a maturity of 30 years or the comparable applicable interest rate in the case of Belarus.

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

Basically the change in these parameters as well as changes in the estimated outflow of resources resulted in an increase of the asset retirement obligation and an increase in the related item of property, plant and equipment (see change in estimates in the table of provisions). TEUR 4,626 were recognised in other operating income as the related tangible asset is already fully depreciated.

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

in TEUR at 31 December 2017	1 percentage point increase	1 percentage point decrease
Change in discount rate	-23,603	29,810
Change in inflation rate	29,643	-23,994
in TEUR at 31 December 2016		
Change in discount rate	-22,538	27,237
Change in inflation rate	26,953	-22,696

Legal
Provisions mainly relate to expenses incurred in respect of legal advice and litigation.

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

(23) Current Deferred Income

in TEUR, at 31 December	2017	2016
Unearned income	122,142	131,799
Customer loyalty programmes	34,428	31,419
Deferred income, current portion	**156,570**	163,218

Unearned income mainly relates to prepaid access fees, monthly base fees, leased lines to commercial customers, prepaid mobile fees and rental income from site sharing. These fees are recognised over the period the service is provided.

According to IFRIC 13 'Customer Loyalty Programmes', the award credits granted are recognised as deferred income until redeemed or forfeited.

(24) Long-term Debt

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

Currency	Maturity	Nominal interest rate		At 31 December 2017 Face value	Carrying amount	Nominal interest rate		At 31 December 2016 Face value	Carrying amount
Bonds									
TEUR	2017			0	0	fixed	4,250%	500,000	499,953
TEUR	2021	fixed	3,125%	750,000	745,913	fixed	3,125%	750,000	744,872
TEUR	2022	fixed	4,000%	750,000	745,077	fixed	4,000%	750,000	743,922
TEUR	2023	fixed	3,500%	300,000	298,601	fixed	3,500%	300,000	298,347
TEUR	2026	fixed	1,500%	750,000	743,670	fixed	1,500%	500,000	494,287
Total Bonds				2,550,000	2,533,262			2,800,000	2,781,382
Bank debt									
TEUR	2018			0	0	fixed	3.53%	22,000	22,000
Leases (Note (29))				894	894			144	144
Financial debt				**2,550,894**	**2,534,156**			**2,822,144**	**2,803,526**
Current portion of long-term debt				-549	-549			-500,030	-500,030
Long-term debt				**2,550,346**	**2,533,607**			**2,322,114**	**2,303,496**

Bonds

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

On 27 January 2017, A1 Telekom Austria Group redeemed a Eurobond with a face value of TEUR 500,000.

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

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

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

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

Bank debt

In 2017 and 2016, bank debt amounting to TEUR 22,000 and TEUR 330,642 was redeemed prematurely.

(25) Deferred Revenues and Other Non-current Liabilities

in TEUR, at 31 December	2017	2016
Cash deposits received	745	810
Deferred consideration from business combinations	5,532	0
Sundry other non-current financial liabilities	13,665	19
Other non-current financial liabilities	19,942	829
Long-term incentive program	2,561	2,400
Sundry other non-current non-financial liabilities	5,970	7,621
Deferred revenues, other	9,796	9,149
Other non-current non-financial liabilities	18,328	19,170
Deferred revenues and other non-current liabilities	38,270	20,000

For deferred considerations from business combinations, see Note (33). Other non-current non-financial liabilities include liabilities for pension contributions. Regarding the long-term incentive programme, see Note (30). Other deferred revenues mainly relate to rental revenue.

(26) Employee Benefits

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

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

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

in TEUR, at 31 December	2017	2016
Service awards	62,477	67,294
Severance	129,277	132,964
Pensions	5,088	5,994
Long-term employee benefit obligations	196,842	206,251

According to IAS 19.133, A1 Telekom Austria Group chooses to distinguish between current and non-current liabilities arising from employee benefit obligations (see also Note (22)).

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

Actuarial assumptions

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

	2017	2016
Discount rate service awards	1.00%	1.00%
Discount rate severance	2.00%	1.75%
Discount rate pensions	1.50%	1.50%
Rate of compensation increase – civil servants	4.40%	4.40%
Rate of compensation increase – other employees	3.00%	3.00%
Rate of compensation increase – civil servants released from work	3.50%	3.90%
Rate of increase of pensions	1.60%	1.60%
Employee turnover rate*	0.0%–1.72%	0.0%–1.88%

* Depending on years of service.

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

Life expectancy in Austria is based on 'AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler'. The obligation relating to the international subsidiaries was measured on the same actuarial basis due to their insignificant amount.

Weighted average duration

The weighted average duration of the obligations is as follows:

in TEUR, at 31 December	2017	2016
Service awards	5.9	6.4
Severance	15.0	15.8
Pensions	11.7	9.4

Service awards

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

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

in TEUR	2017	2016
At 1 January	72,816	76,176
Service cost	2,193	2,351
Interest cost	707	923
Actuarial gain/loss based on experience adjustment	–1,645	–1,324
Actuarial gain/loss from changes in demographic assumptions	–4	–0
Actuarial gain/loss from changes in financial assumptions	–201	357
Recognised in profit or loss	1,050	2,306
Benefits paid	–5,410	–5,665
Change in reporting entities	0	–1
Other	–5,410	–5,666
Obligation at 31 December	68,456	72,816
Less short-term portion	–5,979	–5,522
Non-current obligation	62,477	67,294

Of the defined benefit obligations for service awards, less than 1% relate to foreign subsidiaries as of 31 December 2017 and 2016, respectively.

Severance

Defined contribution plans

Employees starting to work for A1 Telekom Austria Group in Austria on or after 1 January 2003 are covered by a defined contribution plan. A1 Telekom Austria Group paid TEUR 2,157 and TEUR 2,028 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2017 and 2016, respectively.

Defined benefit plans

Severance benefit obligations for employees hired before 1 January 2003, excluding civil servants, are covered by defined benefit plans. Upon termination by A1 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. In case of death, the heirs of eligible employees receive 50% of the severance benefits. A1 Telekom Austria Group is exposed to the risk of development of salary increases and changes of interest rates.

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

in TEUR	2017	2016
At 1 January	134,433	119,886
Service cost	5,230	5,209
Interest cost	2,316	2,681
Recognised in profit or loss	7,546	7,890
Actuarial gain/loss based on experience adjustment	–4,295	–185
Actuarial gain/loss from changes in demographic assumptions	–1,034	–556
Actuarial gain/loss from changes in financial assumptions	–4,795	9,836
Recognised in other comprehensive income	–10,125	9,095
Benefits paid	–1,321	–2,439
Change in reporting entities	0	7
Foreign currency adjustments	22	–6
Other	–1,299	–2,438
Obligation at 31 December	130,555	134,433
Less short-term portion	–1,279	–1,469
Non-current obligation	129,277	132,964

Approximately 2% of the defined benefit obligations for severance relate to foreign subsidiaries as of 31 December 2017 and 2016.

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. A1 Telekom Austria Group contributed for its employees 12.55% to social security amounting to TEUR 31,223 and TEUR 30,159 in 2017 and 2016, respectively. Contributions for active civil servants amount to 12.55% and 15.75%. In 2017 and 2016, these contributions to the government amounted to TEUR 30,053 and TEUR 38,373, respectively.

Additionally, A1 Telekom Austria Group sponsors a defined contribution plan for employees of some of its Austrian subsidiaries. A1 Telekom Austria Group's contributions to this plan are based on a percentage of the compensation not exceeding 5%. The annual expenses for this plan amounted to TEUR 12,006 and TEUR 11,874 in 2017 and 2016, respectively.

Defined benefit pension plans

A1 Telekom Austria Group provides defined benefits for certain former employees in Austria. All such employees are retired and were employed prior to 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. A1 Telekom Austria Group is exposed to the risk of development of life expectancy and inflation because the benefits from pension plans are lifetime benefits.

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

in TEUR	2017	2016
At 1 January	**6,595**	7,483
Interest cost	94	89
Recognised in profit or loss	**94**	89
Actuarial gain/loss based on experience adjustment	–720	–225
Actuarial gain/loss from changes in financial assumptions	0	–151
Recognised in other comprehensive income	**–720**	–376
Benefits paid	–501	–601
Change in reporting entities	97	0
Foreign currency adjustments	–5	0
Other	**–408**	–601
Obligation at 31 December	**5,562**	6,595
Less short-term portion	–474	–602
Non-current obligation	**5,088**	5,994

Sensitivity analysis

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

in TEUR, at 31 December	2017	2016
Service awards	68,456	72,816
Severance	130,555	134,433
Pensions	5,562	6,595

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 2017	0.5 percentage point decrease	0.5 percentage point increase
Service awards	2,033	-1,943
Severance	9,855	-8,992
Pensions	332	-296
in TEUR, at 31 December 2016		
Service awards	2,354	-2,243
Severance	10,839	-9,844
Pensions	308	-283

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 2017	1 percentage point decrease	1 percentage point increase
Service awards	-3,690	3,953
Severance	-17,193	20,216
Pensions	-445	588
in TEUR, at 31 December 2016		
Service awards	-3,919	4,293
Severance	-18,738	22,225
Pensions	-549	635

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 2017	0.5 percentage point decrease	0.5 percentage point increase
Service awards	47	-2,016
Severance	3,927	-5,028
in TEUR, at 31 December 2016		
Service awards	54	-2,325
Severance	3,300	-5,665

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

(27) Stockholders' Equity

Capital management

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

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

Maintaining its investment grade rating of Baa2 by Moody's and BBB by Standard & Poor's is the number one priority of A1 Telekom Austria Group's finance strategy. This will allow A1 Telekom Austria Group to obtain the financial flexibility required for strategically important projects. A transparent dividend policy ensures the balance between shareholder remuneration and the utilisation of cash to redeem outstanding debt.

Share capital

As of 31 December 2017 and 2016, the common stock of Telekom Austria AG amounts to TEUR 1,449,275, and is divided into 664.5 million bearer shares. As of 31 December 2017 and 2016, América Móvil indirectly holds a stake of 51.00% through its 100% subsidiary América

Móvil B.V., Netherlands (América Móvil B.V., formerly Carso Telecom B.V.), ÖBIB holds a stake of 28.42% and free floated shares including treasury shares amount to 20.58%. The shares have no par value.

On 23 April 2014, ÖBIB entered into a syndicate agreement, effective since 27 June 2014, with América Móvil B.V. and América Móvil, by which the parties have agreed to jointly pursue a long-term policy with regard to the management of Telekom Austria AG, by exercising voting rights on a concerted basis. Furthermore, the syndicate agreement contains rules on the uniform exercise of voting rights in the corporate bodies of Telekom Austria AG, nomination rights for members of the Supervisory and Management Boards and share transfer restrictions.

The Supervisory Board of Telekom Austria AG consists of ten shareholder representatives, eight of which are nominated by América Móvil B.V. and two are nominated by ÖBIB. ÖBIB has the right to nominate the chairman of the Supervisory Board. América Móvil B.V. has the right nominate the deputy chairman.

On 24 July 2015, the function of the Chief Executive Officer of Telekom Austria AG was transferred to a management board member nominated by América Móvil B.V., namely Alejandro Plater, based on the proposal of the parties of the syndicate contract. Since 1 August 2015, the Management Board of Telekom Austria AG therefore consists of two members. In the extraordinary shareholders' meeting of 14 August 2014, the Articles of Association of Telekom Austria were amended: As long as the Republic of Austria directly or indirectly holds at least 25% plus one share in the registered share capital, resolutions on capital increases and on the issuance of instruments which contain a conversion right or a conversion obligation into shares of Telekom Austria AG as well as changes to this provision of the Articles of Association shall require a majority of at least three quarters of the share capital present at the vote.

According to the Austrian Banking Act and the Capital Requirements Regulation, a regulation for banks by the European Union, the subsidiary paybox Bank AG has to fulfil regulatory minimum equity requirements regarding bank-related risks, notably credit risk and operational risks as well as liquidity coverage requirements. On 31 December 2017 and 2016, these requirements were fulfilled.

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

At 31 December	2017	2016
Shares authorised	664,500,000	664,500,000
Shares issued	664,500,000	664,500,000
Shares in treasury	-415,159	-415,159
Shares outstanding	664,084,841	664,084,841

The shares issued are fully paid.

Dividend payment

The following dividends were approved by the shareholders at the Annual General Meeting and paid by Telekom Austria AG. Regarding the coupon payments on the hybrid capital, see hybrid capital:

	2017	2016
Date of Annual General Meeting	9 June 2017	25 May 2016
Dividend per share in Euro	0,20	0,05
Total dividend paid in TEUR	132.817	33.204
Date of payment	20 June 2017	3 June 2016

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

	2017	2016
Net income	1,060,490	802,919
Allocation to reserves reported in retained earnings	-995,373	-649,286
Profit carried forward from prior year	280,383	259,568
Unappropriated retained earnings	345,500	413,200

The unappropriated retained earnings according to Austrian GAAP are not subject to a dividend limitation apart from the restrictions of Section 235 (2) UGB relating to deferred tax assets recognised. The Management Board plans to propose to the shareholders at the Annual General Meeting to distribute a dividend of Euro 0.20 per share from unappropriated retained earnings.

Treasury shares

At the Annual General Meeting of Telekom Austria AG held on 29 May 2013, the Management Board was empowered to:
(a) use these treasury shares to settle obligations under the share-based compensation plans described in Note (30) and/or to transfer them for or without a consideration to employees, managers and members of the Management Board/management of Telekom Austria AG and of its affiliated companies;
(b) use them as consideration for acquisitions, or
(c) sell treasury shares at any time via the stock exchange or by public offer for a period of five years from the day of the resolution in any manner permitted by law, also other than via the stock exchange, whereby the Management Board is entitled to exclude the general purchase opportunity.

Shares held in treasury as of 31 December	2017	2016
Number of treasury shares	415,159	415,159
Average price per share in Euro	18,80	18,80
Deduction in equity in TEUR	7,803	7,803

Additional paid-in capital

The additional paid-in capital results from the incorporation of A1 Telekom Austria Group as well as subsequent 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, A1 Telekom Austria Group issued a hybrid bond with a volume of TEUR 600,000. The hybrid bond is a subordinated bond with indefinite maturity which, based on its conditions, is classified as stockholders' equity according to IFRS. Accordingly, related discount and issue cost in the amount of TEUR 11,752 were recorded net of a tax benefit of TEUR 2,938 in stockholders' equity. Therefore, stockholders' equity was increased by TEUR 591,186. The bond can be redeemed at par at the earliest after a period of five years. Additionally, Telekom Austria AG has an early termination right subject to certain conditions. The annual coupon amounts to 5.625% until the first reset date, 1 February 2018. Subsequently, there will be a reset date every five years. The coupon is established two days prior to the respective reset dates. Coupon payments of TEUR 33,750 each effected in February 2017 and 2016 are recognised as distribution of dividends in stockholders' equity. See also Note (37).

In the local financial statements, coupon payments are recognised as interest expense in profit or loss according to Austrian GAAP. While the tax benefit resulting from the accrued interest is recognised in profit or loss according to local GAAP, it is recognised in stockholders' equity as 'distribution of dividend' in the Consolidated Financial Statements according to IAS 12. The net result attributable to hybrid capital holders is presented in the Consolidated Statements of Comprehensive Income in the allocation of the net result and equals interest recognised in profit or loss according to local GAAP in both years reported, amounting to TEUR 33,750, net of the relating tax benefit of TEUR 8,438, which is recognised in stockholders' equity in 2017 and 2016.

