

# ANNUAL FINANCIAL REPORT 2015

According to § 82 Para 4 Stock Exchange Act

The following documents are translations from the original German versions, which are solely valid.

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# GROUP MANAGEMENT REPORT

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

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

## General economic environment<sup>1)</sup>

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

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

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

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

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

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

## Industry trends and competition

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

1) Sources: GDP for World and Belarus: IMF <http://www.imf.org/external/pubs/ft/weo/2015/02/pdf/text.pdf>, dated October 2015, pages 2, 35; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Macedonia and Republic of Serbia: [http://ec.europa.eu/economy\\_finance/publications/eeip/pdf/ip011\\_en.pdf](http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip011_en.pdf), dated 5 November 2015, pages 22, 71, 89, 107, 115, 127 and 131

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

- Average revenues generated per mobile customer increased in the first half year from EUR 14.1 to EUR 14.5, while end customer revenues also rose by 1.8% year-on-year. While the number of voice minutes fell slightly by 1.7% compared with the first half of 2014 and the number of text messages saw a further significant downturn of 17.2%, data volume enjoyed significant growth once again, rising by 71.3%. As previously, the strongest stimulus for this trend came from smartphone users, where an increase by 5.7% to more than 3.6 million users was recorded.
- On the Austrian fixed-line market, the trend of fixed to mobile substitution continued in the year under review – the number of fixed access lines decreased by 2.7% against the previous year. The share of total voice minutes attributable to fixed lines shrunk further from 14.2% in the first half of 2014 to 13.1% in the first half of 2015. Average voice revenues per month in the fixed-line segment also remained on a downward trend, declining by 10.3% for private customers and 7.5% for business customers. The strong demand for broadband solutions continued in 2015 and resulted in an overall rise by 4.0% to over 8 million broadband connections. Fixed-line broadband grew by 5.3%, while mobile broadband remained stable.

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

#### ICT spending on markets of the Telekom Austria Group in % of gross national income per capita

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

2) [https://www.rtr.at/de/inf/TK\\_Monitor\\_4\\_2015/TM4\\_2015.pdf](https://www.rtr.at/de/inf/TK_Monitor_4_2015/TM4_2015.pdf); pages 12, 17, 18, 19, 34, 48, 53, 55, 66 (Telekom Austria Group calculation)

3) [http://www.statistik.at/web\\_de/statistiken/informationengesellschaft/index.html](http://www.statistik.at/web_de/statistiken/informationengesellschaft/index.html)

4) [http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2009/MIS2009\\_w5.pdf](http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2009/MIS2009_w5.pdf); page 56;

[http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2014/MIS2014\\_without\\_Annex\\_4.pdf](http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2014/MIS2014_without_Annex_4.pdf); pages 166-167;

<http://www.itu.int/en/ITU-D/Statistics/Documents/publications/misr2015/MISR2015-w5.pdf>; page 140

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

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

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

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

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

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

## Regulation

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

## Fixed-line telecommunication markets

In the spring of 2015, the Austrian regulatory authority initiated the fifth round of the statutory market review process. It is oriented towards the European Commission's new 'markets recommendation' of October 2014. Initial decisions on the markets to be examined are not being expected before the end of the first quarter of 2016. In previous decisions on regulations, the authorities particularly aimed at reducing fixed-

5) <http://www.nsi.bg/en/content/6099/households-who-have-internet-access-home>

6) [http://www.hakom.hr/UserDocsImages/2015/e\\_trziste/KVA%20ENG%203Q%202015%20Share%20of%20prepaid%20and%20postpaid%20subscribers\\_Mobile.pdf](http://www.hakom.hr/UserDocsImages/2015/e_trziste/KVA%20ENG%203Q%202015%20Share%20of%20prepaid%20and%20postpaid%20subscribers_Mobile.pdf);  
[http://www.hakom.hr/UserDocsImages/2015/e\\_trziste/KVA%20ENG%203Q%202015%20Fixed%20broadband%20penetration.pdf](http://www.hakom.hr/UserDocsImages/2015/e_trziste/KVA%20ENG%203Q%202015%20Fixed%20broadband%20penetration.pdf)

7) <http://belstat.gov.by/en/ofitsialnaya-statistika/otrasli-statistiki/transport-i-svyaz/osnovnye-pokazateli-za-period-s-1995-po-2010-gody/main-indicators-of-general-use-communications-development/>; [http://belstat.gov.by/en/bgd/katalog-publikatsii/public\\_compilation/index\\_219/](http://belstat.gov.by/en/bgd/katalog-publikatsii/public_compilation/index_219/) (page 351)

8) [http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre\\_Repozitorij/&lang=1](http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre_Repozitorij/&lang=1;);  
[http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H083E&ti=&path=../Database/Hitre\\_Repozitorij/&lang=1](http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H083E&ti=&path=../Database/Hitre_Repozitorij/&lang=1)

9) <http://webzrs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indId%3d270101IND01%2662%3d1%2c2%2c3%2c4%2c5%2635%3d6%262%3d23All%231%26sAreal%3d270101%26dType%3dName%26lType%3dEnglish>;  
<http://webzrs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indId%3d270102IND01%2c270102IND02%2c270102IND03%262%3d201500%2635%3d6%26sAreal%3d270102%26dType%3dName%26lType%3dEnglish>

10) [http://www.stat.gov.mk/PrikaziSoopstenie\\_en.aspx?rbrtxt=77](http://www.stat.gov.mk/PrikaziSoopstenie_en.aspx?rbrtxt=77)

line and mobile termination rates to a comparable and significantly lower level throughout the EU in line with the European Commission's draft recommendation pertaining to these termination rates. In connection with the new market analysis, the first decisions on fixed-line and mobile origination were published on 22 December 2015. This provided for the abolition of price regulations on incoming calls in mobile and fixed-line from countries outside the European Economic Area (EEA). This follows the example of several EU member states that allow national operators to freely negotiate termination rates if underlying calls come from non-EEA countries. There is a considerable imbalance in fees here, resulting in a net cash outflow from EU countries with stricter price regulations to third countries.

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

### Mobile telecommunications markets

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

#### Glidepaths for mobile termination rates

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

\* National MTRs stated. International MTRs differ.

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

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

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

As far as roaming in EU member states is concerned, the abolition of retail roaming surcharges as of 15 June 2017 was resolved. From 30 April 2016 to 14 June 2017, there will be a transition period in which network operators will be able to apply roaming surcharges in the amount of wholesale caps in addition to domestic prices. An implementing regulation to be adopted by 15 December 2016 at the latest is set to determine so-called 'fair use' borders to prevent improper or abnormal use. The named provisions will apply to the mobile communications companies of the Telekom Austria Group in EEA member states Austria, Bulgaria, Croatia and Slovenia and have a negative impact on future roaming revenues. However, the regulation lacks elements both in terms of network neutrality and roaming details and leaves room for interpretation.

**EU roaming glidepath**

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

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

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

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

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

**Information on financial reporting**

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

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

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

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

**Application of IAS 29 'Financial Reporting in Hyperinflationary Economies'**

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

## Revenue and earnings development

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

\* Excluding capital expenditure arising from asset retirement obligations

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

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

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

For further details on purchasing prices and cash outflow see Note (2).

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

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

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

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

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

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

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

## Key performance indicators Telekom Austria Group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Company key figures	2015	2014	Change in %
Earnings per share (in EUR)	0.55	-0.46	n.m.
Dividend per share (in EUR)	0.05 <sup>*</sup>	0.05	n.m.
Free cash flow per share (in EUR)	0.53	0.34	57.9
ROE	16.9%	-10.1%	-
ROIC	9.3%	-0.1%	-

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

## Net assets and financial position

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

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

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

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

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

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

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

## Net debt

Net debt (in EUR million)	31 Dec 2015	31 Dec 2014
Long-term debt	2,584.1	3,385.0
Short-term borrowings	1,003.8	340.8
Cash and cash equivalents, short-term investments	-911.5	-1,032.5
Derivative financial instruments for hedging purposes	0.0	0.0
<b>Net debt Telekom Austria Group</b>	<b>2,676.4</b>	<b>2,693.3</b>
Net debt/EBITDA comparable	1.9x	2.1x

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

## Cash flow

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

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

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

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

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

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

## Capital expenditure

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

\* Excluding capital expenditure arising from asset retirement obligations

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

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

The significant reduction in intangible capital expenditure to EUR 212.0 mn (2014: EUR 268.8 mn) is largely due to the acquisition of mobile frequencies in Bulgaria and Slovenia in the previous year. Lower spending on IT as well as for mobile operating software led to a reduction in intangible capital expenditure in Austria. In Bulgaria, intangible capital expenditure decreased year-on-year following the prolongation of 900 MHz and 1800 MHz frequency bands for EUR 30.6 mn in April 2014. In Croatia, intangible capital expenditure rose due to the purchase of 1800 MHz spectrum for EUR 18.5 mn as against the previous year. In Belarus, the acquisition of frequencies in the 900 MHz spectrum in December 2015 for EUR 4.5 mn led to an increase in intangible capital expenditure. In Slovenia, intangible capital expenditure significantly declined as a result of the purchase of the mobile spectrum for EUR 63.9 mn in the previous year, while additions to intangible assets rose by EUR 6.9 mn in the Republic of Serbia as a result of the purchase of frequencies in the 1800 MHz spectrum in February 2015. In November 2015 additional spectrum in the 800 MHz frequency band was acquired in the amount of EUR 35.0 mn in the Republic of Serbia which was paid at the beginning of 2016.