Other comprehensive income (loss) items (OCI)

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

(28) Income Taxes

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

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

in TEUR	2017	2016
Current income tax	61,098	27,790
Deferred income tax	-58,092	-81,305
Income tax	**3,006**	**-53,515**

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

in TEUR	2017	2016
Continuing operations	3,006	-53,515
Income tax on realised result on hedging activities*	1,460	1,460
Income tax on unrealised result on securities available-for-sale*	58	47
Income tax on realised result on securities available-for-sale*	-11	20
Income tax on remeasurement of defined benefit obligations*	2,664	-2,154
Tax benefit relating to hybrid capital**	-8,438	-8,438
Total income tax	**-1,260**	**-62,580**

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

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

in TEUR	2017	2016
Income tax expense at statutory rate	87,119	89,922
Foreign tax rate differential	5,610	-3,692
Tax-non-deductible expenses	10,288	4,183
Tax incentives and tax-exempted income	-6,281	-7,190
Tax-free income (loss) from investments	216	-496
Change in tax rate	0	-576
Tax benefit/expense previous years	-3,352	-8,268
Changes in deferred tax assets not recognised	-185,221	-89,307
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	94,500	-38,060
Other	128	-31
Income tax	**3,006**	**-53,515**
Effective income tax rate	0.86%	-14.88%

In 2017 and 2016, non-deductible expenses mainly consist of withholding taxes on dividends and representation expenses as well as non-deductible remuneration of managers in Austria.

Tax incentives and tax-exempted income relate mainly to investment incentives in Slovenia and to tax incentives within the group taxation regime in Austria. Additionally, they relate mainly to a tax incentive in Belarus, which allows for the tax-neutral revaluation of carrying amounts of property, plant and equipment for tax purposes in order to increase the future basis of depreciation, as well as to research, education and investment incentives and other government grants.

In 2016, the change in tax rate relates mainly to an increase of the corporate tax rate from 17% to 19% in Slovenia, starting 2017, partly compensated by the reduction of the corporate tax rate from 20% to 18% in Croatia, starting 2017.

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

Impairments (reversals of impairments) of investments relate to write-downs and reversals of write-downs of investments in affiliated companies in Austria, which are recognised over a period of seven years for tax purposes and for which deferred tax is calculated (according to the respective guidance in 'Effects of tax write-downs according to Section 12 (3) No 2 of the Austrian Corporate Tax Act on the accounting of income taxes according to IAS 12 in consolidated or single IFRS financial statements' issued by the Austrian Financial Reporting and Auditing Committee).

In accordance with IAS 12, 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. The tax effects of temporary differences that give rise to deferred tax assets and liabilities are set out below:

in TEUR, at 31 December	2017	2016
Deferred tax assets		
Deferred deduction for impairments of investments in subsidiaries	62,946	135,612
Loss carry-forwards	270,839	149,888
Accounts receivable: Subscribers, distributors and other	8,423	7,510
Deferred income and other liabilities	839	658
Other current assets and prepaid expenses	1,501	1,480
Provisions, long-term	58,730	61,945
Employee benefit obligations	25,737	28,480
Property, plant and equipment	5,903	2,838
Other	11,860	8,635
Deferred tax assets	446,778	397,047
Deferred tax liabilities		
Property, plant and equipment	-39,040	-37,371
Other intangible assets	-118,256	-133,644
Write down of treasury shares for tax purposes	-1,427	-1,427
Other	-2,597	-1,246
Deferred tax liabilities	-161,320	-173,689

in TEUR, at 31 December	2017	2016
Deferred tax assets	327,077	286,431
Deferred tax liabilities	-41,619	-63,073
Deferred taxes, net	285,458	223,358

Impairments of investments in subsidiaries relate to impairments for which the recognition of expense is deferred over seven years according to Austrian tax law.

Deferred tax assets on long-term provisions basically relate to the provision for the asset retirement obligation, which is only partly recognised for tax purposes, as well as to differences in the IFRS and tax value of the restructuring provision in Austria (see Note (22)).

Deferred tax assets on employee benefit obligations result from the difference between the amount recognised in accordance with Section 14 of the Austrian Income Tax Act (EStG) and the amount of the projected unit credit method in accordance with IAS 19 (see Note (26)).

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

Deferred tax liabilities on property, plant and equipment are basically due to differences in the carrying value of assets with retirement obligations, which are not recognised for tax purposes.

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

Amortisation of tax goodwill according to Section 9 (7) KStG is treated as a temporary difference on investments in subsidiaries for tax purposes. According to IAS 12.39, no deferred tax liabilities are recorded in that case, thus there are no differences in deferred tax liabilities in 2017 and 2016.

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

in TEUR, at 31 December	2017	2016
Net operating loss carry-forwards	329,875	463,469
Temporary differences related to impairments of investments in consolidated subsidiaries	87,157	139,443
Deferred tax assets not recognised	417,032	602,911

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. These are based on business plans with a detailed planning period of five years. Management considers the scheduled release of deferred tax liabilities and projected future taxable income when making this assessment.

At 31 December 2017, the loss carry-forwards and the years these will expire are the following:

Year	in TEUR
2018	107,056
2019	120,771
2021	9,319
2022	146
2023	1,224
2024	1,242
2027	519
Carry forward indefinitely	2,383,848
Total	2,624,125

The loss carry-forwards expiring in the years listed above mainly relate to the Republic of Serbia. Due to tax relief according to Article 50a of the Serbian Corporate Tax Act, the tax rate applicable at 31 December 2017 amounts to 1.6%.

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

No deferred taxes are recognised on temporary differences relating to shares in subsidiaries, as it is not probable that these temporary deferred taxes will be reversed in the foreseeable future.

in TEUR, at 31 December	2017	2016
Temporary differences	52,218	42,278

(29) Leases

Lessee

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

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

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

Future minimum lease payments for non-cancellable operating lease contracts as well as finance lease contracts as of 31 December 2017 are:

in TEUR	Other finance leases	Operating leases
2018	549	83,135
2019	144	59,806
2020	98	38,391
2021	81	30,070
2022	61	24,024
after 2022	0	71,161
Total minimum lease payments	**933**	**306,588**
Less amount representing interest	–39	
Present value of lease payments	894	
Less current portion	–549	
Non-current lease obligations	**346**	

In 2017 and 2016, the rental and leasing expenses recognised in the Statement of Comprehensive Income amount to TEUR 162,026 and TEUR 165,318, respectively.

Assets under finance leases relate to automobiles and indefeasible rights of use. At 31 December 2017 and 2016, respectively, the carrying value amounts to TEUR 569 and TEUR 233 and is included in other assets and rights of use (see Notes (14) and (15)).

Lessor

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

These payments are recognised as revenue on a straight-line basis over the terms of the contracts and, at 31 December 2017, they amount to:

in TEUR	Operating leases
2018	6,350
2019	3,535
2020	2,242
2021	1,683
2022	1,515
after 2022	1,402
Total minimum lease payments	**16,728**

(30) Share-based Compensation

Long-term incentive (LTI) programme

A1 Telekom Austria Group introduced a long-term incentive programme (LTI) in 2010. 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. Due to the Management Board's decision to settle bonus shares granted in the course of the long-term incentive programme in cash (subsequently called fictitious bonus shares), the share-based payments are recorded as a liability.

Participants of this programme are required to invest an amount depending on the annual gross basic salaries and the management level of the entitled employee in Telekom Austria shares and to hold these shares until the end of the holding period (at least three years). For each tranche, the number of fictitious bonus shares granted is calculated based on the average Telekom Austria stock price for a defined period. The performance period for meeting the performance targets was determined to be three years.

On 1 July 2014, the fifth tranche (LTI 2014) 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. The actual performance and the bonus shares allocated are summarised in the subsequent table, settlement will be in cash.

On 1 September 2015, the sixth tranche (LTI 2015) was granted. EBITDA comparable, free cash flow and a revenue-based key figure were defined as key performance indicators. The target values for these key indicators were determined by the Supervisory Board. At the vesting date (at the earliest three years after the grant date), fictitious bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, fictitious bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, proportionally additional fictitious bonus shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of fictitious bonus shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no bonus shares will be allocated.

On 1 September 2016, the seventh tranche (LTI 2016) was granted. Return on Invested Capital (ROIC) and the market revenue share of A1 Telekom Austria Group (weighted with 50% each) were defined as key performance indicators. The target values for these key indicators were determined by the Supervisory Board. At the vesting date (at the earliest three years after the grant date), fictitious bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, fictitious bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, proportionally additional fictitious bonus shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of fictitious bonus shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no bonus shares will be allocated.

On 1 June 2017, the eight tranche (LTI 2017) was granted. Return on Invested Capital (ROIC) and the market revenue share of A1 Telekom Austria Group (weighted with 50% each) were defined as key performance indicators. The target values for these key indicators were determined by the Supervisory Board. The LTI 2017 was only granted to the members of the Management Board of Telekom Austria AG, Alejandro Plater and Siegfried Mayrhofer. At the vesting date (at the earliest three years after the grant date) and if targets are fully met, fictitious bonus shares equal to the double personal investment will be allocated to the participants and will be settled in cash. If the targets are exceeded, proportionally additional fictitious bonus shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of fictitious bonus shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no bonus shares will be allocated.

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

	LTI 2017	LTI 2016	LTI 2015	LTI 2014
Start of the programme	1 January 2017	1 January 2016	1 January 2015	1 January 2014
Grant date	1 June 2017	1 September 2016	1 September 2015	1 July 2014
End of vesting period	31 December 2019	31 December 2018	31 December 2017	31 December 2016
Vesting date	1 June 2020	1 September 2019	1 September 2018	1 July 2017
Personal investment at grant date	54,271	204,334	240,835	299,239
Personal investment at reporting date*	54,271	183,390	168,945	192,817
Expected performance**	121.90%	129.00%	104.30%	60.20%
Expected bonus shares***	132,311	456,912	352,420	0
Maximum bonus shares***	189,947	641,865	591,309	0
Fair value of programme in TEUR	987	3,435	2,778	0
Allocated bonus shares	0	0	0	222,154
Average stock price at end of vesting period in Euro	0	0	0	5.23
Share-based compensation in TEUR	0	0	0	1,162

* For LTI 2014, personal investment at the end of the vesting period.
** For LTI 2014, actual performance at the end of the vesting period.
*** Taking into account the allocation of fictitious bonus shares equal to the double personal investment.

As of the reporting date, a liability measured at fair value for the portion of the expected future expense of the LTI programme, which has already vested, has been recognised. The fair value of the liability is measured based on the expected target achievement and the expected share price, as determined by applying a binomial calculation model generally used for share price analysis, taking into account expected dividends. The liability is recognised over the vesting period (see Notes (21) and (25)). The following personnel expense is recognised in the Consolidated Statements of Comprehensive Income (negative values indicate income):

	2017	2016
Personnel expense LTI	2,803	2,583

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

in TEUR, at 31 December	1 Euro increase	1 Euro decrease
Fair value of LTI 2016	457	-457
Fair value of LTI 2017	132	-132

(31) Cash Flow Statement

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

in TEUR	2017	2016
Capital expenditures paid	**705,422**	816,463
Reconciliation of additions in accounts payable	39,707	-52,377
Reconciliation of government grants	-8,264	0
Total capital expenditures	**736,866**	764,086

The reconciliation of additions in accounts payable includes the adjustment of capital expenditures of the current period not yet paid as well as capital expenditures of prior periods paid in the current period in accordance with IAS 7.43. The reconciliation of government grants contains grants not yet paid, which have already been deducted from capital expenditures (see Notes (13) and (14)).

Total capital expenditures include interest capitalised (see Note (7)), but do not include additions related to asset retirement obligations. At 31 December 2017 and 2016, TEUR 161,275 and TEUR 125,840, respectively, of the additions to intangible assets and property, plant and equipment of the current year are unpaid (see Notes (14) and (15)).

In the Consolidated Statements of Cash Flows 2017, other adjustments in the items not requiring the use of cash and other reconciliation relate to non-cash effects of the asset retirement obligation, which are recognised in other operating income (see Note (22)).

The dividends received in 2017 and 2016 and recognised in the financial result (see Note (7)) had already been settled in cash as of 31 December and are reported in cash flow from operating activities. In 2017 and 2016, dividends paid include dividends paid to the non-controlling interests of subsidiaries in the amount of TEUR 318 and TEUR 288, respectively (see Note (33)).

In 2017 and 2016, cash and cash equivalents acquired totalled TEUR 624 and TEUR 720, respectively (see Note (33)).

The following table provides a reconciliation of the development of debt (see Notes (20) and (24)):

in TEUR, at 31 December	2017	2016	Change
Short-term debt	566	500,065	-499,499
Long-term debt	2,533,607	2,303,496	230,112
Total debt	**2,534,173**	2,803,561	**-269,388**

Change in debt	2017
Issuance of bonds	248,762
Repayments of bonds	-500,000
Repayments of long-term debt	-22,000
Change in short-term debt	1,857
Total cashflows	**-271,381**
Acquisitions	1,993
Non-cash changes	**1,993**

The following table provides a reconciliation of deferred consideration from business combinations (see Notes (7), (21), (25), and (33)):

in TEUR, at 31 December	2017	2016	Change
Deferred consideration from business combinations	5,551	111,667	-106,116

	2017
Deferred consideration one.vip at 1 January 2017	-111,667
Interest expense on deferred considerations	-8,333
Deferred consideration paid for business combinations	**-120,000**
Acquisitions	5,565
Foreign exchange differences	-14
Non-cash changes	**5,551**

(32) Financial Instruments

A1 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.

Financial assets and financial liabilities are recognised when A1 Telekom Austria Group becomes a party to a financial instrument. A1 Telekom Austria Group uses the settlement date for recording regular purchases and sales of financial assets. Derivative financial instruments are 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.

Financial assets include, in particular, cash and cash equivalents, accounts receivable: subscribers, distributors and other, net as well as other receivables, receivables due from related parties and available-for-sale investments.

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

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

Concentration of risks

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

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

Financial risk management

Overview

A1 Telekom Austria Group is exposed to 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.

The financial risk management is centrally organised. The guideline establishing policies, responsibilities and competences is valid for both the Group Treasury and the financial departments of the subsidiaries. The existing risks are regularly monitored and, if necessary, A1 Telekom Austria Group responds to changes in market conditions. A1 Telekom Austria Group neither holds nor issues derivative financial instruments for trading or speculative purposes.

Liquidity risk

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

Funding sources

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

Cash flow from operations is the basis for securing sufficient liquidity of A1 Telekom Austria Group. Principal sources of external funding are bank loans and capital markets. For details of outstanding long-term debt and a description of the different classes of the debt as of the reporting date, see Note (24).

In order to diversify its short-term funding sources, A1 Telekom Austria Group implemented a multi-currency short-term treasury notes programme (multi-currency notes) with a maximum volume of TEUR 300,000 in 2007. The programme was concluded for an indefinite period. As of 31 December 2017 and 2016, no multi-currency notes were issued.

As of 31 December 2017 and 2016, A1 Telekom Austria Group had total credit lines of TEUR 1,265,000 and TEUR 1,000,000, respectively. These credit lines were not utilised. The credit line commitment of TEUR 250,000 has a term until January 2018, the remaining credit lines commitments have a maximum term until November 2019.

Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of financial liabilities. At 31 December 2017 and 2016, no variable interest-rate liabilities existed. Foreign currencies were translated at the rates valid on the reporting date.

in TEUR	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 years
At 31 December 2017						
Bonds	2,958,000	30,000	45,188	75,188	1,702,125	1,105,500
Bank debt	17	17	0	0	0	0
Accounts payable - trade	592,032	562,527	8,718	6,997	13,403	388
Lease obligations	933	532	17	144	240	0
Other financial liabilities	71,453	50,294	2,971	2,749	5,668	9,772
At 31 December 2016						
Bonds	3,266,917	551,250	41,438	71,438	964,313	1,638,479
Bank debt	23,724	608	198	22,918	0	0
Accounts payable - trade	553,806	533,449	12,080	3,586	4,181	510
Lease obligations	147	53	34	47	13	0
Other financial liabilities	172,006	46,489	124,089	593	0	836

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

Market risks

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

Interest rate risk

Since all of A1 Telekom Austria Group's long-term debt has fixed interest rates, no cash flow exposure due to fluctuating interest rates exists (see Note (24)). However, the fair value of fixed rate debt increases when market rates are below the rates fixed on these loans.

Exposure to interest rate risk

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

Fair value sensitivity analysis for financial instruments

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

in TEUR, at 31 December	Capital amounts	Change in financial portfolio Increase	Decrease
2017			
Fixed rate financial liabilities	2,550,000		
Sensitivity at a modified duration of 4.344%		-110,761	110,761
2016			
Fixed rate financial liabilities	2,822,000		
Sensitivity at a modified duration of 4.478%		-126,369	126,369

Cash flow sensitivity analysis for variable-rate financial instruments

Since all of A1 Telekom Austria Group's long-term debt have fixed interest rates at 31 December 2017 and 2016, no sensitivity analysis is provided.

Information with respect to hedging reserve

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

Exchange rate risk

As of 31 December 2017 and 2016, of all accounts receivable: subscribers, distributors and other, net as well as accounts payable trade, only the following are denominated in a currency other than the functional currency of the reporting entities (for foreign exchange rates, see Note (3)):

in TEUR, at 31 December Denominated in	EUR	2017 USD	Other	EUR	2016 USD	Other
Accounts receivable: Subscribers, distributors and other	2,095	9,587	37,647	1,867	7,617	6,312
Accounts payable - trade	70,486	15,832	4,878	62,945	12,204	3,754

In 2017 and 2016, a change of 10% in the exchange rate of the Euro to the currencies listed below (see Note (3)) would increase/decrease foreign exchange rate differences as follows:

in TEUR	2017	2016
Croatian Kuna (HRK)	2,282	2,739
Serbian Dinar (CSD)	1,792	1,655
Belarusian Rouble (BYN)	400	577

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

Credit risk

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

Financial investments and cash and cash equivalents

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

The carrying amount of financial assets and cash and cash equivalents represents the maximum credit risk exposure (see Notes (9) and (18)):

in TEUR, at 31 December	2017	2016
Available-for-sale investments	11,345	13,647
Financial investments valued at cost	1,546	1,468
Cash and cash equivalents	202,390	457,460
Carrying amount	**215,281**	472,575

Loans and receivables

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

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

The following table sets forth the maximum exposure to credit risk for other financial assets and accounts receivable: subscribers, distributors and other, net, which equals the carrying amount (see Notes (10), (13) and (19)):

in TEUR, at 31 December	2017	2016
Accounts receivable: Subscribers, distributors and other	679,292	636,474
Financial assets	161,022	139,264
Carrying amount	**840,314**	775,738

Accounts receivable from related parties are not included.

As a result of the low concentration of credit risk described above, A1 Telekom Austria Group has no insurance for its accounts receivable. However, based on the credit assessment of retail and wholesale customers, A1 Telekom Austria Group requires bank guarantees, comfort letters and cash deposits (see Notes (21) and (25)).

in TEUR, at 31 December	2017	2016
Cash deposits	10,666	9,520
Guarantees	9,165	9,284

The following table sets forth the ageing of other financial assets and accounts receivable: subscribers, distributors and other:

in TEUR, at 31 December	Gross 2017	Allowance 2017	Gross 2016	Allowance 2016
unbilled & not yet due	733,633	21,137	675,065	12,181
Past due 0-30 days	52,166	5,249	52,286	3,384
Past due 31-60 days	26,504	6,537	22,986	4,751
Past due 61-90 days	16,798	5,700	12,119	3,997
More than 90 days	247,321	197,485	238,935	201,342
Total	**1,076,422**	**236,108**	1,001,392	225,654

in TEUR, at 31 December	2017	2016
Financial assets past due gross	342,789	326,327
Allowance financial assets	-214,971	-213,473
Financial assets past due net	127,818	112,854

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

in TEUR	2017	2016
At 1 January	225,654	212,190
Foreign currency adjustment	-763	498
Change in reporting entities	1,035	110
Reversed	-6,353	-3,639
Charged to expenses	60,419	47,356
Amounts written-off	-43,883	-30,861
At 31 December	**236,108**	225,654

Accounts receivable: subscribers, distributors and other as well as other financial receivables are measured at amortised cost or the lower recoverable amount.

A1 Telekom Austria Group has grouped accounts receivable according to their exposure to different risks. Corresponding to the risk involved and based on historic experience, a certain percentage of valuation allowance is determined for each category of accounts receivable (general allowance for groups of similar assets). All accounts receivable past due are therefore impaired by a certain percentage.

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

If there is objective evidence that A1 Telekom Austria Group will not be able to collect all amounts due according to the original terms, an impairment is recorded (specific allowance). Serious financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that the receivable is impaired.

Impairment losses and reversal of impairment losses for trade and other receivables classified as loans and receivables are recognised in bad debt expenses in selling, general and administrative expenses. Bad debt expenses mainly relate to accounts receivable: subscribers, distributors and other. When a receivable is considered to be irrecoverable, the amount is written off against the receivable.

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

in TEUR, at 31 December	2017	2016
Domestic	818,399	758,242
Foreign	80,000	90,479
Allowances	-219,106	-212,247
Accounts receivable: Subscribers, distributors and other	679,292	636,474
Thereof		
Specific allowance	6,799	7,537
General allowance	212,307	204,710

Accounts receivable: subscribers, distributors and other from A1 Telekom Austria Group's most significant customer amount to TEUR 1,749 and TEUR 2,979 as of 31 December 2017 and 2016, respectively. Thus, no major concentration of credit risk exists.

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.

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

in TEUR, at 31 December	Carrying amount 2017	Fair value	Carrying amount 2016	Fair value
Financial assets				
Cash and cash equivalents	**202,390**	**202,390**	457,460	457,460
Accounts receivable: Subscribers, distributors and other	679,292	679,292	636,474	636,474
Receivables due from related parties	944	944	925	925
Other current financial assets	111,631	111,631	93,068	93,068
Other non-current financial assets	49,390	49,390	46,195	46,195
Loans and receivables	**841,258**	**841,258**	776,663	776,663
Long-term investments	11,345	11,345	6,914	6,914
Short-term investments	0	0	6,733	6,733
Available-for-sale investments	**11,345**	**11,345**	13,647	13,647

Cash and cash equivalents, accounts receivable: subscribers, distributors and other as well as receivables due from related parties have maturities shorter than one year. As their carrying amounts reported approximate their fair values, no further information on the classification in the fair value hierarchy is provided.

Other financial assets essentially relate to instalment sales receivables (see Notes (13) and (19)), the fair values correspond to the present values of the payments related to the assets, taking into account the current interest rates that reflect market and partner-based changes to terms, conditions and expectations and are thus classified as Level 2 of the fair value hierarchy.

The fair values of available-for-sale investments are based on market prices.

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

in TEUR, at 31 December	Carrying amount 2017	Fair value	Carrying amount 2016	Fair value
Financial liabilities				
Liabilities to financial institutions	17	17	35	35
Bonds	2,533,262	2,818,434	2,781,382	3,093,835
Other current financial liabilities	51,309	51,309	162,838	162,846
Non-current liabilities to financial institutions	0	0	22,000	23,573
Lease obligations	894	894	144	144
Other non-current liabilities	19,942	19,942	829	829
Accounts payable - trade	592,032	592,032	553,747	553,747
Payables due to related parties	554	554	6,418	6,418
Accrued interest	29,990	29,990	49,624	49,624
Financial liabilities at amortised cost	**3,228,000**	**3,513,172**	3,577,017	3,891,052

Non-current liabilities to financial institutions include their short-term portion.

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

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

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

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 market proximity of the inputs in such fair value measurements:

in TEUR	Level 1	Level 2	Level 3	Total
At 31 December 2017				
Available-for-sale & other investments	10,765	580	0	11,345
Financial assets measured at fair value	10,765	580	0	11,345
At 31 December 2016				
Available-for-sale & other investments	12,725	923	0	13,647
Financial assets measured at fair value	12,725	923	0	13,647

(33) Companies and Business Combinations

Name and company domicile	Share in capital as of 31 December 2017 in %	Method of consolidation*	Share in capital as of 31 December 2016 in %	Method of consolidation*
Segment Austria				
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00	FC	100.00	FC
Telekom Austria Personalmanagement GmbH, Vienna	100.00	FC	100.00	FC
Telekom Austria Beteiligungen GmbH, Vienna	100.00	FC	100.00	FC
CableRunner GmbH, Vienna	76.00	FC	76.00	FC
CableRunner Austria GmbH & Co. KG, Vienna	76.00	FC	76.00	FC
World-Direct eBusiness solutions Gesellschaft m.b.H., Vienna	100.00	FC	100.00	FC
paybox Bank AG, Vienna	100.00	FC	100.00	FC
paybox Service GmbH, Vienna	100.00	FC	100.00	FC
3G Mobile Telecommunications GmbH, Vienna	100.00	FC	100.00	FC
mk Logistik GmbH, Vienna	100.00	FC	100.00	FC
JetStream Hungary Kft., Budapest	100.00	FC	100.00	FC
JetStream Slovakia s.r.o., Bratislava	100.00	FC	100.00	FC
JetStream RO s.r.l., Bucharest	100.00	FC	100.00	FC
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00	FC	100.00	FC
JetStream Switzerland GmbH, Zurich	100.00	FC	100.00	FC
JetStream Poland Spolka Z Ograniczona Odpowiedzialnoscia, Warsaw	100.00	FC	100.00	FC
JetStream Germany GmbH, Frankfurt on the Main	100.00	FC	100.00	FC
JetStream Italy S.r.l., Milan	100.00	FC	100.00	FC
TA CZ sítě s.r.o., Prague	100.00	FC	100.00	FC
JetStream BH d.o.o. drustvo za telekomunikacije, Sarajevo	100.00	FC	100.00	FC
JetStream England Limited, London	100.00	FC	100.00	FC
media.at GmbH, Vienna	SO	-	25.3228	EQ
Segment Bulgaria				
Mobiltel EAD, Sofia	100.00	FC	100.00	FC
Blizoo Media and Broadband EAD, Sofia	ME	-	100.00	FC
Cabletel-Prima AD, Nessebar	51.00	FC	51.00	FC
Citynet TV OOD, Aytos	51.00	FC	51.00	FC

Name and company domicile	Share in capital as of 31 December 2017 in %	Method of consolidation*	Share in capital as of 31 December 2016 in %	Method of consolidation*
Cable Information System AD, Russe	87.55	NC	87.55	NC
Evrocom Sofia Cable EOOD, Sofia	LIQ	-	100.00	NC
Vereia Cable AD, Sofia	LIQ	-	100.00	NC
Segment Croatia				
Vipnet d.o.o., Zagreb	100.00	FC	100.00	FC
Vipnet usluge d.o.o., Zagreb	100.00	FC	100.00	FC
CATV-047 d.o.o. Kabelska televizija, Karlovac	ME	-	100.00	FC
Metronet Telekomunikacije d.d., Zagreb	100.00	FC	-	-
Segment Belarus				
Unitary enterprise velcom, Minsk	100.00	FC	100.00	FC
Unitary enterprise TA-Engineering, Minsk	100.00	FC	100.00	FC
Adelfina Ltd., Minsk	100.00	FC	100.00	FC
Unitary enterprise Solar Invest, Bragin town	100.00	FC	100.00	FC
Limited Liability Company velcom ADC, Minsk	ME	-	100.00	FC
Limited Liability Company TeleSet, Gomel	ME	-	100.00	FC
Gomel Regional Technological Trade Center “Garant” Open Joint-Stock Company, Gomel	98,697	FC	-	-
Segment Macedonia				
one.Vip DOOEL, Skopje-Zentar	100.00	FC	55.00	FC
Vip operator uslugi DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
Astra Plus DOOEL, Kocani	100.00	FC	100.00	FC
Digi plus Multimedia DOOEL, Skopje	100.00	FC	100.00	FC
Segment Serbia				
Vip mobile d.o.o., Belgrade	100.00	FC	100.00	FC
Amis Telekomunikacije d.o.o., Belgrade	100.00	FC	100.00	FC
Segment Slovenia				
A1 Slovenija d.d., Ljubljana**	100.00	FC	100.00	FC
Corporate & Other				
Telekom Projektentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
Telekom Finanzmanagement GmbH, Vienna	100.00	FC	100.00	FC
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00	FC	100.00	FC
mobilkom Bulgarien BeteiligungsverwaltungsgmbH, Vienna	100.00	FC	100.00	FC
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
SB Telecom Ltd., Limassol	100.00	FC	100.00	FC
A1 Digital International GmbH, Vienna	100.00	FC	100.00	FC
A1 Digital Deutschland GmbH, Munich	100.00	FC	-	-
Akenes S.A., Lausanne	100.00	FC	-	-
Akenes GmbH, Berlin	100.00	NC	-	-
Telecom Liechtenstein AG, Vaduz	24.90	EQ	24.90	EQ

* FC – full consolidation, EQ – equity method, LIQ – liquidation, ME – merged, NC – not consolidated because not material, SO – sold
All affiliated companies have 31 December as their reporting date except for media.at-Group which has 30 June as its reporting date.
** 2016: Si.mobil telekomunikacijske storitve d.d., Ljubljana

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

On 15 February 2017, A1 Telekom Austria Group acquired 97.68% of Metronet telekomunikacije via the Croatian subsidiary Vipnet. Metronet is one of the leading alternative fixed business solutions provider in Croatia and offers a wide range of products, focussed on delivering services to the business segment. The fair values of the assets acquired and liabilities assumed at the acquisition date are reported in the segment Croatia:

Acquisition of Metronet in TEUR	Fair values on acquisition date
Property, plant and equipment	28,906
Intangible assets	28,673
Other assets and receivables	9,617
Cash and cash equivalents	130
Bank debt and Leases	–1,993
Deferred tax liabilities	–2,700
Accounts payable	–11,014
Debt due to related parties	–34,147
Net assets acquired	**17,471**
Non-controlling interests	–405
Goodwill	23,322
Debt paid on behalf of Metronet	34,147
Total purchase consideration	**74,536**
Purchase price not yet paid	–2,454
Cash and cash equivalents acquired	–130
Net cash outflow	**71,951**

The factors contributing to goodwill are expectations of positive returns due to a favourable development of the market share in Croatia and cost synergies. Since the acquisition date, Metronet has contributed revenues of TEUR 26,515 and a net income of TEUR 2,201. The gross contractual amounts of acquired receivables are TEUR 5,896. Management's best estimate at the acquisition date of the contractual cash flows not expected to be collected is TEUR 724, thus the fair value amounts to TEUR 5,172.

In the second quarter 2017, the non-controlling interest of Metronet of 2.32% amounting to TEUR 405 was acquired for a consideration of TEUR 972. The excess of the purchase price over the book value of the non-controlling interest is recorded in retained earnings. In the Consolidated Statements of Changes in Stockholders' Equity, the disposal of the carrying amount of the non-controlling interest is netted with the original addition to non-controlling interest from the business combination.