## Segment analysis

### Segment Austria

#### Key performance indicators Austria

Key financials (in EUR million)	2015	2014	Change in %
Revenues	2,526.7	2,472.0	2.2
of which monthly fee and traffic	1,807.3	1,777.2	1.7
of which data and ICT solutions	225.0	220.7	1.9
of which wholesale (incl. roaming)	145.9	147.7	-1.3
of which interconnection	182.2	191.8	-5.0
of which equipment	138.7	112.9	22.8
of which other	27.7	21.6	28.4
EBITDA comparable	886.3	755.4	17.3
EBITDA comparable margin	35.1%	30.6%	-
EBITDA incl. effects from restructuring and impairment tests	885.9	665.8	33.1
Operating income	418.1	157.2	166.0
Capital expenditure	452.4	398.7	13.5
<b>Mobile communication</b>			
ARPU (in EUR)*	15.9	16.2	-1.4
Mobile communication subscribers (in '000)	5,454.7	5,424.1	0.6
Share of contract customers	68.3%	70.2%	-
Market share	39.5%	41.1%	-
Mobile broadband subscribers (in '000)	663.1	714.9	-7.2
Penetration	161.2%	155.1%	-
<b>Fixed net</b>			
ARPL (in EUR)	29.6	30.4	-2.7
Total access lines (in '000)	2,290.6	2,287.1	0.2
of which fixed broadband lines (in '000)	1,533.2	1,469.1	4.4
of which retail	1,495.2	1,433.1	4.3
of which wholesale	38.1	36.1	5.6
Unbundled lines (in '000)	236.1	239.3	-1.3
Fixed line voice traffic (in million minutes)	1,639.5	1,821.9	-10.0
of which domestic traffic	995.3	1,138.1	-12.5
of which fixed-to-mobile traffic	465.3	483.5	-3.8
of which international fixed-line traffic	178.8	200.3	-10.7
Mobile and fixed broadband penetration in Austria in % of households	130.6%	124.2%	-
Employees (full-time equivalents, as of 31 Dec)	8,512	8,635	-1.4

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

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

Convergent product bundles remained a key element of the operating strategy in 2015. In its fixed-line business, the company also focused increasingly on the development of broadband capacities and services in the year under review, with the aim of meeting the rising demand for

data. Against this backdrop, A1 Telekom Austria AG started to invest even more in the accelerated rollout of the Austrian fibre network in 2015. The company plans to spend around EUR 400 mn in total between 2015 and 2018 in addition to regular capital expenditure. This plan is subject to the announced government broadband subsidy programme as well as annual budget approvals by the Supervisory Board. In 2015 the rollout concentrated on not subsidised projects as the broadband subsidy programme was not approved until 22 December 2015.

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

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

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

Operating expenses Austria (in EUR million)	2015	2014	Change in %
Material expenses	265.0	237.2	11.7
Employee costs	676.7	704.2	-3.9
Other operating expenses	791.7	861.7	-8.1
Restructuring charges	0.4	89.6	-99.6
Depreciation and amortisation	467.7	508.6	8.0

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

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

In the Austrian segment, a restructuring charge of EUR 0.4 mn (2014: EUR 89.6 mn) was recognised for the 2015 reporting period. This includes social plans for employees exempt from work ("freigestellte Mitarbeiter") whose employment is being terminated in a socially responsible way, and expenses for the transfer of civil servants to the government. Q4 2015 included a positive one-off effect in the amount of EUR 21.6 mn stemming from a settlement. The strong decline in the year-on-year comparison was also driven by a negative one-off in the amount of EUR 15.0 mn due in 2014, which stemmed from a provision for payments to civil servants. As a result, EBITDA including the effects of restructuring and impairment testing climbed by 33.1% to EUR 885.9 mn.

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

## Segment Bulgaria

### Key performance indicators Bulgaria

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

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

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

Revenues decreased year-on-year by 1.8% to EUR 364.7 mn. This was mainly attributable to the decline in monthly fee and traffic revenues. The ongoing strong price pressure in the business segment led to a significant reduction in ARPU relevant revenues. This negative development in the mobile business was only partly mitigated by the rise in ARPL relevant revenues, particularly thanks to Blizoo's contribution in the amount of EUR 11.7 mn. Additionally, the decline was mitigated somewhat by increased interconnection revenues due to the larger proportion of tariffs with free minutes to national networks included.

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

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

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

## Segment Croatia

### Key performance indicators Croatia

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

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

The total number of mobile communications customers remained mostly stable at around 1.7 million in the year under review. The proportion of contract customers increased to 48.2% over the course of the year (2014: 46.8%). In 2015, the market share remained unchanged at 36.0%. In

the fixed-line business, there was a rise in fixed access lines by 28.9% to 283,400, resulting from both organic growth and the purchase of Amis Croatia. Broadband lines even soared by 47.2% to around 200,200 in the year under review, while the number of TV customers rose by 12.5% to around 188,700. With Amis Croatia, 24,300 fixed lines, the majority of them broadband lines, as well as 9,100 TV customers were added.

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

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

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

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

## Segment Belarus

### Key performance indicators Belarus

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

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

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

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

In light of these developments, velcom's management team continued to concentrate on a tariff and equipment portfolio centred around on smartphones and tablets in 2015 in addition to its position as a premium provider with a high network quality with the aim of benefitting from the rising demand for data. Furthermore, the company continued to focus its efforts on optimising operating expenses and disconnecting them from currency effects.

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

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

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

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

## Additional Markets segment

## Additional Markets

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

## Slovenia

Key financials (in EUR million)	2015	2014	Change in %
Revenues	190.8	199.6	–4.4
EBITDA comparable	80.9	63.6	27.3
EBITDA comparable margin	42.4%	31.8%	–
EBITDA incl. effects from restructuring and impairment tests	80.9	63.6	27.3
Operating income	56.7	41.0	38.2
Capital expenditure	17.9	89.9	–80.1

## Mobile communication

ARPU (in EUR)	16.3	19.1	–14.8
Mobile communication subscribers (in '000)	708.5	681.5	4.0
Share of contract customers	80.5%	79.4%	–
Market share	29.9%	29.2%	–
Mobile broadband subscribers (in '000)	35.7	24.3	46.8
Penetration	113.7%	111.8%	–

## Fixed net

ARPL (in EUR)	42.9	n.a.	n.m.
Total access lines (in '000)	65.7	n.a.	n.m.
of which fixed broadband lines (in '000)	65.3	n.a.	n.m.
Employees (full-time equivalents, as of 31 Dec)	508	399	27.4

**Republic of Serbia**

Key financials (in EUR million)	2015	2014	Change in %
Revenues	206.8	213.2	-3.0
EBITDA comparable	43.5	64.0	-32.0
EBITDA comparable margin	21.0%	30.0%	-
EBITDA incl. effects from restructuring and impairment tests	43.5	64.0	-32.0
Operating income	-7.6	-2.9	n.m.
Capital expenditure	77.7	37.8	105.2

Mobile communication			
ARPU (in EUR)	6.9	6.9	-0.3
Mobile communication subscribers (in '000)	2,109.3	2,159.5	-2.3
Share of contract customers	55.0%	50.4%	-
Market share	22.5%	22.5%	-
Penetration	132.0%	133.6%	-
Employees (full-time equivalents, as of 31 Dec)	879	933	-5.8

**Republic of Macedonia**

Key financials (in EUR million)	2015	2014	Change in %
Revenues	80.0	62.0	28.9
EBITDA comparable	16.8	12.6	33.6
EBITDA comparable margin	21.0%	20.3%	-
EBITDA incl. effects from restructuring and impairment tests	16.8	7.5	124.7
Operating income	-0.6	-2.6	n.m.
Capital expenditure	21.5	9.4	127.7

Mobile communication			
ARPU (in EUR)	6.5	6.9	-5.8
Mobile communication subscribers (in '000)	1,163.5	622.0	87.1
Share of contract customers	54.7%	52.4%	-
Market share	53.7%	28.2%	-
Penetration	105.5%	107.4%	-

Fixed net			
ARPL (in EUR)	13.1	n.a.	n.m.
Total access lines (in '000)	144.5	62.6	130.8
of which fixed broadband lines (in '000)	99.9	50.2	99.0
Employees (full-time equivalents, as of 31 Dec)	942	535	76.2

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

In 2015, the mobile customer base nearly doubled in the Republic of Macedonia owing to the merger with ONE, which contributed approximately 590,000 mobile customers. In Slovenia, the number of customers increased by 4.0%, particularly as a result of gains in the no-frills and business segment, while the number of customers in the Republic of Serbia fell by 2.3%. In the year under review, one.Vip's market

share in the Republic of Macedonia amounted to 53.7%, while it was 28.2% prior to the merger in 2014. In Slovenia, the market share increased slightly from 29.2% in the previous year to 29.9% in the year under review. By contrast, it was the same in the Republic of Serbia at 22.5%. Slovenia and the Republic of Macedonia also recorded 65,700 and 144,500 fixed access lines respectively at year-end in 2015.

Revenues in the Additional Markets segment were almost stable at EUR 481.4 mn, mainly as a result of ONE's contribution of approximately EUR 13 mn in the Republic of Macedonia. The fixed-line operator blizoo Macedonia, which was already acquired in July 2014, contributed EUR 13.3 mn to revenues in 2015. In Slovenia, revenues fell by 4.4% despite Amis' contribution of EUR 11.1 mn. This was attributable to negative regulatory effects on interconnection revenues as well as the decline in monthly fee and traffic revenues due to the fiercely competitive environment. In the Republic of Serbia, monthly fees and traffic revenues were negatively impacted by a changed distribution model which led to a different accounting treatment while interconnection revenues went up following the introduction of national termination rates for SMS in June 2015. Excluding FX translation effects of EUR 6.4 mn in total, segment revenues rose by 1.4%.

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

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

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

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

## Non-financial performance indicators

### Corporate social responsibility

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

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

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

The environmental management systems at A1 Telekom Austria AG, Si.mobil d.d. and Vip mobile d.o.o. are ISO 14001 certified. Furthermore, EMAS requirements in Austria and Slovenia are met. Energy management at A1 Telekom Austria AG is also ISO 50001 certified. Since 2014, A1 Telekom Austria AG has been the first CO<sub>2</sub> neutral network in Austria to be assessed and validated by TÜV SÜD in line with the PAS 2060 international standard.

## Employees

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

\* Full-time equivalent employees

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

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

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

## Innovation and technology

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

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

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

The largest broadband expansion in the history of AI was initiated in 2015. At the end of the year under review, 39% of all Austrian private and commercial addresses were already equipped with AI's 30 Mbps product. With G.fast, AI reached data transfer rates of more than 500 Mbps on conventional copper lines back in 2014. AI showcased its new broadband technology (VDSL2 35b) in 2015. While G.fast is ideally used on line lengths in order of 200 metres, VDSL2 35b achieves a significantly enhanced performance compared to conventional DSL technologies, particularly on line lengths up to approximately 500 metres. As a result, this technology is also suitable for less densely populated areas. When

combined with vectoring – a technology that the Group has already been using since 2012 to filter interferences on copper lines – VDSL2 35b uses higher frequencies, which allow for data speeds of more than 100 Mbps. On shorter distances, even data speeds of around 200 Mbps can be achieved. As a result, A1 has once again demonstrated that the margin criteria of the funding guideline on the government broadband subsidy programme can be fulfilled in the context of a FTTC expansion.

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

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

## Disclosure in accordance with section 243a of the Austrian Business Enterprise Code ('UGB') Shareholder structure and capital disclosures

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

The following information concerning the Shareholders' Agreement is based solely on publicly available information. The company has no additional information. The shareholders' agreement between ÖBIB, América Móvil and Carso Telecom B.V. ('Carso Telecom') came into force on 27 June 2014 (see Note (29)). Under the terms of the shareholders' agreement, the parties have undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria AG by exercising their voting rights on a concerted basis. The shareholders' agreement also contains provisions on the joint exercise of voting rights in the committees of the company for the election of Supervisory Board and Management Board members and restrictions on the sale of shares. The Supervisory Board of the company consists of ten shareholder representatives, of which eight members are nominated by Carso Telecom and two by ÖBIB. ÖBIB has the right to appoint the Chairman of the Supervisory Board. Carso Telecom has the right to appoint the Deputy Chairman. The Management Board of the company consists of three members. Two members are nominated by Carso Telecom, while one member of the Management Board, namely the Chief Executive Officer (CEO), is nominated by ÖBIB. On 24 July 2015 the Chief Executive Officer responsibilities of Telekom Austria AG were allocated to Alejandro Plater per 1 August 2015 as proposed by the two majority shareholders América Móvil and ÖBIB. The Extraordinary General Meeting on 14 August 2014 also amended the Articles of Association to state that, as long as the Republic of Austria directly or indirectly holds at least 25% plus one share of the share capital of the company, resolutions on capital increases and the issue of instruments containing a conversion right or a conversion obligation for shares of the company and amendments to the provisions of the Articles of Association relating to capital increases and such instruments shall require a majority of at least three quarters of the share capital represented at the vote on the resolution.

ÖBIB and Carso Telecom have agreed that at least 24% of the shares of the company should be in free float while the shareholders' agreement is in place. This minimum free float requirement is based on ÖBIB's maximum equity interest of 25% plus one share. If ÖBIB holds more than 25% plus one share of the share capital of the company, the minimum free float requirement decreases accordingly so that América Móvil can retain an equity interest in the company of 51%. If the number of shares in free float falls below the minimum while the shareholders'

agreement is in place, (i) Carso Telecom undertakes to sell shares within the next 24 months and (ii) América Móvil undertakes to ensure that neither it nor its subsidiaries purchase any additional shares until the minimum free float requirement is restored.

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

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

### Changes to the Management Board and the Supervisory Board

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

### Telekom Austria AG: Members of the Supervisory Board

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

#### Members of the Supervisory Board delegated by the Staff Council

Silvia Bauer (1968)	30.01.2009 to 03.11.2010, re-delegated on 26.07.2012
Walter Hotz (1959)	Re-delegated on 06.05.2011
Werner Luksch (1967)	03.08.2007 to 20.10.2010, re-delegated on 11.01.2011
Alexander Sollak (1978)	03.11.2010
Gottfried Kehrer (1962)	27.10.2010

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

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

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

\*\*\*\* Chairman until 27 May 2015

\*\*\*\*\* Chairman from 27 May 2015

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

## Cash-use policy

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

The Telekom Austria Group's dividend policy is based on a minimum dividend of EUR 0.05 per share and is aimed at achieving a sustainable pay-out level with the potential to grow. The planned dividend is announced at the start of each financial year. After the end of the financial year, additional payments to the shareholders may be defined depending on the Group's actual results, taking into account free cash flow as well as the Group's planned capital structure and investment needs in particular. For the financial year 2015, the minimum dividend of EUR 0.05 per share was still held out in prospect.

## Risk management

### Principles and methods

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

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

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

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

## Risks

### Market and competition risks

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

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

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

### Regulatory and legal risks

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

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

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

### Compliance risks

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

### Financial risks

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

### Investment risks

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

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

### Personnel-related risks

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

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

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

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

### Technical and topographical risks

Maintaining a high level of availability and reliability of the services and products offered is a key aspect of operational risk management, as a host of threats such as natural disasters, major technical disruptions, third-party construction work, hidden faults or criminal activities can all impair their quality. Long-term planning takes technological developments into account, while the redundancy of critical components ensures failure safety, and efficient organisational structures for operations and security serve to secure high standards of quality. Furthermore, a separate Group guideline ensures uniform methods for the recognition and management of the most important risks to operational processes. In every major disruption, causes will be clarified and conclusions will be drawn on ways to reduce the risks of repeating the same causes of error. Fortunately, the Group did not face such crises in 2015.

### Environmental risks

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

### Internal control system for financial reporting

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

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

### Subsequent Events

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

### Outlook 2016

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

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

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

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

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

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

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

With regard to frequencies, the governments of Croatia, the Republic of Serbia and the Republic of Macedonia are expected to sell spectrum in 2016: 900 MHz spectrum in the Republic of Serbia and the Republic of Macedonia and 2100 MHz spectrum in Croatia.

Vienna, 25 January 2016

The Management Board



Alejandro Plater  
CEO and COO



Siegfried Mayrhofer  
CFO

# Consolidated Financial Statements 2015

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

## TELEKOM AUSTRIA AG – Consolidated Statements of Profit or Loss

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

See accompanying Notes to the Consolidated Financial Statements.

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

## TELEKOM AUSTRIA AG – Consolidated Statements of Comprehensive Income

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

See accompanying Notes to the Consolidated Financial Statements.

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

## TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

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

See accompanying Notes to the Consolidated Financial Statements.

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

**TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows**

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

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

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

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

See accompanying Notes to the Consolidated Financial Statements.

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

The tax benefit resulting from the accrued interest attributable to hybrid capital holders is included in the distribution of dividends (see Note (29)).