On 1 August 2017, A1 Telekom Austria Group acquired 96.50% of Gomelsky OTTC Garant, Gomel (Garant) via the Belarusian subsidiary velcom. Gomel is the third largest broadband operator in Belarus providing services mainly for residential customers in Gomel, the second largest city in Belarus, and other six cities in the region. The fair values of the assets acquired and liabilities assumed at the acquisition date are reported in the segment Belarus:

Acquisition of Garant in TEUR	Fair values on acquisition date
Property, plant and equipment	5,136
Intangible assets	1,976
Other assets and receivables	316
Cash and cash equivalents	407
Deferred tax liabilities	–100
Accounts payable	–2,755
Net assets acquired	**4,980**
Non-controlling interests	–174
Goodwill	3,707
Total purchase consideration	**8,512**
Cash and cash equivalents acquired	–407
Net cash outflow	8,106

The factors contributing to goodwill are expectations of positive returns due to regional synergies, upselling of cable TV customers and further cost synergies. Since the acquisition date, Garant has contributed revenues of TEUR 4,837 and a net loss of TEUR 142.

In the fourth quarter 2017, the non-controlling interest in Garant of 2.20% amounting to TEUR 108 was acquired for a consideration of TEUR 263. The excess of the purchase price over the book value of the non-controlling interest is recorded in retained earnings. In the Consolidated Statements of Changes in Stockholders' Equity, the disposal of the carrying amount of the non-controlling interest is netted with the original addition to non-controlling interest from the business combination.

On 30 November 2016, A1 Telekom Austria Group acquired 100% of the Belarusian fixed-line operator Atlant Telecom, renamed velcom ACS after the acquisition, and its subsidiary TeleSet. In 2017, the final purchase consideration was determined. As a result of the final allocation of the purchase consideration, goodwill increased by TEUR 954, other assets were reduced by TEUR 492 and a payment in cash of TEUR 462 was effected.

On 30 November 2017, the Belarusian subsidiaries velcom ADC and TeleSet were merged into velcom. Furthermore, Garant was split into Garant Telecom South, containing the core business, and into Gomel Regional Technological Trade Center "Garant", containing the non-core business. Subsequently, Garant Telecom South was merged into velcom. These transactions do not have an impact on the Consolidated Financial Statements.

On 4 August 2017, A1 Telekom Austria Group acquired 88.83 % of Akenes S.A. (Akenes), Lausanne, via the subsidiary A1 Digital International GmbH. Akenes offers pure-play Infrastructure as a Service (IaaS) open cloud with clear customer focus on Software as a Service (SaaS) providers and Big Data operators. The share purchase agreement includes a put and call option for the exit of the remaining shareholders. The total purchase consideration includes the fair value of the option. Based on the put option and other terms of the contract no non-controlling interest is recorded. The fair values of the assets acquired and liabilities assumed at the acquisition date are reported in Corporate, Other & Eliminations:

Acquisition of Akenes in TEUR	Fair values on acquisition date
Property, plant and equipment	739
Intangible assets	1,942
Deferred tax assets	152
Other assets and receivables	107
Cash and cash equivalents	87
Accounts payable	-1,316
Net assets acquired	**1,712**
Goodwill	7,698
Consideration transferred	**9,410**
Purchase price not yet paid	-3,111
Cash and cash equivalents acquired	-87
Net cash outflow	**6,212**

The factors contributing to goodwill are expectations of positive returns due to a favourable development of the market share and cost synergies. The goodwill was allocated to the cash-generating unit A1 Digital. Since the acquisition date, Akenes has contributed revenues of TEUR 972 and a net loss of TEUR 241.

Since the effect of the acquired entities on the Consolidated Financial Statements of A1 Telekom Austria Group is not considered significant, no pro-forma information is presented. Acquisition-related costs totalling TEUR 683 are reported in selling, general and administrative expenses.

On 1 October 2015, Vip operator, a Macedonian subsidiary of A1 Telekom Austria Group, was merged with Telekom Slovenije's subsidiary ONE, both operating in Macedonia. A1 Telekom Austria Group held 55% and had sole control over the newly created entity one.Vip, whereas Telekom Slovenije Group held 45%. Based on call and put options of the share purchase agreement and Telekom Slovenije's exclusion from dividend rights, no non-controlling interest was recognised. On 9 November 2017, the call and put options for the exit of Telekom Slovenije Group were exercised at the amount of TEUR 120,000. A1 Telekom Austria Group now holds 100% of one.Vip. At 31 December 2016, the fair value of the option was reported in short-term financial liabilities (see Note (21)).

(34) Commitments and Contingent Assets and Liabilities

In June 2014, Mobiltel EAD (Mobiltel) received the tax assessment act related to the taxation treatment of amortisation of brand name and customer base in 2007. Mobiltel appealed to the highest tax authority in Sofia. In December 2014, this appeal was rejected. Mobiltel appealed to the Supreme Administrative Court in Sofia. On 22 February 2017, the Supreme Administrative Court decided in favour of Mobiltel regarding the amortisation of customer base of TEUR 15,060 including interest and rejected the appeal of Mobiltel in the amount of TEUR 7,801 relating to the amortisation of brand name including interest for the year 2007.

Furthermore Mobiltel received tax assessments in 2017 for the years 2008, 2009 and 2010, which once again included brand name and customer base not to be tax deductible totalling TEUR 62,391 including interest calculated as per 31 December 2017. On 14 July 2017, Mobiltel filed an appeal at the Administrative Court in Sofia concerning the tax assessments for 2008 and 2009 and will appeal subsequently at the Supreme Administrative Court, if necessary. On 26 September 2017, Mobiltel filed an appeal at the competent administrative authority regarding the tax assessment for the year 2010. The decision of the administrative authority was received on 27 November 2017, the decision being negative, thus Mobiltel filed its appeal at the Administrative Court in Sofia on 7 December 2017. A negative decision will be appealed at the Supreme Administrative Court, if necessary. As of 31 December 2017, Mobiltel has issued bank guarantees covering up to TEUR 62,988 covering the tax assessment acts for the financial years 2008, 2009 and 2010 to secure the possible tax claims and interest.

The subsequent tax audit covering the years 2011 to 2013 was finalised with tax audit reports received on 29 December 2017. The decision of the Supreme Administrative Court for the year 2007 was not taken into consideration and additional corporate income tax due to non-deductible tax amortisations on both brand name and customer base until 2012 was imposed by the tax authorities as follows: TEUR 15,916 covering corporate income tax 2011 including interest and TEUR 11,936 covering corporate income tax 2012 to 2013 including interest. Tax and interest for brand name for the years 2008 to 2012 is provided for.

In the normal course of business, A1 Telekom Austria Group is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to network access. Such matters are subject to many uncertainties, and the outcomes are not predictable with certainty. Consequently, Management is unable to ascertain the ultimate aggregate amount of the monetary liability or the impact on the financial position of A1 Telekom Austria Group with respect to these matters at 31 December 2017. 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 A1 Telekom Austria Group, beyond such provided for at year-end, would not be material to its Consolidated Financial Statements.

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

As of 31 December 2017 and 2016, the Management Board of Telekom Austria AG is composed of Alejandro Plater, as Chief Executive Officer (CEO) and at the same time Chief Operating Officer (COO), as well as Siegfried Mayrhofer, as Chief Financial Officer (CFO). Since 6 March 2015, Alejandro Plater has been a member of the Management Board and, since 1 August 2015, CEO. Since 1 June 2014, Siegfried Mayrhofer has been a member of the Management Board.

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

in TEUR	2017	2016
Basic remuneration (fixed salary incl. remuneration in kind)	1,026	1,026
Variable remuneration	1,087	1,214
Share-based compensation (Long Term Incentive Program)*	110	263
Total	**2,224**	**2,503**
Compensation Supervisory Board	358	204

* See Note 0

Hannes Ametsreiter resigned from his function as CEO as per 31 July 2015 and his employment relationship was terminated at the same date. In the table above, the variable remuneration in 2016 includes the payment of variable remuneration for the year 2015 until the resignation amounting to TEUR 208 as well as the share-based compensation for LTI 2013 of TEUR 104. The share-based compensation for LTI 2014 amounting to TEUR 71 and paid in 2017 is not included in the table.

Günther Ottendorfer's CTO contract with a term until 31 August 2016 was prematurely terminated as per 5 March 2015. The table above includes, in 2016 share-based compensation for LTI 2013 of TEUR 98. The share-based compensation for LTI 2014 amounting to TEUR 102 and paid in 2017 is not included in the table.

Hans Tschuden's CFO contract with a term until 31 March 2015 was prematurely terminated as per 31 March 2014. The share-based compensation for LTI 2014 and LTI 2013 of TEUR 49 and TEUR 96, respectively, paid in 2016 and 2017, is not included in the table.

(36) Employees

The average number of employees during the years 2017 and 2016 was 18,659 and 17,717, respectively. As of 31 December 2017 and 2016, A1 Telekom Austria Group employed 18,957 and 18,203 employees (full-time equivalents).

(37) Subsequent Events

On 3 January 2018, the Management Board of Telekom Austria AG decided to call and redeem the hybrid bond amounting to TEUR 600,000, according to Section 5 (3) of the terms and conditions of the bond, at its nominal value plus all interest on 1 February 2018, the first call date (see Note (27)).

In January 2018, A1 Telekom Austria Group entered into committed credit lines with a total volume of TEUR 540,000 and a maturity of up to twelve months. On 30 January 2018, the amount of TEUR 240,000 was drawn.

(38) Release for Publication

On 30 January 2018, the Management Board approved the Consolidated Financial Statements for submission to the Supervisory Board. The Supervisory Board will review the Consolidated Financial Statements and report its decision on approval.

Vienna, 30 January 2018

CEO and COO Alejandro Plater

CFO Siegfried Mayrhofer

Auditor's Report[1)]

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of **Telekom Austria Aktiengesellschaft, Vienna,** and of its subsidiaries (the Group) comprising the consolidated statement of financial position as of December 31, 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2017 and its financial performance for the year then ended in accordance with the International Financial Reportings Standards (IFRS) as adopted by EU, and the additional requirements under Section 245a Austrian Company Code UGB.

Basis for Opinion

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

Key Audit Matters

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

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

- 1. Valuation of property, plant and equipment and intangible assets, including goodwill
- 2. Revenues and related IT systems
- 3. Restructuring accruals
- 4. Valuation of deferred tax assets

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

Description
Telekom Austria shows significant amounts of goodwill (mEUR 1,276.3), intangible assets (mEUR 2,075.9) and property, plant and equipment (mEUR 2,627.9) in its consolidated financial statements as of December 31, 2017.

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

Telekom Austria's disclosures about goodwill, intangibles assets and property, plant and equipment and related impairment testing are included in Note 4 (Estimations), Note 14 (Property, plant and equipment), Note 15 (Intangibles) and Note 16 (Goodwill) in the consolidated financial statements.

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

How our audit addressed the matter
Our audit procedures included, among others, the following:

We assessed the design and implementation of the controls over the impairment testing process.

Furthermore, we evaluated the composition of cash generating units (CGU's) and the assets allocated to each CGU.

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

We compared forecasted revenues and EBITDA margins as well as capital expenditure and changes in working capital for all CGU’s with the Telekom Austria plans submitted to the audit committee and analyzed the main drivers for the future development included in the business plan to determine the appropriateness of the projections. We also verified the assumptions made in relation to discount rates and growth rates.

EY valuation specialists assisted us in performing the audit procedures relating to impairment.

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

2. Revenues and related IT systems

Description

Telekom Austria’s revenues in 2017 resulted from various revenue streams and IT systems processing millions of records per day.

Telekom Austria’s disclosures about revenues are included in Note 5 (Revenues) in the consolidated financial statements.

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

How our audit addressed the matter

Our audit procedures included, among others, the following:

We assessed the accounting policies relating to revenue recognition (including multiple element contracts as well as customer loyalty programs) and the impact of new business models.

Furthermore, we assessed the design and implementation of the controls over the revenue processes including the revenue related IT systems (rating, billing and other support systems) and IT general controls with involvement of EY IT specialists.

We performed substantive audit procedures on revenues to corroborate the results of the design and implementation assessment of controls over revenue related processes and IT systems.

3. Restructuring accruals

Description

Telekom Austria shows significant amounts of restructuring accruals (mEUR 501.0 as of December 31, 2017) which consist of accruals for employees, who will no longer provide services but who cannot be laid off due to their status as civil servants, accruals for social plans and accruals for employees transferring voluntarily to the government.

Telekom Austria’s disclosures about restructuring accruals are included in Note 4 (Estimations) and Note 22 (Accrued liabilities and current provisions, asset retirement obligation and restructuring) in the consolidated financial statements.

We considered restructuring accruals as a key audit matter as the related amounts are significant, the determination process itself requires judgment and a change in the assumptions can have a significant impact on the financial statements.

How our audit addressed the matter

Our audit procedures included, among others, the following:

We assessed the legal and contractual basis for the restructuring accruals.

Furthermore, we assessed the design and implementation of the controls over the determination of the Company’s restructuring accruals.

We recalculated the computations of the restructuring accruals and verified the main assumptions (discount rate, rate of compensation increase, participant data as well as employee turnover rate for accruals for employees, who will no longer provide services but who cannot be laid off due to their status as civil servants) used in the calculations.

EY actuaries assisted us in performing the audit procedures relating to restructuring accruals.

We also evaluated the adequacy of disclosures made regarding restructuring accruals and related assumptions.

4. Valuation of deferred tax assets

Description

Telekom Austria shows significant deferred tax assets (mEUR 327.1 as of December 31, 2017) in its consolidated financial statements, a further amount of mEUR 417.0 has not been recognized as the realization is not probable in the near future according to the assessment of the entity based on its tax planning.

Telekom Austria's related disclosures are included in Note 4 (Estimations) and Note 28 (Income Taxes) of the consolidated financial statements. Deferred tax assets and tax loss carryforwards mainly relate to the operations in Austria.

The valuation of deferred tax assets was important for our audit as the assessment process is complex and requires judgement. It is based on assumptions that are affected by future market or economic conditions.

How our audit addressed the matter

Our audit procedures included, among others, the following:

We assessed the design and implementation of the controls over the determination of the Company's deferred tax assets.

We compared forecasted revenue and profit margins as well as capital expenditure for all cash generating units with the Telekom Austria plans submitted to the audit committee and analyzed the main drivers for the future development included in the business plan (to determine the appropriateness of the projections. We also verified the treatment of differences between IFRS and tax law in the planning of future taxable income. We assessed whether the deferred tax assets may be recoverable before the tax loss carryforwards expire.

EY tax specialists assisted us in performing the audit procedures relating to deferred tax assets.

We also evaluated the adequacy of disclosures made regarding deferred tax assets and related assumptions.

Responsibilities of Management and of the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a Austrian Company Code UGB for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Comments on the Management Report for the Group

Pursuant to Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory requirements.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion

In our opinion, the management report for the Group was prepared in accordance with the valid legal requirements, comprising the details in accordance with Section 243a Austrian Company Code UGB, and is consistent with the consolidated financial statements.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether – based on our knowledge obtained in the audit – the other information is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

Additional information in accordance with article 10 EU regulation

We were elected as auditor by the ordinary general meeting at June 9, 2017. We were appointed by the Supervisory Board on October 5, 2017. We are auditors without cease since 2015.

We confirm that the audit opinion in the Section "Report on the consolidated financial statements" is consistent with the additional report to the audit committee referred to in article 11 of the EU regulation.

We declare that no prohibited non-audit services (article 5 par. 1 of the EU regulation) were provided by us and that we remained independent of the audited company in conducting the audit.

Responsible Austrian Certified Public Accountant

The engagement partner is Mr. Erich Lehner, Certified Public Accountant.