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

## TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements

### Consolidated Segment Reporting

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

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

For further information on segments, see Note (3).

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

CONSOLIDATED FINANCIAL STATEMENTS

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

  

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

## Table of Other Intangible Assets

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

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

## Table of Property, Plant and Equipment

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

For further information on property, plant and equipment, see Note (19).

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

## (1) The Company and Significant Accounting Policies

### Description of business and relationship with the Federal Republic of Austria

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

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

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

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

### Basis of presentation

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

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

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

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

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

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

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

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

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

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

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

### Principles of consolidation

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

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

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

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

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

### Foreign currency translation

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

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

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

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

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

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

### Financial reporting in hyperinflationary economies

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

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

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

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

#### Format of the consolidated statements of profit or loss

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

#### Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Research and development costs**

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

#### **Interest, royalties and dividends**

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

### Earnings per share

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

### Cash and cash equivalents

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

### Marketable securities and other long-term investments

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

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

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

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

### Receivables

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

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

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

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

### Inventories

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

**Assets held for sale**

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

**Goodwill and other intangible assets**

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

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

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

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

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

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

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

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

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

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

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

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

\* See also terms in Note (18).

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

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

#### **Internally developed software**

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

#### **Property, plant and equipment**

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

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

The useful lives are:

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

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

#### **Borrowing costs**

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

#### **Government grants**

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

#### **Impairment of property, plant and equipment and intangible assets**

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

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

#### **Financial liabilities**

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

#### **Other liabilities**

Other liabilities are carried at amortised cost.

#### **Provisions**

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

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

### **Leases**

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

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

### **Employee benefit obligations**

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

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

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

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

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

### **Changes in existing decommissioning, restoration and similar liabilities**

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

**Income taxes**

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

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

**Share-based payments**

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

**Financial instruments**

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

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

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

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

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

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

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

**Fair value of financial instruments**

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

### Concentration of risks

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

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

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

### Use of estimates

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

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

- a) Employee benefit plans: The measurement of the various pension and other post-employment benefit plans as well as service awards is based on a method that uses various parameters, such as the expected discount rate, rate of compensation increase, rate of employee turnover and pension and salary increase. Changes in these parameters could result in higher or lower expenses (see Note (27)).
- b) Impairments: The impairment test for goodwill, other intangible assets and property, plant and equipment (PPE) is generally based upon discounted estimated future net cash flows from the continuing use and ultimate disposal of the assets. Changes in the discount rates used, in the development of revenues, in cost drivers as well as in asset additions could lead to impairments or, to the extent permitted, to reversals of impairments (see Note (17)). For more information on the carrying amounts of goodwill, other intangible assets and property, plant and equipment, see Notes (17), (18) and (19).
- c) The estimated useful lives of property, plant and equipment and intangible assets subject to depreciation and amortisation represent the estimated periods during which the assets will be in use. With respect to changes in depreciation and amortisation resulting from changes in the useful lives, see Note (19).
- d) Share-based compensation: Obligations under the long-term incentive programme are measured based on the fair value, which depends on expected target achievement and the expected share price at vesting date. Compensation expense and liabilities could materially differ from the estimated amount as of the reporting date if the underlying parameters were to change (see Note (31)).
- e) Deferred taxes: In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all the deferred tax assets will be realised. The ultimate realisation of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. If Telekom Austria Group does not generate sufficient taxable income, deferred tax assets cannot be realised and therefore will not be recognised (see Note (30)).
- f) Restructuring (includes provisions for onerous contracts according to IAS 37 as well as provisions for social plans according to IAS 19): The provision is based on various parameters such as discount rate, salary increase, employee turnover and the probability of the acceptance of termination offers. Changes in these parameters could result in higher or lower expenses (see Note (22)).

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

## (2) Business Combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### (3) Operating Segments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### (4) Revenues

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

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

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

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

## (5) Other Operating Income

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

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

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

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

**(6) Other Operating Expenses**

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

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

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

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

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

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

**(7) Financial Result**

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

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

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

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

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

### Foreign exchange differences

in TEUR	2015	2014
Foreign exchange gains	17,087	8,424
Foreign exchange losses	-19,344	-9,503
Net monetary gain	0	-841
<b>Foreign exchange differences</b>	<b>-2,257</b>	<b>-1,921</b>

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

### Other financial result

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

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

## (8) Short-term Investments

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

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

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

## (9) Accounts Receivable – Trade

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

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

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

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

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

The ageing of accounts receivable – trade is as follows:

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

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

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

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

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

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

### (10) Related Party Transactions

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

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

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

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

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

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

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

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

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

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

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

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

### (11) Inventories

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

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

### (12) Prepaid Expenses

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

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

### (13) Non-current Assets Held for Sale

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

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

## (14) Other Current Assets

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

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

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

Other current non-financial assets mainly consist of deferrals related to customer loyalty programmes, value-added tax receivables, claims against the Republic of Austria (see Note (10)), advance payments, indemnification payments due from insurance companies and receivables due from employees. Additionally in 2015, a repayment claim for an unjustified value added tax claim by the tax authorities in an amount of TEUR 5,561 is included. Additionally in 2014, other current assets contain a receivable amounting to TEUR 16,187 related to investment grants for broadband expansion, which are deducted from acquisition cost (see Note (19)). At 31 December 2015, TEUR 1.097 of these investment grants are outstanding. The allowance for non-financial assets mainly relates to damage claims.

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

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

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

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

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

### (15) Investments in Associates

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

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

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

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

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

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

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

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

The financial information of Telecom Liechtenstein AG relates to the full reporting period 2015 and 2014.

Net income equals total comprehensive income.

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

Financial information of media.at-Group is included based on 30 June reporting.

As liabilities are substantially short-term, no split between short-term and long-term is provided.

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

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

## (16) Long-term Investments

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

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

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

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

## (17) Goodwill

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

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

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

The acquisition cost of goodwill was as follows:

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

Accumulated impairment charges of goodwill amount to:

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

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

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

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

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

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

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

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

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

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

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

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

\*\* The growth rates applied to the perpetual annuity consider, compared to prior year, not only the general growth rates but also company-specific revenue growth rates of prior periods and those used in the detailed planning, respectively.

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

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

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

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

### Sensitivity analysis

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

Pre-tax interest rates*	2015	2014
Segment Austria	10.4%	10.8%
Segment Bulgaria	10.0%	11.6%
Segment Croatia	10.4%	10.4%
Segment Belarus	54.3%	45.2%
Segment Additional Markets	15.3%–33.8%	12.2%–25.1%

\* Based on a risk-free interest rate, adjusted for market, country and industry-specific risks.

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

With respect to the substantial markets, the following table sets forth the changes in revenues, cost drivers and capital expenditure which would lead to the carrying amounts equalling the value in use at 31 December 2015 and 2014:

2015	Revenues	Cost	Capital expenditures
Segment Austria	-4.0%	5.6%	20.3%
Segment Bulgaria	-1.9%	2.9%	11.5%
Segment Croatia	-1.1%	1.4%	7.9%
Segment Belarus	-16.3%	26.7%	122.1%
2014			
Segment Austria	-4.8%	6.8%	25.4%
Segment Bulgaria	-1.3%	1.9%	8.3%
Segment Croatia	0.0%	0.1%	0.4%
Segment Belarus	-7.5%	12.8%	57.8%

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

### (18) Other Intangible Assets

The 'Table of Other Intangible Assets' provides the components and a reconciliation of the changes in other intangible assets.

At 31 December 2015 and 2014, the line item software comprises internally developed software with a carrying amount of TEUR 23,462 and TEUR 24,575, acquisition cost of TEUR 120,372 and TEUR 136,803 and the related accumulated amortisation of TEUR 96,910 and TEUR 112,228, respectively. Additions in 2015 and 2014 amounted to TEUR 1,823 and TEUR 1,890, respectively.

In 2015 and 2014, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

In 2015 and 2014, interest capitalised totalled TEUR 8,849 and TEUR 8,799, respectively. In the years reported, the calculation of capitalised borrowing cost for licenses was based on an interest rate of 3.125% which is derived from a specific financing facility. Borrowing cost capitalised on internally developed software are calculated using the borrowing which is also applied to qualifying assets of property, plant and equipment (see Note (19)).

As of 31 December 2015 and 2014, purchase commitments for intangible assets amounted to TEUR 21,193 and TEUR 15,163, respectively.

In 2015, Telekom Austria Group reduced the estimated useful lives of certain software programmes in the segment Bulgaria. The changes resulted in an increase in amortisation of TEUR 703.

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

	GSM licenses	UMTS licenses	LTE licenses
License cost	1,281,244	304,361	628,657
End of the term	2016–2034	2020–2027	2024–2033

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

On 17 November 2015, Vipnet located in Croatia acquired 2 x 3 MHz and 2 x 4.8 MHz in the 1.800 MHz spectrum for TEUR 18,513. With the newly acquired spectrum the 4G network of Vipnet is further strengthened. Vipnet already holds 2 x 29.4 MHz in the lower frequency band (below 1 GHz), 2 x 25.0 in the higher frequency band (above 1 GHz) as well as 5.0 MHz TDD spectrum.

On 19 November 2015, Vip mobile, the Serbian subsidiary of Telekom Austria Group, acquired 2 x 5 MHz of the 800 MHz spectrum for a total consideration of TEUR 35,509. The new spectrum will be used by VIP mobile for the LTE rollout and will enhance the high-speed data service in rural areas as well as data usage in connection with smartphones. Vip mobile already holds a 2 x 4.2 MHz in the lower frequency band (below 1 GHz) as well as 2 x 45.0 MHz in the higher frequency band (above 1 GHz). At 31 December 2015, this license is reported in advances/construction in progress. Additionally, on 19 February 2015, Vip mobile, acquired 2 x 5 MHz of the 1.800 MHz spectrum for a total consideration of TEUR 6,920.

On 3 April 2014, the Bulgarian subsidiary Mobiltel prolonged its existing license portfolio of 2 x 11.2 MHz in the 900 MHz spectrum band and 2 x 10 MHz in the 1800 MHz spectrum band for a total amount of TEUR 30,596. The allocated spectrum range remains the same. The spectrum has a maturity of 10 years, until 8 June 2024. The terms of the prolongation were set by the Communications Regulation Commission (CRC).

On 28 April 2014, Si.mobil acquired 2 x 90 MHz of FDD spectrum and 1 x 45 MHz of TDD spectrum at the combinatorial clock auction in Slovenia, equivalent to approximately 48% of the total auctioned spectrum, for a total consideration of TEUR 63,874. The new 800 MHz spectrum and the 2600 MHz spectrum licenses are valid from mid-2014 until mid-2029. The 2100 MHz TDD spectrum license, also valid from mid-2014, was granted until September 2021. The 900 MHz and 1800 MHz spectrum license will be valid from January 2016 until January 2031. Si.mobil has to cover 95% of the Slovenian population with LTE technology within three years to comply with regulatory coverage obligations as well as the objectives of the European digital agenda concerning the coverage of so-called 'whitespots'. At 31 December 2015, 96% of the Slovenian population are covered with LTE technology.

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

2016	296,046
2017	230,526
2018	185,587
2019	152,861
2020	124,823
Thereafter	1,013,607

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

in TEUR	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
At 1 January 2014	165,514	244,312	27,714	98,389	4,286	540,215
Acquisitions	0	0	0	0	772	772
Disposals	0	0	0	0	-1,158	-1,158
Impairment	0	0	0	0	0	0
Amortisation	-6,667	-608	-1,019	0	-107	-8,401
Translation adjustment	0	0	-111	0	20	-91
Hyperinflation adjustment	0	0	0	5,603	0	5,603
<b>At 31 December 2014</b>	<b>158,847</b>	<b>243,704</b>	<b>26,584</b>	<b>103,992</b>	<b>3,813</b>	<b>536,941</b>
Acquisitions	0	0	517	0	8,469	8,986
Disposals	0	0	0	0	0	0
Amortisation	0	0	-1,315	0	-906	-2,220
Translation adjustment	0	0	68	-30,327	9	-30,250
Hyperinflation adjustment	0	0	0	0	0	0
<b>At 31 December 2015</b>	<b>158,847</b>	<b>243,704</b>	<b>25,855</b>	<b>73,665</b>	<b>11,386</b>	<b>513,457</b>

Regarding the acquisitions and disposals of brand names see Note (2).

Brand names classified as intangible assets with indefinite useful lives are tested for impairment in the fourth quarter of each year in accordance with IAS 36, as described in Note (1). If an event or circumstance indicates that an asset may be impaired, impairment tests are carried out. Due to the fact that brand names do not generate cash inflows that are largely independent of those from other assets, the value in use can be determined only for the asset's cash-generating unit. The second step according to IAS 36.107 is to determine whether an impairment loss should be recognised based on the total cash-generating unit.

Brand names, which will be used for a limited period of time are amortised over the estimated useful life. These brand names are B.net and Amis Croatia in the segment Croatia and the brand names of Amis Slovenia, Blizoo and ONE in the segment Additional markets.

Brand names were allocated to the following cash-generating units:

in TEUR, at 31 December	2015	2014
A1 Telekom Austria	144,910	144,910
Cable Runner	491	491
Paybox Bank	496	496
YESSS!	12,950	12,950
<b>Total Austria</b>	<b>158,847</b>	<b>158,847</b>
Mobitel	243,704	243,704
<b>Total Bulgaria</b>	<b>243,704</b>	<b>243,704</b>
Vipnet	25,042	24,976
B.net	594	1,608
Amis Croatia	219	0
<b>Total Croatia</b>	<b>25,855</b>	<b>26,584</b>
Velcom	73,665	103,992
<b>Total Belarus</b>	<b>73,665</b>	<b>103,992</b>
Si.mobil	3,148	3,148
Amis Slovenia	1,707	665
Blizoo	211	0
one.Vip	6,319	0
<b>Total Additional Markets</b>	<b>11,386</b>	<b>3,813</b>
<b>Total Brand Names</b>	<b>513,457</b>	<b>536,941</b>
Thereof with indefinite useful lives	504,407	534,668
Thereof with definite useful lives	9,051	2,273

## (19) Property, Plant and Equipment

The 'Table of Property, Plant and Equipment' provides the components and a reconciliation of the changes in property, plant and equipment. At 31 December 2015, leased automobiles with a carrying value of TEUR 369 are included in communications network and other equipment.

In 2015 and 2014, borrowing cost capitalised totalled TEUR 2,132 and TEUR 1,595, respectively. Calculation of capitalised borrowing cost was based on an interest rate of 4.6% and 4.3% in the years 2015 and 2014.

As of 31 December 2015 and 2014, the carrying amount of land amounted to TEUR 56,261 and TEUR 54,750, respectively.

In 2015, Telekom Austria Group reduced the estimated useful lives of buildings and certain technical equipment in the segments Austria, Bulgaria and Belarus and in 2014, in the segments Austria and Additional markets due to the rapid technological progress. The changes resulted in an increase in depreciation of TEUR 8,655 and TEUR 2,515 in 2015 and 2014, respectively.

Government grants totalling TEUR 3,913 and TEUR 20,827 were deducted from acquisition cost in 2015 and 2014, respectively.

The transfers from advances/construction in progress relate to property, plant and equipment and intangible assets. Furthermore, assets held for sale were reclassified.

As of 31 December 2015 and 2014, purchase commitments for property, plant and equipment amount to TEUR 107,949 and TEUR 74,303, respectively.

Property, plant and equipment in the amount of TEUR 1,750 is pledged to secure tax obligations.

*Sensitivity analysis*

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

in TEUR	2015	2014
Decrease due to extension by one year	163,364	160,293
Increase due to reduction by one year	189,021	210,524

**(20) Other Non-current Assets**

in TEUR, at 31 December	2015	2014
Finance lease receivables	2,580	2,741
Instalment sales	32,830	33,026
Other financial assets	2,164	2,642
<b>Financial assets</b>	<b>37,574</b>	<b>38,409</b>
<b>Other non-financial assets</b>	<b>12,690</b>	<b>9,882</b>
<b>Other non-current assets, gross</b>	<b>50,264</b>	<b>48,291</b>
Less allowance for financial assets	-1,252	-1,431
<b>Other non-current assets</b>	<b>49,012</b>	<b>46,859</b>

For information on finance lease receivables and instalment sales receivables, see Notes (26) and (14). Instalment sales contracts in Belarus are only concluded with terms below twelve months. Other non-financial assets mainly include prepayments for maintenance agreements, license fees and rent.

The following table sets forth the ageing and the development of the allowance for long-term finance lease receivables, long-term instalment sales receivables and other non-current financial assets:

in TEUR, at 31 December	Gross 2015	Allowance 2015	Gross 2014	Allowance 2014
Not yet due	37,469	1,147	38,224	1,247
Past due 0–90 days	105	105	185	185
<b>Total</b>	<b>37,574</b>	<b>1,252</b>	<b>38,409</b>	<b>1,431</b>

in TEUR	2015	2014
<b>At 1 January</b>	<b>1,431</b>	<b>1,258</b>
Foreign currency adjustment	-51	-33
Reversed	57	-47
Charged to expenses	-58	649
Amounts written-off	-128	-397
<b>At 31 December</b>	<b>1,252</b>	<b>1,431</b>

## (21) Short-term Borrowings

in TEUR, at 31 December	2015	2014
Current portion of long-term debt	805,236	247,326
Accrued interest	93,200	93,459
Short-term debt	5,087	28
Current portion of lease obligations	117	0
<b>Short-term borrowings</b>	<b>903,640</b>	<b>340,813</b>

For further information regarding the current portion of long-term debt and lease obligations, see Notes (25) and (26). The increase in the current portion of long-term debt results from the reclassification of a bond falling due in January 2016. Accrued interest includes interest on bonds and bank debt (see Note (25)). Further funding sources are listed in Note (33).