Vienna, January 30, 2018

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Erich Lehner mp Wirtschaftsprüfer / Certified Public Accountant	Mag. (FH) Severin Eisl mp Wirtschaftsprüfer / Certified Public Accountant

Consolidated non-financial report

Consolidated non-financial report[1] of Telekom Austria Aktiengesellschaft in accordance with Section 267a (6) of the Austrian Company Code (UGB) on environmental, social and employee matters, as well as combating corruption and bribery

A1 Telekom Austria Group, listed on the Vienna Stock Exchange, is a leading provider of digital services and communications solutions in Central and Eastern Europe with more than 24 million customers, currently operating in seven countries: Austria and Slovenia (A1), Bulgaria (Mobiltel), Belarus (velcom), Croatia (Vipnet), the Republic of Serbia (Vip mobile) and the Republic of Macedonia (one.Vip). More information on the business activity can be found in the Group Management Report 2017.

Telekom Austria Aktiengesellschaft and its subsidiaries, hereinafter referred to as the A1 Telekom Austria Group, strive to increase enterprise value in a sustainable manner, while taking into account all relevant economic, ecological and social aspects. This goal is supported by the Group's commitment to the Austrian Corporate Governance Code and the application of all the requirements of the internal control system, the Code of Conduct and the compliance guidelines. An integrated CSR management system, defined standards and processes, group-wide environmental management, compliance with the principles of the UN Global Compact and regard for human rights ensure the development of strategies and goals oriented towards sustainability and the involvement of all business units and hierarchies.

A materiality analysis was conducted with the help of various interest groups to identify central sustainability issues and material impacts. Goals, which will be reviewed on an annual basis and adjusted if necessary, were derived from the results of the materiality analysis.

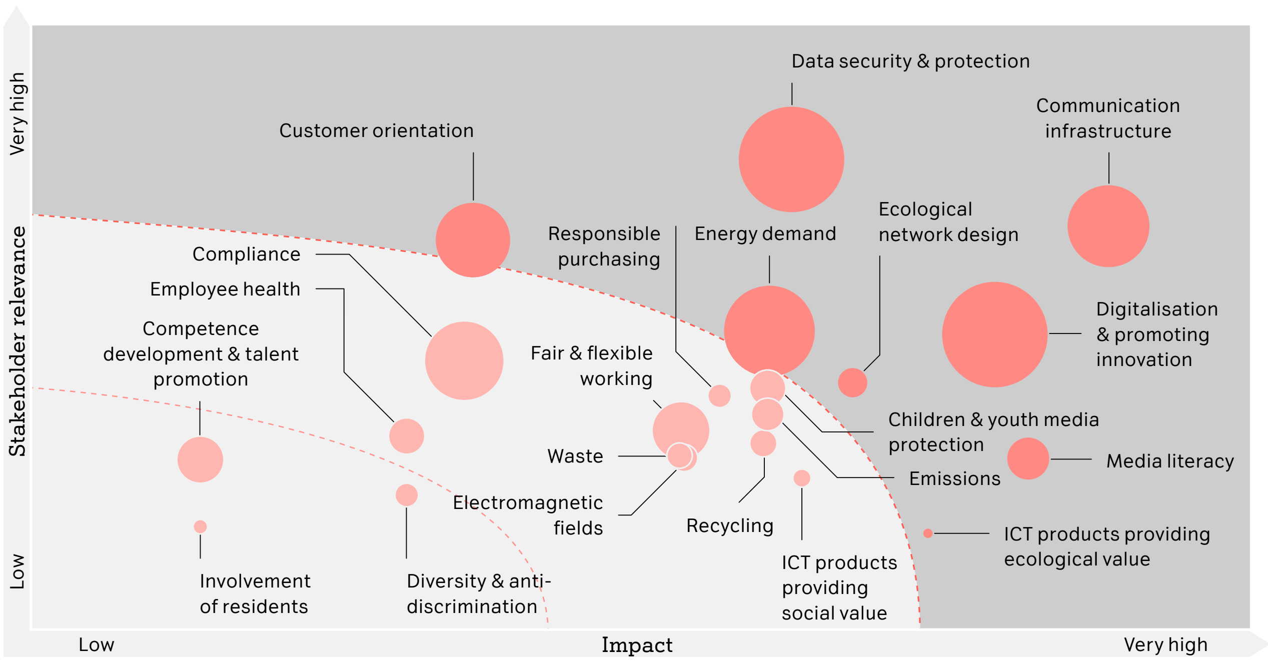
1) The German text of the signed statement, which refers to the German Version of the Report, is the only binding one. The English translation is not binding and shall not be used for the interpretation.

Identifying topics in the context of sustainability

in accordance with the GRI Standard for Sustainability Reports: 102-46

	Involved stakeholders
1. Topic identification ▪ Identifying 68 relevant topics considering the requirements of the GRI Reporting Standard (topics, indicators, sector supplement). Topics determined in the course of the ongoing stakeholder dialogue as well as sector-specific topics were also covered in the process. ▪ Two-stage evaluation process resulting in 21 summarised topic groups ▪ Topic validation by external and internal experts	Internal experts, external experts from the fields of science, research and from NGOs
2. Impact evaluation ▪ Evaluation of potential impact of selected topics in the course of a workshop and in talks with external and internal experts (on a scale of 1 to 4 depending on impact magnitude) ▪ Assessment of relevant initiatives' contribution in the light of the UN's Sustainable Development Goals	
3. Online survey ▪ Assessment of the 21 selected topic groups by internal and external stakeholders in the course of an online survey (response: 700 participants) ▪ Selection and rating of top 10 topics in order of importance	Employees, customers, suppliers, the economy, politicians & special interest groups, media, the scientific, research & education communities

Materiality matrix



Bubble size represents business relevance for A1 Telekom Austria Group.

1 Risks

Unless otherwise stated the significant risks and how to deal with them can be found in the risk report of the A1 Telekom Austria Group's Group Management Report 2017.

2 Information on the material topics derived for the A1 Telekom Austria Group

in accordance with the GRI Standards for Sustainability Reporting: 103-1, 103-2, 103-3

A topic's importance (see the graphic 'identifying topics in the context of sustainability') is based on its impacts on the environment, society, economy as well as how interesting it is to A1 Telekom Austria Group's stakeholders. Thus, the topics most important to A1 Telekom Austria Group are those that have the biggest impact and those that are most relevant to the stakeholders. As an additional dimension, the topics were assessed with regards to their business relevance for A1 Telekom Austria Group. This allows for a perspective that takes into account the topics' sustainability context and their economical significance for the company.

In the following, the A1 Telekom Austria Group reports on its own activities and measures with regard to all topics considered material, which are listed below. Within the A1 Telekom Austria Group, responsibilities for all of these topics have been defined in one or several departments.

a) Security and data protection

The topic of security and data protection was identified as material by all stakeholder groups in the materiality analysis 2017. Through its business operations, the A1 Telekom Austria Group directly contributes to data protection in its markets.

Included in the management approaches applied are certifications such as ISO 27001, the security information policy and business continuity plans. These aim to guarantee state-of-the-art data protection and a high security standard in order to avoid negative impacts within and outside the company as best as possible. Also used for this purpose are the security information policies and the security information standards (see also Group Management Report 2017) and the implementation of teams that respond professionally to cyber incidents (e. g. A1 CERT = computer emergency response team). Important security aspects are coordinated group-wide, such as the implementation of the EU General Data Protection Regulation (GDPR) – supported by sharing experiences in national (e. g. cyber security platform of the Austrian Federal Chancellery) and international security associations (e. g. ETIS). The service lines, employees in shops, support communities and contact forms on the websites are available as complaint mechanisms to all stakeholders. The position of data officer has also been created within the A1 Telekom Austria Group in response to the broader requirements for companies imposed by the General Data Protection Regulation of the European Union. At the core of this regulation is the protection of personal data. The EU General Data Protection Regulation will enter into force on 25 May 2018, and since 2016, the A1 Telekom Austria Group has been working to gradually enact it in the countries covered by the regulation. Furthermore, the A1 Telekom Austria Group encourages training and further education regarding security and data protection.

Management systems are evaluated regularly. For example, the ISO certifications are evaluated annually and these were also carried out in 2017. Effectiveness is reviewed and monitored regularly on the basis of predefined key figures, which are not disclosed for competitive reasons. Adjustments are made on an intra-year basis, if necessary. In addition, a total of 32,246 different e-learning modules on the topic of data protection were completed group-wide in 2017.

b) Communication infrastructure

In the materiality analysis 2017, the topic 'communication infrastructure' was identified as material both by stakeholders (particularly business representatives, customers and the media) and with regard to impacts. The A1 Telekom Austria Group makes a direct contribution in its markets by means of its business operations, which include the installation of communication infrastructure.

The A1 Telekom Austria Group is pursuing demand-oriented infrastructure expansion with the goal of driving forward digitalisation in its markets. The infrastructure expansion is an important part of A1 Telekom Austria Group's technology strategy. The strategy takes the approach of ensuring a secure and stable network with a high level of system stability and the best possible transmission rates. Complaint mechanisms for products such as shops, service lines and contact forms on the websites are available to all stakeholders.

The dynamic growth of the data volumes transported via the networks of the A1 Telekom Austria Group will be accounted for by extensive development activities. To prepare for future requirements and enable the development of new products and services, the further development of network infrastructure will be the focus of the Group's innovation strategy.
A central point of the A1 Telekom Austria Group is the digital transformation of its network infrastructure, which it successfully continued in 2017 as well. Management systems such as ISO 9001 support this development.

In this context, the convergence of fixed-line and mobile networks is playing an instrumental role. Furthermore, data centres are increasingly relevant as part of the network infrastructure. In 2017, the A1 Telekom Austria Group laid the groundwork for an ultra-modern data centre in Vienna and successfully concluded the construction of a data centre with cutting-edge technology in Belarus.

In Austria, the fixed-line broadband expansion continues to be driven forward by the accelerated fibre roll-out in the form of FTTC (fibre to the curb), FTTB (fibre to the building) and FTTH (fibre to the home). While fibre is being brought closer and closer to the customers, the capacity of existing copper lines is also being increased. This is being done with a combination of vectoring – a technology for suppressing interfering signals – with transmission technologies such as VDSL2 and G.fast. In this case, the target transmission rates are several 100 Mbps for medium line distances. G.fast data rates provide up to 500 Mbps. In lab experiments, several Gbps could already be transmitted with further development of G.fast. With hybrid modems, mobile and fixed-line infrastructure are brought together in order to enable higher speeds. The undivided bandwidth and high capacity of a DSL fixed broadband line is combined with the peak data rates of the A1 LTE network and provided to customers for home internet access.

The A1 Telekom Austria Group offers the LTE (long-term evolution) mobile communication standard in Austria, Bulgaria, Croatia, Slovenia, the Republic of Serbia and the Republic of Macedonia. The accelerated roll-out of 4G LTE Advanced in 2017 led to a significant improvement in the supply of fast mobile internet in Austria, Slovenia, Croatia, the Republic of Serbia and the Republic of Macedonia. The A1 Telekom Austria Group is using LTE carrier aggregation with 256 QAM at selected locations in Austria, Croatia and the Republic of Serbia, enabling data rates of up to 300 Mbps. In reporting year 2017, the use of 4x4 MIMO (multiple input multiple output) during a field test produced data transmission rates of over 850 Mbps in Slovenia. MIMO is a process in which the radio connection is improved with severally antennas used in parallel. Carrier aggregation, complex modulation techniques and massive MIMO, a further development of 4x4 MIMO will also play a key role in the 5G standard since these serve as a technological basis for high bandwidths and the particularly efficient use of available frequency bands.

Management systems are evaluated regularly. For example, the ISO certifications are evaluated annually and were also carried out successfully in 2017. Effectiveness is reviewed and monitored regularly, as well as adjusted if necessary, on the basis of predefined key figures, which are not disclosed for competitive reasons.

c) Digitalisation and promoting innovation

The materiality analysis 2017 determined that the topic of digitalisation and promoting innovation is considered as material – both to stakeholders (particularly those in science and education, business representatives and the media) and with regard to the impacts. Digitalisation is promoted primarily by telecommunications companies, whereby the A1 Telekom Austria Group has a direct and indirect impact on society, the environment and the economy with regards to this issue.

A1 Telekom Austria Group sees itself as an enabler of digitalisation and is driving it forward in its markets. The growing significance of digitalisation is taken into account with A1 Digital International GmbH. A1 Digital International GmbH offers digital services to actively support companies in the digitalisation process. A1 Digital International GmbH focuses on two areas in particular: Internet of Things (IoT) and cloud-based ICT solutions. In the first case, the company is able to look back on many years' worth of experience because the pre-existing Machine-to-Machine-(M2M) business is part of the new company. The IoT product portfolio comprises solutions such as smart metering, fleet management, managed connectivity and asset tracking. In the second case, software solutions are offered predominantly to small and medium-sized enterprises, which then help to make their communication, sales or infrastructure requirements more cost-efficient and flexible. With the Infrastructure-as-a-Service (IaaS) solutions, complex and costly acquisition and modernisation of hardware, such as servers, is reduced and thereby resources are also conserved.

Innovation is encouraged by supporting new companies as part of the "A1 Start Up Campus" initiative by the Austrian subsidiary. By 2017, 12 start-ups had already been promoted since the initiative started in 2011. Research partnerships with notable scientific and industrial partners and joint projects with national and international institutions are supporting the A1 Telekom Austria Group in the launch of technologies of the future for market and customer-oriented communications solutions. The A1 Telekom Austria Group is also a partner of the Industry 4.0 platform and is addressing the interoperability of IoT platforms within the Europe-wide H2020 project symbIoTe.

The effectiveness of management systems used is reviewed and monitored regularly, as well as adjusted if necessary.

d) Customer orientation

In the materiality analysis 2017, the topic of customer orientation was identified as material by stakeholders (especially by customers, suppliers, business representatives and employees). An impact on the A1 Telekom Austria Group's business and private customers is provided. The A1 Telekom Austria Group directly contributes to the impact through its business operations.

The A1 Telekom Austria Group's objective is, in addition to providing high-performance fixed-line and mobile infrastructure, to become the first point of contact and key partner for the digital transformation of companies in order to unlock new potential in digital services, such as cloud and ICT solutions. A variety of management approaches are used for this purpose in order to offer customers the best possible service. Complaint mechanisms such as service lines, e-mails and contact form on the company websites are available to all stakeholders in the A1 Telekom Austria Group.

The effectiveness of the management system is reviewed regularly basis and then measures are taken and adjustments are made if necessary, based on predefined key figures, which are not published for competitive reasons.

e) Energy demand and ecological network design

In the materiality analysis 2017, the topic of energy demand was identified as material with regard to impacts and by stakeholders (especially business representatives, politicians and the media). The A1 Telekom Austria Group has a direct impact primarily through operating the communication infrastructure as part of its business operations. The topic of ecological network design, which includes the activities and measures for sustainably creating the company's own infrastructure, was identified as being material in the materiality analysis 2017 with regard to the impacts. The A1 Telekom Austria Group has a direct impact on the environment through the installation and operation of the communication infrastructure.

RGUs[1] ('000)	2017 reported	2016 reported	Change in %
in Austria	3,390.4	3,495.5	-3.0
in Bulgaria	1,005.0	1,018.9	-1.4
in Croatia	654.1	620.1	5.5
in Belarus	463.4	279.4	65.9
in Slovenia	183.0	172.0	6.4
in the Republic of Macedonia	340.7	314.3	8.4
Total	**6,036.5**	**5,900.2**	**2.3**
of which broadband RGUs in Austria	1,447.3	1,481.0	-2.3
of which broadband RGUs in Bulgaria	434.8	429.3	1.3
of which broadband RGUs in Croatia	250.0	234.4	6.7
of which broadband RGUs in Belarus	212.0	132.0	60.6
of which broadband RGUs in Slovenia	70.4	70.2	0.2
of which broadband RGUs in the Republic of Macedonia	114.6	102.0	12.3
TV RGUs	1,421.4	1,284.3	10.7
Mobile communication customers ('000)			
in Austria	5,335.2	5,438.7	-1.9
in Bulgaria	3,977.1	4,108.1	-3.2
in Croatia	1,772.7	1,720.0	3.1
in Belarus	4,864.2	4,944.9	-1.6
in Slovenia	703.3	714.3	-1.5
in the Republic of Serbia	2,182.8	2,145.3	1.7
in the Republic of Macedonia	1,072.3	1,103.6	-2.8
Total	**20,657.7**	**20,707.8**	**-0.2**

1) Revenue generating unit

The A1 Telekom Austria Group has set itself the goal of stabilising or rather reducing energy demand and, at the same time, reducing CO_2 emissions. The Austrian subsidiary is doing this with the help of recognised management systems such as ISO 50001 for energy management and ISO 14001 for environmental management. The network design should be carried out as ecologically as possible, depending on the framework conditions. The A1 Telekom Austria Group has summarised its commitment in a group-wide environment policy. It has set itself the goal of reducing energy demand per transferred data volume by 30% from 2015 to 2018 (based on 2015, measured by MWh per terabyte) and reduce CO_2 emissions by 25% by 2020 (based on 2012). From 2015 to 2017, the energy requirement for transported data volumes had already been reduced by 59%.

Management systems are evaluated regularly intervals. For example, the ISO certifications are evaluated annually and was successfully acquired for 2017. Effectiveness is reviewed and monitored regularly on the basis of predefined key figures. Adjustments are made throughout the year if necessary.

Direct and indirect energy (in MWh)

In accordance with the GRI Standard for Sustainability Reports: 302-1, 302-4

2017	Electricity[1)]	Heating fuels[2)]	District heating	Fuels[3)]	Total energy consumption
Austria	298,853	16,572	29,321	48,297	393,044
Bulgaria	108,380	126	298	12,170	120,973
Croatia	59,643	3,798	3,861	4,602	71,904
Belarus	75,548	0	3,346	4,809	83,703
Slovenia	32,381	0	278	626	33,284
Republic of Serbia	43,772	81	1,452	2,797	48,102
Republic of Macedonia	36,778	2,085	0	1,917	40,780
A1 Telekom Austria Group	**655,355**	**22,662**	**38,556**	**75,218**	**791,790**
2016					
Austria	298,986	16,227	28,869	49,532	393,614
Bulgaria	86,175	128	407	10,758	97,469
Croatia	57,742	3,694	3,671	4,203	69,309
Belarus	75,715	0	3,235	4,280	83,230
Slovenia	28,403	0	276	530	29,208
Republic of Serbia	37,732	0	1,071	2,721	41,524
Republic of Macedonia	35,939	1,484	0	2,032	39,455
A1 Telekom Austria Group	**620,692**	**21,533**	**37,530**	**74,056**	**753,810**
Change in 2017 compared with 2016 (in %)					
Austria	0.0	2.1	1.6	-2.5	-0.1
Bulgaria	25.8	-2.1	-26.8	13.1	24.1
Croatia	3.3	2.8	5.2	9.5	3.7
Belarus	-0.2	n. m.	3.4	12.4	0.6
Slovenia	14.0	n. m.	0.5	18.1	14.0
Republic of Serbia	16.0	n. m.	35.5	2.8	15.8
Republic of Macedonia	2.3	40.5	n. m.	-5.7	3.4
A1 Telekom Austria Group	**5.6**	**5.2**	**2.7**	**1.6**	**5.0**

At the time of preparation, the environmental indicators for the 2017 financial year were not yet available. In the table above, the figures include the period from 1 November 2016 to 31 October 2017, which can be considered a representative comparison period for the 2017 financial year. There were no significant requirement changes wherefore no fluctuations are assumed. Tables are subject to rounding differences.
1 joule = $2.77777778 \times 10^{-10}$ MWh
1) Acquisition and own production, as well as diesel for emergency power generator
2) Oil and gas, not climatically adjusted
3) Diesel, petrol, CNG, LPG and natural gas without diesel for emergency power generator

The rise in electricity consumption in Bulgaria by 26 % between 2016 and 2017 is due to the merger with the cable network operator blizoo. On the contrary "district heating" for Bulgaria 2016 already includes blizoo: Due to the closure of blizoo shops "district heating" dropped by 27 % between 2016 and 2017.

Direct and indirect greenhouse gas emissions (CO_2 equivalent in t)

In accordance with the GRI Standard for Sustainability Reports: 305-1, 305-2, 305-5

		Indirect (Scope 2)		Total (Scope 1+2)		Total (Scope 1+2+complete)	
2017	Direct (Scope 1)	location based	market based	location based	market based	location based	market based
Austria	17,090	100,311	8,777	117,401	25,867	101,483	9,949
Bulgaria	4,443	61,705	61,705	66,148	66,148	66,148	66,148
Croatia	2,319	27,300	27,300	29,619	29,619	29,619	29,619
Belarus	1,744	20,352	20,352	22,097	22,097	22,097	22,097
Slovenia	174	13,617	7,812	13,791	7,986	13,791	7,986
Republic of Serbia	982	38,174	38,174	39,156	39,156	39,156	39,156
Republic of Macedonia	1,115	26,501	26,501	27,615	27,615	27,615	27,615
A1 Telekom Austria Group	**27,867**	**287,960**	**190,621**	**315,827**	**218,488**	**299,909**	**202,570**
2016							
Austria	17,587	100,136	8,733	117,723	26,320	101,353	9,950
Bulgaria	4,049	48,947	48,947	52,995	52,995	52,995	52,995
Croatia	2,183	26,411	26,411	28,593	28,593	28,593	28,593
Belarus	1,497	29,429	29,429	30,926	30,926	30,926	30,926
Slovenia	141	11,952	6,065	12,093	6,206	12,093	6,206
Republic of Serbia	978	32,785	32,785	33,763	33,763	33,763	33,763
Republic of Macedonia	985	25,669	25,669	26,653	26,653	26,653	26,653
A1 Telekom Austria Group	**27,419**	**275,328**	**178,038**	**302,747**	**205,457**	**286,377**	**189,087**
Change in 2017 compared with 2016 (in %)							
Austria	-2.8%	0.2%	0.5%	-0.3%	-1.7%	0.1%	0.0%
Bulgaria	9.7%	26.1%	26.1%	24.8%	24.8%	24.8%	24.8%
Croatia	6.3%	3.4%	3.4%	3.6%	3.6%	3.6%	3.6%
Belarus	16.5%	-30.8%	-30.8%	-28.6%	-28.6%	-28.6%	-28.6%
Slovenia	23.6%	13.9%	28.8%	14.0%	28.7%	14.0%	28.7%
Republic of Serbia	0.4%	16.4%	16.4%	16.0%	16.0%	16.0%	16.0%
Republic of Macedonia	13.2%	3.2%	3.2%	3.6%	3.6%	3.6%	3.6%
A1 Telekom Austria Group	**1.6%**	**4.6%**	**7.1%**	**4.3%**	**6.3%**	**4.7%**	**7.1%**

At the time of preparation, the environmental indicators for the 2017 financial year were not yet available. In the table above, the figures include the period from 1 November 2016 to 31 October 2017, which can be considered a representative comparison period for the 2017 financial year. There were no significant requirement changes wherefore no fluctuations are assumed.
According to GHG protocol, "location-based scope 2" figures refer to the average emissions factors in the area in which the energy consumption takes place. The average value at national level is used.
According to GHG protocol, "market-based scope 2" figures refer to energy suppliers' emissions factors, insofar as these are available, or an individual energy product.

f) Media literacy

In the materiality analysis 2017, the topic of media literacy was identified as material with regard to the impact. Secure and competent dealings with new media is essential for employment and therefore also contributes to closing the digital gap. The A1 Telekom Austria Group's "A1 Internet for All" media literacy initiative offers free courses for everyone for encouraging dealing with digital media. This has a direct impact on society and the economy. Regarding media literacy no risks for the A1 Telekom Austria Group are known.

The A1 Telekom Austria Group has set itself the goal to make a contribution to closing the digital gap. With the help of the group-wide "A1 Internet for All" initiative, it promotes media literacy in the countries in which it operates. The A1 Telekom Austria Group set itself the goal of reaching 150,000 participations in free internet trainings by 2018. As of year-end 2017 the "A1 Internet for All" initiative has already had more than 153,000 participations since 2011 so the goal had already been achieved.

Performance is reviewed and monitored regularly based on predefined key figures. In Austria, the initiative is supported and evaluated scientifically by the NPO Centre of the Vienna University of Economics. In 2017, it was reconfirmed that "A1 Internet for All" makes a contribution to closing the digital gap in Austria. Adjustments are made throughout the year if necessary.

Media literacy training: "A1 Internet for All"

	2017 Participations	2016 Participations	Change in %
Austria	26,615	23,549	13.0
Bulgaria	2,087	1,625	28.4
Croatia	42	75	-44.0
Belarus	20	n. a.	n. a.
Slovenia	13	150	-91.3
Republic of Serbia	40	100	-60.0
Republic of Macedonia	n. a.	n. a.	n. a.
A1 Telekom Austria Group	**28,817**	**25,499**	**13.0**

g) ICT products providing ecological value

Included among ICT products providing ecological value are products and services that make a significant contribution to more efficient use of resources and enable the user to reduce their environmental footprint. In the materiality analysis 2017, the topic was identified as material with regard to the impact. A direct impact within and outside the company is caused by the development of relevant products. Regarding ICT products providing ecological value no risks for the A1 Telekom Austria Group are known.

ICT products with environmental added value are developed through regular evaluation of client requirements and innovation management and can contribute to reducing CO_2 emissions and preserving resources. Complaint mechanisms for products such as shops, service lines and contact forms on the websites are available to all stakeholders.

Management systems are evaluated regularly. Effectiveness is reviewed and monitored regularly, as well as adjusted if necessary, on the basis of predefined key figures, which are not published for competitive reasons.

3 Environmental issues

In terms of environmental issues, the significant impact by the A1 Telekom Austria Group is energy consumption. Approximately 80 % of its total energy consumption is made up by operating its network. This includes the most important environmental measures to achieve maximum efficiency in this regard and reduce the energy demand. See also material topics: Energy demand and ecological network design.

The environmental management system at A1 Telekom Austria Aktiengesellschaft, A1 Slovenija d.d., Vip mobile d.o.o. and one.Vip DOOEL is certified in accordance with ISO 14001. Furthermore, EMAS (eco management and audit scheme) requirements in Austria and Slovenia are met. Energy management at A1 Telekom Austria Aktiengesellschaft is also ISO 50001 certified. Since 2014, A1 Telekom Austria Aktiengesellschaft has been the first carbon neutral network in Austria to be assessed and validated by TÜV SÜD in line with the PAS 2060 international standard.

4 Social issues and employee matters

The A1 Telekom Austria Group had 18,957 employees at the end of 2017 (2016:18,203). Headcount in the Austrian segment was reduced by around 1 % to 8,246 employees as part of the ongoing restructuring measures. Around 47 % of existing employees have civil servant status. The segments outside of Austria saw an increase of approximately 8 % to 10,366 employees. This increase was mainly driven by M&A activities in Croatia and Belarus, as well as higher salesforce numbers.

Employees[1] as of 31 December 2017

	2017	2016	Change in %
Austria	8,246	8,352	-1.3
Bulgaria	3,751	3,808	-1.5
Croatia	1,680	1,288	30.4
Belarus	2,575	2,248	14.6
Slovenia	565	532	6.2
Republic of Serbia	977	917	6.5
Republic of Macedonia	819	822	-0.4
Holding & Other (incl. A1 Digital)	345	238	45.2
A1 Telekom Austria Group	**18,957**	18,203	**4.1**

1) Full-time employees

To further expand its competitiveness and innovative drive, the A1 Telekom Austria Group invests in sound professional training for its employees on an ongoing basis and is increasingly using a central e-learning platform to provide training to all its employees throughout the company wherever and whenever. The platform currently comprises 14 learning providers and 894 online courses and virtual classes. In 2017, employees completed online courses. Furthermore, employee skills are also developed using a group-wide collaborative tool that ensures virtual teamwork within the company. The A1 Learning Hub (formerly the A1 Telekom Austria Group Business School) functions as a platform for in-person training. It developed and organised more than 30 training opportunities for 500 participants in the course of 2017. In addition to this central training, the A1 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 A1 Telekom Austria Group in Austria is particularly committed to apprenticeship training and offers university and college graduates a twelve-month graduate programme.

Another core element of the opportunities of social and employee matters is presented in the topic of fair and flexible working conditions within the company, which came up in the materiality analysis. Fair and flexible working means creating framework conditions that make flexible work in terms of time and location possible, whilst meeting all statutory requirements. In this sense, virtual collaboration and flexible working time models are encouraged to enable work that is independent of time and location. In addition, up-to-date performance management is used, which increasingly focuses on further training for employees.

Diversity among employees is seen as the central driver of the company vision “Empowering digital life” and encourages the guiding principles of “Team, Trust and Agility” through communication. Supporting women is one of the core elements of promoting diversity. A1 Telekom Austria Group has set itself the goal of increasing the proportion of women in management positions at the company to 38 % by 2018. At the end of 2017, the proportion was 36 %.

Proportion of female employees and proportion of female managers as of 31 December 2017

	2017 (in %) Proportion of female employees	2016 (in %) Proportion of female employees	2017 (in %) Proportion of female managers[1]	2016 (in %) Proportion of female managers
Austria	26	26	19	19
Bulgaria	49	48	50	54
Croatia	41	41	39	43
Belarus	53	67	46	40
Slovenia	44	40	45	39
Republic of Serbia	58	53	49	46
Republic of Macedonia	45	45	40	50
A1 Telekom Austria Group	**38**	39	**36**	36

1) Managers includes all persons with staff responsibility for at least one employee.

Proportion of locals in leadership teams and proportion of women in senior management positions as of 31 December 2017

	2017 (in %) Proportion of locals in leadership teams[1]	2016 (in %) Proportion of locals in leadership teams	2017 (in %) Proportion of women in senior management positions[2]	2016 (in %) Proportion of women in senior management positions
Austria	100	100	40	57
Bulgaria	89	89	22	22
Belarus	57	27	0	0
Cluster Croatia/ Macedonia	78	86	11	14
Cluster Serbia/ Slovenia	100	44	38	33
A1 Telekom Austria Group	**84**	70	**21**	24

1) Locals includes all those who have citizenship for the country in which they work. A leadership team consists of Senior Directors and the respective Chief Executive Officers.
2) Persons in senior management positions are part of the local leadership team.

In addition to central innovation and training offers, the A1 Telekom Austria Group subsidiaries have also developed their own training and health initiatives tailored to the needs of their respective markets. For example, this includes company physicians, health days and blood drives.

5 Compliance and combating corruption

Acting with honesty, fairness and transparency operation is an important component of the corporate culture at the A1 Telekom Austria Group. In order to achieve this standard of integrity, the company has a comprehensive compliance management system. The example set by top management and the responsibility of all employees for their own actions are increasingly important, in particular. In order to avoid misconduct, the A1 Telekom Austria Group has determined clear rules for acting in a manner complying with the law and with integrity in all business relationships. In addition, appropriate controls have been integrated within its business processes. With its admission to UN Global Compact, A1 Telekom Austria Group has been committed to implementing fundamental requirements in the areas of human rights, work, environment and combating corruption.

The group-wide Code of Conduct was revised in 2017 and adapted to the new guiding principles. In addition to the Code of Conduct, which is available in every national language of the subsidiaries, as well as in English, there are also detailed compliance guidelines providing assistance on specific topics. This includes the Anti-Corruption and Conflicts of Interest guidelines, which were also revised in 2017 and correspond to the ISO 37001 international standard. The compliance guidelines provide support in ensuring that acting with integrity is a natural part of daily work. Furthermore, the effectiveness of the compliance management system is supported by regular communication measures and training, the "ask.me" helpdesk, internal audits and the anonymous whistleblowing platform "tell.me".