## (22) Provisions and Accrued Liabilities

in TEUR	Restructuring	Employees	Customer allowances	Asset retirement obligation	Legal	Other	Total
<b>At 31 December 2014</b>	<b>790,631</b>	<b>127,241</b>	<b>28,533</b>	<b>188,388</b>	<b>20,258</b>	<b>49,763</b>	<b>1,204,815</b>
Additions	88,706	38,695	21,024	11,700	13,419	35,649	209,193
Changes in estimate	13,548	0	0	-31,149	0	0	-17,600
Used	-93,094	-39,475	-18,998	-1,073	-576	-35,155	-188,372
Released	-106,001	-11,271	-6,855	-2,675	-3,241	-13,435	-143,479
Accretion expense	11,136	17	0	5,160	0	0	16,314
Reclassifications*	-2,711	6,889	0	0	0	0	4,178
Translation adjustment	0	-268	0	-3,604	1	-240	-4,111
Changes in reporting entities	0	873	0	0	2,127	1,836	4,835
<b>At 31 December 2015</b>	<b>702,215</b>	<b>122,700</b>	<b>23,704</b>	<b>166,748</b>	<b>31,987</b>	<b>38,417</b>	<b>1,085,771</b>
Thereof long-term							
<b>31 December 2015</b>	<b>583,550</b>	<b>0</b>	<b>0</b>	<b>166,748</b>	<b>0</b>	<b>0</b>	<b>750,298</b>
31 December 2014	679,130	0	0	188,388	0	0	867,518

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

In establishing provisions, Management assesses different scenarios of reasonably estimated outcomes to determine the amount that Telekom Austria Group is expected to pay upon the resolution of a contingency. Telekom Austria Group records provisions based on the best estimate of the expenditure required to settle the present obligation.

Telekom Austria Group expects that approximately 60% of the provisions and accrued liabilities, with the exception of the asset retirement obligation and the provision for restructuring, will be utilised during the following financial year. Even if Telekom Austria Group does not expect an outflow of funds in the following financial year, provisions and accrued liabilities are reported as short-term if the timing of such outflows cannot be controlled by Telekom Austria Group.

### Restructuring

In 2008, a comprehensive restructuring programme was initiated in the segment Austria. The provision for restructuring includes future compensation of employees, who will no longer provide services for Telekom Austria Group but who cannot be laid off due to their status as civil servants. These employment contracts are onerous contracts under IAS 37, as the unavoidable cost related to the contractual obligation exceeds the future economic benefit. The restructuring programme also includes social plans for employees whose employments will be terminated in a socially responsible way. In 2009, 2011, 2012, 2013, 2014 and 2015, new social plans were initiated which provide for early retirement, special severance packages and golden handshake options. Due to their nature as termination benefits, these social plans are accounted for according to IAS 19. At 31 December 2015 and 2014, the corresponding liability amounts to TEUR 668,491 and TEUR 761,862 and includes 1,914 and 1,810 employees, respectively.

The expense recognised related to the increase in the provision is reported in the line item restructuring expenses, while the accretion expense is reported in the financial result. A part of the provision was released since a number of employees returned to regular operations, were transferred to the government or opted for schemes such as golden handshakes, special severance packages and early retirement to an extent not foreseeable at the time of the measurement of the provision in 2014. The changes in estimate are due to adjustments of the

discount rate and the rate of compensation, the change of the contribution to the defined contribution pension plan from 2017 on (see Note (27)) as well as an adjustment of the employee turnover rate from 23.4% in 2014 to 22.9% in 2015. The employee turnover rate takes into consideration employees leaving in the future as well as temporary re-employment within Telekom Austria Group and is only applicable to the provision for employees permanently leaving the service process and not to provisions for social plans.

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

As of 31 December 2015 and 2014, the provision for the transfer of civil servants to the government amounts to TEUR 33,724 and TEUR 28,769 and comprises 205 and 242 employees, respectively. In addition, Telekom Austria Group recognised a liability for employees transferred to the government amounting to TEUR 4,692 and TEUR 3,833 (see Note (23)).

In 2015 and 2014, the estimated rate of compensation equals the rate used for the calculation of employee benefit obligations (see Note (27)). The following table sets forth the interest rates applied.

	2015	2014
Employees permanently leaving the service process	2.0%	2.0%
Social plans	1.0%	1.3%
Civil servants transferred to the government	1.0%	1.3%

EBITDA was adjusted for total restructuring expense consisting of restructuring income in an amount of TEUR 16,584 in 2015 compared to an expense in 2014 of TEUR 70,713 for the restructuring programme and of expenses of TEUR 16,978 and TEUR 18,852 resulting from the transfer of civil servants to the government.

#### *Sensitivity analysis*

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

	1 percentage point increase	1 percentage point decrease
in TEUR, at 31 December 2015		
Change in discount rate	-33,778	37,178
Change in rate of compensation	31,345	-29,142
in TEUR, at 31 December 2014		
Change in discount rate	-44,148	48,771
Change in rate of compensation	42,008	-38,899

#### **Employees**

The provisions for employees contain unused vacation days, bonuses and the short-term portion of employee benefit obligations for severance, service awards and pensions (see also Note (27)).

In its judgement of 11 November 2014, the European Court of Justice (ECJ) decided that the Austrian law determining the reference date for salary increments for Austrian civil servants (this date determines the length of service and thus the date for being advanced into the next salary level) is not in conformity with European Union law. Thus, at 31 December 2014 and 2015, Telekom Austria Group recognised a provision for employees in its financial statements of TEUR 50.255 and TEUR 50.262.

#### **Customer rebates**

The provision for customer rebates contains rebates earned by customers but not paid as of the reporting date.

#### **Asset retirement obligation**

Telekom Austria Group records asset retirement obligations for the retirement and decommissioning of wooden masts impregnated with tar or salt, base stations, land and buildings including rented premises.

The asset retirement obligation for masts impregnated with tar or salt is based on estimated settlement dates and expected cash flows.

Telekom Austria Group operates base stations on land, rooftops and on other premises under various types of rental contracts. In estimating the fair value of the retirement obligation for its base stations, Telekom Austria Group has made a range of assumptions such as retirement dates, timing and percentage of early cancellations, development of technology and the cost of removing network equipment and remediating the sites.

Additionally, Telekom Austria Group records asset retirement obligations for buildings concerning obligations for the disposal of hazardous substances and warfare material as well as the decontamination of land when decommissioning a building. Telekom Austria Group records asset retirement obligations for buildings and rented premises under operating leases in accordance with the obligation to refurbish the sites at the expiration of the lease contracts.

Based on an external expert opinion, the obligation related to the contamination of property upon retirement of a building was adjusted in 2014.

In 2015, the discount rate applied to the calculation of asset retirement obligations was adjusted to reflect current market conditions in the individual countries. The discount rate used for the calculation is based on the risk-free interest rate of Austrian government bonds with a maturity of 25 years and the comparable applicable interest rate in Belarus, which were adjusted in 2015. The change of these parameters and the adjustment of the estimated dismantling cost resulted in a decrease of the asset retirement obligation of TEUR 31,149. TEUR 30.168 were recorded as a reduction of the related item of property, plant and equipment and TEUR 981 were recorded in other operating income, as the facilities concerned are already fully depreciated.

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

	Austria	Other countries	Belarus
2015			
Discount rate	2.0%	2.0%	17.1%
Inflation rate	1.0%	1.0%	11.5%
2014			
Discount rate	2.0%	2.0%	21.0%
Inflation rate	2.0%	2.0%	15.0%

#### *Sensitivity analysis*

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

in TEUR at 31 December 2015	1 percentage point increase	1 percentage point decrease
Change in discount rate	-16,176	18,822
Change in inflation rate	19,251	-17,211
in TEUR at 31 December 2014		
Change in discount rate	-16,045	25,408
Change in inflation rate	25,773	-17,269

#### **Legal**

Provisions mainly relate to expenses incurred in respect of legal advice and litigation.

#### **Other provisions**

Other provisions mainly relate to audit and consulting fees, commissions, taxes (excluding income taxes), energy and penalties. The provision for pension contributions recorded at 31 December 2014 was, due to a change of the respective law in December 2015, reclassified in an amount of TEUR 5,475 to other current financial liabilities (see Note (23)) and in an amount of TEUR 9,461 to other non-current financial liabilities (see Note (28)). The remaining amount of TEUR 2,673 was released.

### (23) Accounts Payable – Trade and Other Current Liabilities

At 31 December 2015 and 2014, accounts payable – trade amounting to TEUR 887 and TEUR 278, respectively, have a maturity of more than twelve months. These accounts payable relate mainly to financial retentions.