The needs-based further development of the compliance program is ensured by the annual compliance risk assessment. In 2016 and 2017, essential elements of the group-wide compliance management system were reviewed for effectiveness by Group Internal Audit and Group Compliance with a successful outcome. Communication measures for promoting acting with integrity and compliance-relevant measures in hiring new managers and employees were also audited. Process and documentation requirements in conjunction with donations and sponsorship were also reviewed, as was compliance with internal regulations for gifts and invitations.

In order to again highlight the importance of compliance across the entire company, a group-wide e-learning was rolled out in 2017. In 2017, 1,206 managers and employees took part in 143 anti-corruption training courses.

Vienna, 30 January 2018
The Management Board

Alejandro Plater, CEO & COO
A1 Telekom Austria Group

Siegfried Mayrhofer, CFO
A1 Telekom Austria Group

GRI Content Index

In accordance with the GRI Standards under the core option as well as the Telecommunications Supplement Pilot Version 1.0.

The following GRI Content Index lists all topics that have been identified as material for A1 Telekom Austria Group as a whole in the course of the materiality assessment in 2017. Information concerning the role of the Supervisory Board is provided in the Corporate Governance Report, which is part of the combined Annual Report of the A1 Telekom Austria Group. For information on the extent and details of the external verification, we refer to the assurance statement online: https://report2017.A1.group

Unless indicated otherwise, page numbers refer to the combined 2017 Annual Report of the A1 Telekom Austria Group.

● full ○ partial

	Description	Reference / response	Reporting level
GRI 102: General Disclosures 2016			
Organizational profile			
102-1	Name of the organization	See page 4f	●
102-2	Organisation's most important brands, products and services	See page 4f and Group Management Report 2017	●
102-3	Location of headquarters	See page 167	●
102-4	Countries in which the organisation operates to a significant extent	See page 4f	●
102-5	Ownership and legal form	See page 4f, 21ff and Group Management Report 2017	●
102-6	Markets served	A1 Telekom Austria Group offers its products and services to business and private customers from all sectors. See page 4 and Group Management Report 2017	●
102-7	Scale of the organization	A1 Telekom Austria Group has seven operating companies that are in accordance with the GRI definition of 'operation'. In some cases, the holding company also fulfils these criteria and is highlighted accordingly. See page 21ff and Group Management Report 2017	●
102-9	Supply chain	See page 13 and www.A1.group/en/csr/sustainable-supply-chain-management	●
102-10	Significant changes to the organization and its supply chain	No significant changes in the reporting period to the organisation's size, structure and supply chain in the reporting period. See page 21 for details on the ownership structure.	●
102-11	Precautionary Principle or approach	In all its activities, A1 Telekom Austria Group honours the precautionary principle by taking into account potential future developments and findings in its decisions (e.g. scenario analysis in the context of risk management, please see Group Management Report 2017).	●
102-12	External initiatives	See page 11	●
102-13	Association memberships	See page 11	●
Strategy			
102-14	Highest decision-maker's statement on the importance of sustainability and organisation's sustainability strategy	See page 6	●

Ethics and integrity

102-16	Organization's values and code of conduct	See page 9ff, 32 Code of Conduct: www.A1.group/en/group/compliance-guidelines	●

Governance

102-18	Governance structure	Since 2010, A1 Telekom Austria Group has been using a group-wide, integrated sustainability management system. A Corporate Sustainability Team, as part of Group Communiations and Sustainability, reports directly to the CEO. With the introduction of an internal social media platform, A1 Telekom Austria Group established a digital group-wide knowledge platform and communicates and coordinates its sustainability activities through it.	●

Stakeholder engagement

102-40	List of incorporated stakeholder groups	Employees, customers, suppliers, the economy, politicians and special interest groups, the media, scientific, research & education communities See also www.A1.group/en/csr/sustainability-strategy	●
102-41	Collective bargaining agreements	50 % of all employees are covered by the provisions of collective bargaining agreements. National requirements are observed at all subsidiaries. See also page 24	●
102-42	Basis for identifying and selecting stakeholders	All groups that are impacted by A1 Telekom Austria Group's regular business activity form the basis for stakeholder identification. Stakeholder selection was based on priorisation via internal databases.	●
102-43	Approach to stakeholder involvement and whether stakeholders have been involved in report preparation	See page 12	○
102-44	Key topics and concerns raised	As a result of another materiality analysis in the spring of 2017, the topics of data security and protection as well as communications infrastructure emerged as the most important ones. Both customers and suppliers rank data security and protection as the most significat topic. Employees, on the other hand, regard fair and flexible working as the most important topic. Overall, stakeholders give topics such as waste and employee health less priority. See also page 12	○

Reporting practice

102-45	Entities included in the consolidated financial statements	See Consolidated Financial Statements 2017	●
102-46	Defining report content and topic Boundaries	Boundaries for material topics were defined according to an impact assessment inside and/or outside the organisation. A1 Telekom Austria Group's ability to influence the topic was considered as well. See also www.A1.group/en/csr/sustainability-strategy	○
102-47	List of material topics	See page 12	●
102-48	Restatements of information	No re-phrasing of information from past reports took place. In 2017, the Sustainability Report was merged with the Annual Report to form one combined report for the A1 Telekom Austria Group.	●
102-49	Changes in reporting	No changes to the extent and topical boundaries compared to earlier reporting periods. In 2017, the Sustainability Report was merged with the Annual Report to form one combined report for the A1 Telekom Austria Group.	●
102-50	Reporting period	Full year 2017 if not stated otherwise. Environmental KPIs were collected for the period 1 November 2016 to 31 December 2017 and can be considered as representative for the full year 2017.	●
102-51	Date of most recent report	The report for the 2016/2017 period was published in July 2017.	●
102-52	Reporting cycle	In 2017, the Sustainability Report was merged with the Annual Report to form one combined report for the A1 Telekom Austria Group. It is published once a year.	●
102-53	Contact point for questions regarding the report	See page 5	●
102-54	Reporting in accordance with GRI Standards	See page 156	●
102-55	GRI content index	See page 156	●
102-56	External assurance	See https://report2017.A1.group	●

GRI 103: Management Approach 2016

103-1 103-2 103-3	Material topics explanation and boundaries Components of the management approach Evaulation of the management approach	Based on the materiality analysis the following topics are material: communication infrastructure, data security & protection, digitalisation & promoting innovation, ecological network design, energy demand, customer orientation, media literacy and ICT products providing ecological value. See page 146	●

GRI 201: Economic Performance 2016

201-1	Direct economic value generated and distributed	Net added value 2017: EUR 861 mn to employees, EUR 705 mn for paid investments, EUR 267 mn to capital providers and EUR 130 mn to public agencies.	●

GRI 202: Market Presence 2016

202-2	Proportion of senior management hired from the local community	See page 165	○

GRI 203: Indirect Economic Impacts 2016

203-1	Infrastructure investments and services supported	See page 16 and Consolidated Financial Statements 2017	○
203-2	Significant indirect economic impacts	See page 28ff	○

GRI 205: Anti-corruption 2016

205-1	Operations assessed for risks related to corruption	In 2016, the holding company as well as the seven operating companies A1, Mobiltel, velcom, Vipnet, A1 Slovenija, Vip mobile and one.Vip were internally assessed with regard to corruption risks. The companies generated almost 100 % of A1 Telekom Austria Group's overall turnover and all locations of the above-mentioned subsidiaries were taken into account. In the course of the risk analysis, the Management analysed 18 different corruption scenarios and defined mitigating measures. Taking into consideration the measures that have already been implemented, no significant remaining risks were identified. See page 32	●
205-2	Communication and training about anti-corruption policies and procedures	All employees and business partners are given access to information on compliance as well as corruption prevention (see www.A1.group/en/group/compliance). Almost 100 % of employees, managers and suppliers were actively informed. Approximately 17,844 (approx. 94 %) of employees and managers (including Board members) received training on corruption prevention. The Holding's Supervisory Board and Executive Board as well as all subsidiaries receive corruption prevention information at least once per year, the entire Executive Board receives training annually. See page 32, 162	○

GRI 301: Materials 2016

301-3	Reclaimed products and their packaging materials	See page 28, 164	○

GRI 302: Energy 2016

302-1	Energy consumption within the organization	See page 16, 28ff, 163	○
302-2	Energy consumption outside of the organization	In 2017, energy consumption outside the organisation came in at 80,293 MWh. This includes the power used by mobile phones sold to customers as well as A1 Telekom Austria Group business trips by taxi, train or aeroplane.	●
302-3	Energy intensity	See page 16, 163	●
302-4	Reduction of energy consumption	See page 16, 28ff, 163	●
302-5	Reductions in energy requirements of products and services	See page 16	○

GRI 305: Emissions 2016

305-1	Direct (Scope 1) GHG emissions	Biogenic Scope 1 emissions amounted to 1,313 tons of CO_2; no data is available for Scope 2 and Scope 3 emissions. See also page 165	●
305-2	Energy indirect (Scope 2) GHG emissions	See page 165	●
305-3	Other indirect (Scope 3) GHG emissions	See page 165	●
305-4	GHG emissions intensity	See page 165	●
305-5	Reduction of GHG emissions	See page 165	●
305-7	Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions	See page 162	○

GRI 306: Effluents and Waste 2016

306-2	Waste by type and disposal method	A1 Telekom Austria Group is committed to proper waste disposal and complies with the regulations in the respective countries. See also page 163	○

GRI 401: Employment 2016

401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Benefits are available to all employees equally.	○

GRI 404: Training and Education 2016

404-2	Programs for upgrading employee skills and transition assistance programs	See page 24ff	○
404-3	Percentage of employees receiving regular performance and career development reviews	At A1 Telekom Austria Group, a group-wide performance management standards process make sure that the quantifiable performance of employees is given just as much attention as the 'how' aspect of their daily work based on A1 Telekom Austria Group's Guiding Principles. Personal development is a major aspect within the performance management process and will be even more in focus in the years to come. Contemporary styles of leadership strongly include the use of feedback. A1 Telekom Austria Group encourages employees to appreciate each other using peer-to-peer feedback based on behavioural best practice examples in line with the Guiding Principles. See page 24ff	○

GRI 405: Diversity and Equal Opportunity 2016

405-1	Diversity of governance bodies and employees	See page 165, Corporate Governance Report 2017 and Consolidated Financial Statements 2017	●

GRI 418: Customer Privacy 2016

418-1	Number of substantiated complaints concerning breaches of customer privacy and loss of customer data	No substantiated complaints regarding the violation of customers' privacy were submitted in 2017, the year under review.	○

Telecommunications Sector Supplement—Internal Operations 2003

IO6	Policies and practices with respect to Specific Absorption Rate (SAR) of handsets	Only devices that comply with the relevant standards (EN 50360, EN 50566) are considered in the product portfolio of A1 Telekom Austria Group.	●

Telecommunications Sector Supplement—Providing Access 2003

PA1	Policies and practices to enable the deployment of telecommunication infrastructure and access to telecommunication products and services in remote and low population-density areas. Explanation of business models applied	see page 16ff	●
PA2	Policies and practices to overcome barriers for access and use of telecommunication products and services including: language, culture, illiteracy, lack of education, income, disabilities, and age. Explanation of business models applied	See page 28f	●
PA3	Policies and practices to ensure availability and reliability of telecommunications products and services	The A1 Telekom Austria Group is pursuing demand-oriented infrastructure expansion with the goal of driving forward digitalisation in its markets. The infrastructure expansion is an important part of A1 Telekom Austria Group's technology strategy. The strategy takes the approach of ensuring a secure and stable network with a high level of system stability and the best possible transmission rates. See page 20	○
PA4	Quantify the level of availability of telecommunications products and services in areas where the organisation operates. Examples include: customer numbers/market share, addressable market, percentage of population covered, percentage of land covered	See page 4 and Group Management Report 2017	●
PA6	Programmes to provide and maintain telecommunications products and services in emergency situations and for disaster relief	Quality and reliability are crucial in emergency situations, in which A1 Telekom Austria Group deploys specially trained emergency response teams, while subsidiaries help each other out too. They furthermore cooperate closely with the fire brigades, paramedics and the Red Cross. Of course, calling official emergency phone numbers is free in all of the Group's countries.	●
PA10	Initiatives to ensure clarity of charges and tariffs	Cost-control and contract overview tools are offered by all subsidiaries.	●
PA11	Initiatives to inform customers about product features and applications that will promote responsible, efficient, cost-effective and environmentally friendly use	Although it does not manufacture mobile devices itself, the A1 Telekom Austria Group contributes to preserving resources in this respect as well with its mobile phone recycling initiative. Most of its subsidiaries—some since 2004—allow customers to give back their old mobile phones free of charge. See page 28ff, 164	●

Telecommunications Sector Supplement—Technology Applications 2003

TA1	Examples of the resource efficiency of telecommunications products and services delivered	See page 16ff, 28ff	●
TA2	Examples of telecommunications products, services and applications that have the potential to replace physical objects	See page 28ff	●
TA5	Description of practices relating to intellectual property rights and open source technologies	Open source technologies are promoted in the framework of the A1 Internet for All initiative.	●

Media Literacy

Information on the A1 Internet for All initiative	See page 28f	●

Sustainability KPIs

Compliance

Anti-corruption Trainings

	Anti-corruption Training	Share of trained employees (in %)
Austria	8,676	105
Bulgaria	2,696	72
Croatia	1,243	74
Belarus	2,291	89
Slovenia	581	103
Republic of Serbia	927	95
Republic of Macedonia	1,084	132
A1 Telekom Austria Group[1)]	**17,844**	**94**

1) Including A1 Digital and Holding

Environment

Calculation method—Emissions
In its calculation method for direct, indirect and other indirect emissions, A1 Telekom Austria Group follows the internationally recognised definition of the Greenhouse Gas Protocol of the WRI/WBCSD (World Resources Institute and World Business Council for Sustainable Development). Included in the calculation for direct emissions are all greenhouse gases, not just those covered by the Kyoto Protocol. The calculation methods are based on data published by ecoinvent (AR4 100-year (IPCC 2007-4th Assessment Report)). Figures given as CO_2 equivalents. Nature of gases and source of emission factors and of Global Warming Potentials (GWP) reported by energy providers for Scope 2 emissions as well as calculated Scope 3 emissions are unknown. The base year according to GRI is not relevant to A1 Telekom Austria Group.

Calculation method—Energy
The calculation method is—as long as self provision is not concerned—based on the invoices issued by the respective energy providers. For the conversion into kilowatt hours, factors of the ecoinvent database have been taken into account. When data was not available, estimates were made in some cases. Furthermore, term inaccuracies may occur if invoices do not exactly match the reporting period. For the energy share of fuels, the heating value was considered. Neither steam nor cooling energy was purchased.

Due to improved calculation methods, marginal deviations in already published indicators may occur in some cases.

Vehicle fleet

2017	Number of vehicles	Consumption of petrol (in l)	Consumption of diesel (in l)	Consumption of alternative fuels (in l)	Kilometres driven (in '000 km)
A1 Telekom Austria Group	**5,180**	**556,867**	**6,911,108**	**239,929**	**105,274**
2016					
A1 Telekom Austria Group	**5,167**	**547,712**	**6,812,521**	**228,297**	**104,879**
Change (in %)					
A1 Telekom Austria Group	**0**	**2**	**1**	**5**	**0**

Air pollutants generated by the vehicle fleet[1)]

2017 (in g/km)	NO_x	SO_2	PM_{10}
A1 Telekom Austria Group	**0.643**	**0.191**	**0.063**
2016 (in g/km)			
A1 Telekom Austria Group	**0.636**	**0.189**	**0.062**
Change (in %)			
A1 Telekom Austria Group	**1**	**1**	**1**

1) The air pollutants were aligned to the published data of ecoinvent for the first time in 2012. They include the emissions of the vehicle fleet. Reported emissions represent relevant pollutants of the A1 Telekom Austria Group.