Other current liabilities consist of the following items:

in TEUR, at 31 December	2015	2014
Fiscal authorities	62,787	63,413
Social security	10,110	9,571
Employees	17,270	17,985
Long-term incentive programme	1,237	508
Employees – transferred to government	4,692	3,833
Prepayments from customers	6,595	7,897
Government	136	144
Other non-financial liabilities	9,167	4,158
<b>Other current non-financial liabilities</b>	<b>111,994</b>	<b>107,509</b>
Other current financial liabilities	126,310	25,194
<b>Other current liabilities</b>	<b>238,305</b>	<b>132,703</b>

Liabilities due to tax authorities mainly include value-added taxes and payroll taxes.

Liabilities regarding social security relate to statutory contributions to the social security system.

Liabilities due to employees mainly relate to salaries payable (including overtime and travel allowances) and one-time termination benefits.

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

For information on the long-term incentive programme, see Note (31).

Other non-financial liabilities include liabilities for pension contributions (see Note (22))

In 2015 and 2014, other current financial liabilities include substantially cash deposits received and liabilities arising from customer deposits. At 31 December 2015, purchase price liabilities from business combinations from the eight Macedonian cable operators and from ONE of TEUR 100,149 are included (see Note (2)).

### (24) Deferred Income

in TEUR, at 31 December	2015	2014
Unearned income	130,045	126,997
Customer loyalty programmes	31,473	36,880
<b>Deferred income, current portion</b>	<b>161,518</b>	<b>163,877</b>

Unearned income mainly relates to prepaid access fees, monthly base fees, leased lines to commercial customers, prepaid mobile fees and rental income from site sharing. These fees are recognised over the period the service is provided.

According to IFRIC 13 'Customer Loyalty Programmes', the award credits granted are recognised as deferred income until redeemed or forfeited.

## (25) Long-term Debt

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

Currency	Maturity	Nominal interest rate	At 31 December 2015		At 31 December 2014				
			Face value	Carrying amount	Face value	Carrying amount			
<b>Bonds</b>									
TEUR	2017	fixed	4.250%	500,000	499,312	fixed	4.250%	500,000	498,671
TEUR	2016	fixed	6.375%	750,000	749,910	fixed	6.375%	750,000	748,772
TEUR	2022	fixed	4.000%	750,000	742,764	fixed	4.000%	750,000	741,610
TEUR	2023	fixed	3.500%	300,000	298,093	fixed	3.500%	300,000	297,839
TEUR	2021	fixed	3.125%	750,000	743,828	fixed	3.125%	750,000	742,787
<b>Total Bonds</b>				<b>3,050,000</b>	<b>3,033,907</b>			<b>3,050,000</b>	<b>3,029,679</b>
<b>Bank debt</b>									
TEUR	2016–2019	fixed	4.88%	21,305	21,305	fixed	4.88%	26,632	26,632
TEUR	2017–2019	fixed	4.12%	84,000	84,000	fixed	4.32%	126,000	126,000
TEUR	2015			0	0	fixed	3.51%	200,000	200,000
TEUR	2016	fixed	5.41%	50,000	50,000	fixed	5.41%	50,000	50,000
TEUR	2018	fixed	3.22%	200,000	200,000	fixed	3.44%	200,000	200,000
<b>Total bank debt</b>				<b>355,305</b>	<b>355,305</b>			<b>602,632</b>	<b>602,632</b>
<b>Leases (Note (26))</b>				<b>263</b>	<b>263</b>			<b>0</b>	<b>0</b>
<b>Financial debt</b>				<b>3,405,568</b>	<b>3,389,475</b>			<b>3,652,632</b>	<b>3,632,311</b>
Current portion of long-term debt				–805,353	–805,353			–247,326	–247,326
<b>Long-term debt</b>				<b>2,600,215</b>	<b>2,584,122</b>			<b>3,405,305</b>	<b>3,384,984</b>

### Bonds

In 2003, Telekom Austria Group initiated a Euro Medium Term Note ('EMTN') Programme. In January 2005, a Eurobond with a face value of TEUR 500,000, a maturity of twelve years and a coupon of 4.25% was issued. The discount of TEUR 7,693 was amortised over the related terms. The EMTN Programme ended on 31 December 2008, and was not extended.

On 29 January 2009, Telekom Austria Group issued a Eurobond with a face value of TEUR 750,000, a maturity of seven years and a coupon of 6.375%. The discount and the issue costs of TEUR 7,965 are amortised over the related term.

In March 2012, Telekom Austria Group initiated a Euro Medium Term Note ('EMTN') Programme with a maximum volume of TEUR 2,500,000. On 2 April 2012, Telekom Austria Group issued a bond under the EMTN Programme with a face value of TEUR 750,000, a maturity of ten years and a coupon of 4.0%. The discount and the issue costs of TEUR 11,575 are amortised over the related term.

On 4 July 2013, Telekom Austria Group issued a bond under the EMTN Programme with a face value of TEUR 300,000, a maturity of ten years and a coupon of 3.5%. Discount and issue costs of TEUR 2,574 are amortised over the related term.

On 3 December 2013, Telekom Austria Group issued a bond under the EMTN Programme with a face value of TEUR 750,000, a maturity of eight years and a coupon of 3.125%. Discount and issue costs of TEUR 8,336 are amortised over the related term.

### Bank debt

On 27 June 2014, the shareholders' agreement between ÖBIB, América Móvil and Carso Telecom became effective (see Note (29)). For debt outstanding as of 31 December 2014, an agreement was reached with the creditors that no premature repayment due to the 'change of control' clause was demanded.

In 2014, bank debt amounting to TEUR 119,777 was redeemed prematurely. In 2015, no bank debt was redeemed prematurely.

### (26) Leases

#### Lessee

Telekom Austria Group leases equipment used in its operations. The leases are classified as operating leases. The operating lease contracts will expire on various dates through 2028 and mainly comprise leases of property and vehicles.

Future minimum lease payments for non-cancellable operating lease contracts as of 31 December 2015 are:

in TEUR	Other finance leases	Operating leases
2016	117	60,154
2017	83	29,548
2018	52	17,879
2019	16	11,693
2020	0	7,976
After 2020	0	18,874
Total minimum lease payments	268	146,125
Less amount representing interest	-5	0
Present value of lease payments	263	0
Less current portion	-117	0
<b>Non-current lease obligations</b>	<b>146</b>	<b>0</b>

#### Lessor

Telekom Austria Group receives minimum lease payments for non-cancellable operating lease contracts that mainly relate to indefeasible right of use contracts, which are reported in other intangible assets, private automatic branch exchange equipment (PABX) and set-top boxes, which are reported in communications network and other equipment in property, plant and equipment.

These payments are recognised as revenue on a straight-line basis over the terms of the contracts. As of 31 December 2015 and 2014, the cost of this equipment amounted to TEUR 36,969 and TEUR 40,230, and the carrying amount to TEUR 12,063 and TEUR 13,176, respectively. The future minimum lease payments as of 31 December 2015 are as follows:

in TEUR	Operating leases
2016	8,871
2017	6,245
2018	2,048
2019	1,312
2020	981
After 2020	5,430
<b>Total minimum lease payments</b>	<b>24,887</b>

Telekom Austria Group leases infeasible rights of use in dark fibre under finance lease contracts, which have a term until 2033. Starting 1 January 2014, mobile handsets are also sold on an instalment plan (see Notes (14) and (20)). As of 31 December 2015, the future minimum lease payments for these transactions amount to:

in TEUR	Finance lease
2016	397
2017	311
2018	302
2019	292
2020	282
After 2020	2,639
<b>Total minimum lease payments</b>	<b>4,223</b>
Less amount representing interest	-1,482
<b>Present value of finance lease receivables</b>	<b>2,741</b>
Less current portion	-161
<b>Non-current finance lease receivables</b>	<b>2,580</b>

The allowance for doubtful finance lease receivables (see Notes (14) and (20)) is as follows:

in TEUR, at 31 December	2015	2014
Allowance finance lease receivables, short-term	0	323
<b>Allowance at the end of the year</b>	<b>0</b>	<b>323</b>

## (27) Employee Benefit Obligations

in TEUR, at 31 December	2015	2014
Service awards	70,408	71,893
Severance	119,316	121,588
Pensions	6,825	6,812
Other	0	622
<b>Long-term employee benefit obligations</b>	<b>196,550</b>	<b>200,916</b>

### Actuarial assumptions

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

	2015	2014
Discount rate service awards	1.25%	2.00%
Discount rate severance	2.25%	2.00%
Discount rate pensions	1.25%	2.00%
Rate of compensation increase – civil servants	4.90%	5.50%
Rate of compensation increase – other employees	3.00%	3.10%
Rate of compensation increase – civil servants released from work	4.50%	4.50%
Rate of increase of pensions	1.60%	1.60%
Employee turnover rate*	0.0%–2.06%	0.0%–2.01%

\* Depending on years of service.