Direct and indirect energy

2017 (in MWh)	Electricity[1]	Heating fuels[2]	Dirctrict heating	Fuels[3]	Total energy consumption	Total energy consumption (in TJ)
Austria	298,853	16,572	29,321	48,297	**393,044**	**1,415**
Bulgaria	108,380	126	298	12,170	**120,973**	**436**
Croatia	59,643	3,798	3,861	4,602	**71,904**	**259**
Belarus	75,548	0	3,346	4,809	**83,703**	**301**
Slovenia	32,381	0	278	626	**33,284**	**120**
Republic of Serbia	43,772	81	1,452	2,797	**48,102**	**173**
Republic of Macedonia	36,778	2,085	0	1,917	**40,780**	**147**
A1 Telekom Austria Group	**655,355**	**22,662**	**38,556**	**75,218**	**791,790**	**2,850**
2016 (in MWh)						
Austria	298,986	16,227	28,869	49,532	**393,614**	**1,417**
Bulgaria	86,175	128	407	10,758	**97,469**	**351**
Croatia	57,742	3,694	3,671	4,203	**69,309**	**250**
Belarus	75,715	0	3,235	4,280	**83,230**	**300**
Slovenia	28,403	0	276	530	**29,208**	**105**
Republic of Serbia	37,732	0	1,071	2,721	**41,524**	**149**
Republic of Macedonia	35,939	1,484	0	2,032	**39,455**	**142**
A1 Telekom Austria Group	**620,692**	**21,533**	**37,530**	**74,056**	**753,810**	**2,714**
Change (in %)						
Austria	0	2	2	-2	**0**	**0**
Bulgaria	26	-2	-27	13	**24**	**24**
Croatia	3	3	5	9	**4**	**4**
Belarus	0	n. a.	3	12	**1**	**1**
Slovenia	14	n. a.	1	18	**14**	**14**
Republic of Serbia	16	n. a.	36	3	**16**	**16**
Republic of Macedonia	2	40	n. a.	-6	**3**	**3**
A1 Telekom Austria Group	**6**	**5**	**3**	**2**	**5**	**5**

Table may include rounding differences. 1 joule = 2.77777778 $\times 10^{-10}$ MWh 1) Purchased and in-house production as well as diesel for emergency generators 2) Includes oil and gas, not climatically adjusted 3) Includes diesel, petrol, CNG, LPG and natural gas without diesel for emergency generators

Energy and fuel consumption[1]

2017 (in MWh)	From non-renewable energy	From renewable energy[2]
A1 Telekom Austria Group	**100,592**	**4,492**

1) Oil, diesel, petrol, LPG, CNG and natural gas, including diesel for emergency generators 2) Share of biogenic fuels in diesel and petrol

Relative Indicators

2017	Energy Efficiency Index[1] (in MWh per terabyte)	Share of e-billing (in %)	Water consumption (per FTE, in m³)
A1 Telekom Austria Group	**0.24**	**72**	**15**

Waste

	Recyclable			Hazardous waste			Residual	Total
2017 (in kg)	Paper	Metal	Other[1]	Electronic waste	Batteries	Other[2]	waste	
A1 Telekom Austria Group	**1,187,821**	**1,915,863**	**449,765**	**903,465**	**656,293**	**541,338**	**1,940,906**	**7,595,450**
2016 (in kg)								
A1 Telekom Austria Group	**995,802**	**1,738,550**	**622,555**	**1,104,577**	**850,853**	**423,359**	**2,175,230**	**7,910,925**
Change (in %)								
A1 Telekom Austria Group	**19**	**10**	**-30**	**-18**	**-23**	**28**	**-11**	**-4**

Quantities were defined according to invoices of waste management companies or if this was not possible according to volumes of waste container capacities as well as waste collection intervals disposal. 1) Other recyclable waste issued by plastic, glass and biological waste. 2) Other hazardous waste includes mainly mobile phones and other hazardous materials.

Waste—paper consumption

2017 (in kg)	Printing & copy paper	Other[1]	Total
Austria	92,160	603,893	696,053
Bulgaria	131,544	136,674	268,218
Croatia	10,000	158,885	168,885
Belarus	51,380	44,767	96,147
Slovenia	5,600	91,078	96,678
Republic of Serbia	15,481	84,526	100,007
Republic of Macedonia	46,790	141,280	188,070
A1 Telekom Austria Group	**352,955**	**1,261,103**	**1,614,058**
2016 (in kg)			
Austria[2]	94,786	643,413	738,199
Bulgaria	107,627	127,897	235,524
Croatia	10,792	161,663	172,455
Belarus	49,660	34,239	83,899
Slovenia	5,229	72,914	78,143
Republic of Serbia	21,520	114,138	135,658
Republic of Macedonia	50,000	144,479	194,479
A1 Telekom Austria Group	**339,614**	**1,298,743**	**1,638,357**
Change (in %)			
Austria	-3	-6	-6
Bulgaria	22	7	14
Croatia	-7	-2	-2
Belarus	3	31	15
Slovenia	7	25	24
Republic of Serbia	-28	-26	-26
Republic of Macedonia	-6	-2	-3
A1 Telekom Austria Group	**4**	**-3**	**-1**

1) Other includes mainly paper for customer invoices and paper for packaging.
2) Due to increased data quality Austrias' key figure was corrected.

Waste—mobile phone recycling

2017	Number of old mobile phones collected
Austria	16,225
Bulgaria	4,364
Croatia	35
Belarus	53,236
Slovenia	n. m.
Republic of Serbia	n. m.
Republic of Macedonia	n. m.
A1 Telekom Austria Group	**73.860**
2016	
Austria	18,522
Bulgaria	3,145
Croatia	20
Belarus	191,192
Slovenia	924
Republic of Serbia	n. m.
Republic of Macedonia	n. m.
A1 Telekom Austria Group	**213,803**
Change (in %)	
Austria	-12
Bulgaria	39
Croatia	75
Belarus	-72
Slovenia	-100
Republic of Serbia	n. m.
Republic of Macedonia	n. m.
A1 Telekom Austria Group	**-65**

Water consumption

2017 (in m^3)	Total
A1 Telekom Austria Group	**278,173**
2016 (in m^3)	
A1 Telekom Austria Group	**309,378**
Change (in %)	
A1 Telekom Austria Group	**-10**

Relative indicators

2017	Share of renewable energy in electricity[1] (in %)	Recycling quota[2] (in %)	CO_2 intensity[3] (t CO_2e per FTE)	Average paper consumption (kg/FTE)
Austria	99	71	3	11
Bulgaria	19	26	18	35
Croatia	46	53	18	6
Belarus	32	75	9	20
Slovenia	43	76	14	10
Republic of Serbia	24	39	40	16
Republic of Macedonia	40	82	34	57
A1 Telekom Austria Group	**62**	**72**	**12**	**19**
2016				
Austria	99	70	3	11
Bulgaria	19	9	14	28
Croatia	39	53	22	8
Belarus	0.5	81	14	22
Slovenia	66	90	12	10
Republic of Serbia	24	60	37	23
Republic of Macedonia	37	84	32	61
A1 Telekom Austria Group	**61**	**72**	**11**	**19**

1) Derived from purchased electricity, values of Austria and Slovenia were calculated, the others measured on the basis of the standard national grid factor.
2) Fractions handed over to be recycled (non-hazardous waste, electronic waste and batteries) in relation to total waste. 3) CO_2 intensity includes the CO_2 emissions from Scope 1 and Scope 2 market-based (excluding compensation) divided by the number of employees at the end of the year.

Direct and indirect greenhouse gas emissions

2017 (CO_2e in t)	Direct (Scope 1)	Indirect (Scope 2) location-based	Indirect (Scope 2) market-based	Total (Scope 1+2) location-based	Total (Scope 1+2) market-based	Total (Scope 1+2+Comp.) location-based	Total (Scope 1+2+Comp.) market-based	Other Scope 3
Austria	17,090	100,311	8,777	117,401	25,867	101,483	9,949	48,989
Bulgaria	4,443	61,705	61,705	66,148	66,148	66,148	66,148	33,112
Croatia	2,319	27,300	27,300	29,619	29,619	29,619	29,619	11,744
Belarus	1,744	20,352	20,352	22,097	22,097	22,097	22,097	21,910
Slovenia	174	13,617	7,812	13,791	7,986	13,791	7,986	3,096
Republic of Serbia	982	38,174	38,174	39,156	39,156	39,156	39,156	22,530
Republic of Macedonia	1,115	26,501	26,501	27,615	27,615	27,615	27,615	14,752
A1 Telekom Austria Group	**27,867**	**287,960**	**190,621**	**315,827**	**218,488**	**299,909**	**202,570**	**156,132**
2016 (CO_2e in t)[1]								
Austria	17,587	100,136	8,733	117,723	26,320	101,353	9,950	46,764
Bulgaria	4,049	48,947	48,947	52,995	52,995	52,995	52,995	29,903
Croatia	2,183	26,411	26,411	28,593	28,593	28,593	28,593	11,772
Belarus	1,497	29,429	29,429	30,926	30,926	30,926	30,926	18,116
Slovenia	141	11,952	6,065	12,093	6,206	12,093	6,206	4,418
Republic of Serbia	978	32,785	32,785	33,763	33,763	33,763	33,763	20,341
Republic of Macedonia	985	25,669	25,669	26,653	26,653	26,653	26,653	10,926
A1 Telekom Austria Group	**27,419**	**275,328**	**178,038**	**302,747**	**205,457**	**286,377**	**189,087**	**142,239**
Change (in %)								
Austria	-3	0	-2	0	-3	1	0	5
Bulgaria	10	26	26	25	25	25	25	11
Croatia	6	3	3	4	3	4	4	0
Belarus	17	-31	-31	-29	-30	-29	-29	21
Slovenia	24	14	29	14	29	14	29	-30
Republic of Serbia	0	16	16	16	16	16	16	11
Republic of Macedonia	13	3	3	4	3	4	4	35
A1 Telekom Austria Group	**2**	**5**	**7**	**4**	**7**	**4**	**7**	**10**

Direct Scope 1 includes direct emissions from combustion of fossil fuels; emissions from cooling agents are not considered. Indirect Scope 2 includes indirect emissions from electric energy and district heating. Scope 3 takes into account the following emissions, which are not included in Scope 2: The costs associated with the upstream emissions from heating energy, electricity and fuels (fleet) and business travel (taxi, plane, train). These upstream emissions have been calculated according to ecoinvent. Emissions from the downstream use of customers' mobile phones: For the three best-selling devices per subsidiary, a battery voltage of 3.7 volts (V) was assumed and multiplied by the battery capacity [mAh] according to the manufacturer (mAh*V/1,000) = Wh). This is equivalent to the electricity demand per charge cycle per mobile phone. Assuming that a mobile phone is charged once a day, the electricity demand has then been extrapolated for the whole year and subsequently the average electricity demand for the three best-selling devices per subsidiary was determined. These values were multiplied with the number of SIM cards in circulation for each subsidiary.

1) Due to increased data quality key figure "Scope 3" was corrected.

Employees

Share of local persons in leadership teams

2017 (in %)	
Austria	100
Bulgaria	89
Belarus	57
Cluster Croatia / Macedonia	78
Cluster Serbia / Slovenia	100
A1 Telekom Austria Group	**84**
2016 (in %)	
Austria	100
Bulgaria	89
Belarus	27
Cluster Croatia / Macedonia	86
Cluster Serbia / Slovenia	44
A1 Telekom Austria Group	**70**

Composition of the governance body[1] (Age structure and gender)

A1 Telekom Austria Group 2017	
Total (in HC)	10
Share of women (in %)	10
below 30 (in HC)	0
30–50 (in HC)	3
above 50 (in HC)	7

1) Capital representatives in the Supervisory Board

Gender diversity

2017	2017 (in %) Share of female employees	2016 (in %) Share of female employees	2017 (in %) Share of female executives	2016 (in %) Share of female executives
Austria	26	26	19	19
Bulgaria	49	48	50	54
Croatia	41	41	39	43
Belarus	53	67	46	40
Slovenia	44	40	45	39
Republic of Serbia	58	53	49	46
Republic of Macedonia	45	45	40	50
A1 Telekom Austria Group	**38**	**39**	**36**	**36**

Share of women in senior management positions

in %	2017	2016
Austria	40	57
Bulgaria	22	22
Belarus	0	0
Cluster Croatia / Macedonia	11	14
Cluster Serbia / Slovenia	38	33
A1 Telekom Austria Group	**21**	**24**

Accident statistics

	Accidents	Fatal accidents	Days lost to accidents
2017 (number or in working days)			
Austria	142	0	1,469
Bulgaria	5	0	302
Croatia	11	0	138
Belarus	0	0	0
Slovenia	1	0	8
Republic of Serbia	5	0	720
Republic of Macedonia	10	0	183
A1 Telekom Austria Group	**174**	**0**	**2,820**
2016 (number or in working days)			
Austria	145	0	2,196
Bulgaria	8	0	234
Croatia	11	0	175
Belarus	1	0	10
Slovenia	2	0	42
Republic of Serbia	8	0	346
Republic of Macedonia	8	1	110
A1 Telekom Austria Group	**183**	**1**	**3,113**

Due to increased data quality, Austria's key figures for "accidents" and "days lost to accidents" were adjusted for the comparison period.

Employee age structure[1]

2017 (in FTE)	below 30	30–50	above 50
Austria	743	4,540	2,963
Bulgaria	1,484	2,118	149
Croatia	372	1,219	89
Belarus	1,104	1,354	117
Slovenia	119	424	23
Republic of Serbia	192	769	15
Republic of Macedonia	112	671	35
A1 Telekom Austria Group	**4,137**	**11,350**	**3,470**
2016 (in FTE)			
Austria	670	4,677	3,242
Bulgaria	1,370	2,301	137
Croatia	192	1,030	65
Belarus	809	1,356	83
Slovenia	96	412	24
Republic of Serbia	138	763	16
Republic of Macedonia	135	655	32
A1 Telekom Austria Group	**3,411**	**11,193**	**3,598**

1) Apprentices not included

Society

A1 Internet for All

2017	Courses	Participations	Recommendation rate participations (in %)	Supporting employees[1]	Recommendation rate (in %)
Austria	**1,895**	**26,615**	**96**	**826**	**98**
2016					
Austria	**1,762**	**23,549**	**97**	**763**	**99**
Change (in %)					
Austria	**8**	**13**	**n. m.**	**8**	**n. m.**

1) Employees supporting for the first time in the respective reporting year.

Media literacy training

	2017 participants	2016 participants	Change (in %)
Austria	26,615	23,549	13
Bulgaria	2,087	1,625	28
Croatia	42	75	–44
Belarus	20	n. a.	n. a.
Slovenia	13	150	–91
Republic of Serbia	40	100	–60
Republic of Macedonia	n. a.	n. a.	n. a.
A1 Telekom Austria Group	**28,817**	**25,499**	**13**

Forward-Looking Statements

Disclaimer for forward-looking statements: This document contains forward-looking statements. These forward-looking statements are usually accompanied by words such as 'believe', 'intend', 'anticipate', 'plan', 'expect' and similar expressions. Actual events may differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. Neither A1 Telekom Austria Group nor any other person accepts any liability for any such forward-looking statements. A1 Telekom Austria Group will not update these forward-looking statements, whether due to changed factual circumstances, changes in assumptions or expectations. This report does not constitute a recommendation or invitation to purchase or sell securities of A1 Telekom Austria Group.

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