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

Life expectancy in Austria is based on 'AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler'. The obligation relating to the international subsidiaries was measured by the same actuarial basis due to their insignificant amount.

### Service awards

Civil servants and certain employees (together 'employees') are eligible to receive service awards. Under these plans, eligible employees receive a cash bonus of two months' salary after 25 years of service and four months' salary after 40 years of service. Employees with at least 35 years of service when retiring (at the age of 65) or who are retiring based on a specific legal regulation are eligible to receive four monthly salaries. The compensation is accrued as earned over the period of service, taking into account the employee turnover rate. The risk, Telekom Austria Group is exposed to, is mainly the risk of development of salary increases and inflation.

The following table provides the components and a reconciliation of the changes in the provisions for service awards:

in TEUR	2015	2014
<b>At 1 January</b>	<b>77,491</b>	<b>70,652</b>
Service cost	2,162	2,328
Interest cost	1,501	2,379
Actuarial gain/loss based on experience adjustment	-1,496	635
Actuarial gain/loss from changes in demographic assumptions	0	-5
Actuarial gain/loss from changes in financial assumptions	1,621	7,444
<b>Recognised in profit or loss</b>	<b>3,789</b>	<b>12,780</b>
Benefits paid	-5,188	-5,940
Change in reporting entities	83	0
Foreign currency adjustments	2	-1
<b>Other</b>	<b>-5,104</b>	<b>-5,941</b>
<b>Obligation at 31 December</b>	<b>76,176</b>	<b>77,491</b>
Less short-term portion	-5,768	-5,598
<b>Non-current obligation</b>	<b>70,408</b>	<b>71,893</b>

Of the defined benefit obligations for service awards, less than 1% relate to foreign subsidiaries as of 31 December 2015 and 2014, respectively.

As of 31 December 2015 and 2014, the weighted average duration of the obligation for service awards amounted to 7.0 and 7.3 years, respectively.

### Severance

Employees starting to work for Telekom Austria Group in Austria on or after 1 January 2003 are covered by a defined contribution plan. Telekom Austria Group paid TEUR 1,976 and TEUR 1,917 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2015 and 2014, respectively.

Severance benefit obligations for employees hired before 1 January 2003 are covered by defined benefit plans. Upon termination by Telekom Austria Group or retirement, eligible employees receive severance payments equal to a multiple of their monthly compensation which comprises fixed compensation plus variable elements such as overtime or bonuses. Maximum severance is equal to a multiple of twelve times the eligible monthly compensation. Up to three months of benefits are paid upon termination, with any benefit in excess of that amount being paid in monthly instalments over a period not exceeding ten months. In case of death, the heirs of eligible employees receive 50% of the severance benefits. Telekom Austria Group is exposed to the risk of development of salary increases and inflation.

The following table provides a detailed reconciliation of the changes in severance benefit obligations:

in TEUR	2015	2014
<b>At 1 January</b>	<b>123,091</b>	<b>94,170</b>
Service cost	5,736	4,864
Interest cost	2,438	3,240
<b>Recognised in profit or loss</b>	<b>8,174</b>	<b>8,104</b>
Actuarial gain/loss based on experience adjustment	-295	129
Actuarial gain/loss from changes in demographic assumptions	-387	-1,807
Actuarial gain/loss from changes in financial assumptions	-6,868	26,688
<b>Recognised in other comprehensive income</b>	<b>-7,550</b>	<b>25,011</b>
Benefits paid	-4,122	-4,175
Change in reporting entities	295	0
Foreign currency adjustments	-2	-18
<b>Other</b>	<b>-3,829</b>	<b>-4,193</b>
<b>Obligation at 31 December</b>	<b>119,886</b>	<b>123,091</b>
Less short-term portion	-570	-1,503
<b>Non-current obligation</b>	<b>119,316</b>	<b>121,588</b>

Approximately 3% of the defined benefit obligations for severance relate to foreign subsidiaries as of 31 December 2015 and 2014.

As of 31 December 2015 and 2014, the weighted average duration of the severance benefit obligations was 16.7 years.

## Pensions

### *Defined contribution pension plans*

In Austria, pension benefits generally are provided by the social security system for employees and by the government for civil servants. Telekom Austria Group is required to assist in funding the Austrian government's pension and health care obligations to Telekom Austria Group's current and former civil servants and their surviving dependents. In 2015 and 2014, the rate of contribution for active civil servants amounted to a maximum of 28.3% depending on the age of the civil servant. 15.75% are borne by Telekom Austria Group and the remaining portion is contributed by the civil servants. Contributions to the government, net of the share contributed by civil servants, amounted to TEUR 38,481 and TEUR 42,281 in 2015 and 2014, respectively. From 1 January 2017, the rate of contribution will be reduced to a maximum of 25.1% depending on the age of the civil servant. 12.55% are borne by Telekom Austria Group and the remaining portion is contributed by the civil servants.

Additionally, Telekom Austria Group sponsors a defined contribution plan for employees of some of its Austrian subsidiaries. Telekom Austria Group's contributions to this plan are based on a percentage of the compensation not exceeding 5%. The annual expenses for this plan amounted to TEUR 13,508 and TEUR 13,283 in 2015 and 2014, respectively.

### *Defined benefit pension plans*

Telekom Austria Group provides defined benefits for certain former employees in Austria. All such employees are retired and were employed prior to 1 January 1975. This unfunded plan provides benefits based on a percentage of salary and years employed, not exceeding 80% of the salary before retirement, and taking into consideration the pension provided by the social security system. Telekom Austria Group is exposed to the risk of development of life expectancy and inflation because the benefits from pension plans are lifetime benefits.

The following table provides a detailed reconciliation of the changes in pension benefit obligations:

in TEUR	2015	2014
<b>At 1 January</b>	<b>7,494</b>	<b>6,836</b>
Interest cost	143	227
<b>Recognised in profit or loss</b>	<b>143</b>	<b>227</b>
Actuarial gain/loss based on experience adjustment	16	205
Actuarial gain/loss from changes in financial assumptions	490	909
<b>Recognised in other comprehensive income</b>	<b>506</b>	<b>1,114</b>
Benefits paid	-660	-683
<b>Obligation at 31 December</b>	<b>7,483</b>	<b>7,494</b>
Less short-term portion	-658	-681
<b>Non-current obligation</b>	<b>6,825</b>	<b>6,812</b>

As of 31 December 2015 and 2014, the weighted average duration of the pension benefit obligations was 9.8 and 9.6 years, respectively.

### Other

At 31 December 2014, other employee benefit obligations related substantially to a retention loyalty programme for key employees in Bulgaria.

### Sensitivity analysis

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

in TEUR, at 31 December	2015	2014
Service awards	76,176	77,491
Severance	119,886	123,091
Pensions	7,483	7,494

A change in the discount rate of half a percentage point would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR, at 31 December 2015	0.5 percentage points decrease	0.5 percentage points increase
Service awards	2,677	-2,543
Severance	10,053	-9,115
Pensions	364	-334
<b>in TEUR, at 31 December 2014</b>		
Service awards	2,878	-2,727
Severance	10,888	-9,817
Pensions	357	-328

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

in TEUR, at 31 December 2015	1 percentage point decrease	1 percentage point increase
Service awards	-4,832	5,236
Severance	-17,399	20,761
Pensions	-645	750
<b>in TEUR, at 31 December 2014</b>		
Service awards	-5,174	5,635
Severance	-18,647	22,448
Pensions	-638	742

A change in the employee turnover rate of half a percentage point would lead to the following changes in provisions (negative values indicate a reduction in provisions):

in TEUR, at 31 December 2015	0.5 percentage points decrease	0.5 percentage points increase
Service awards	60	-2,638
Severance	2,863	-5,122
<hr/>		
in TEUR, at 31 December 2014		
Service awards	74	-2,846
Severance	3,547	-5,704

No employee turnover rate is applied to the calculation of the provision for pensions as all eligible employees are already retired.

## (28) Other Non-current Liabilities and Deferred Income

in TEUR, at 31 December	2015	2014
<b>Other non-current financial liabilities</b>	<b>839</b>	<b>969</b>
<hr/>		
Long-term incentive programme	1,166	1,317
Other liabilities	9,461	0
Deferred income, other	11,338	14,309
<b>Other non-current non-financial liabilities</b>	<b>21,965</b>	<b>15,626</b>
<hr/>		
<b>Other non-current liabilities and deferred income</b>	<b>22,804</b>	<b>16,595</b>

As of 31 December 2015 and 2014, other non-current financial liabilities consist mainly of cash deposits received.

Other non-current non-financial liabilities include liabilities for pension contributions (see Note (22)).

Regarding the long-term incentive programme see Note (31). Other deferred income mainly relates to rental revenue.

## (29) Stockholders' Equity

### Capital management

The capital structure of Telekom Austria Group consists of financial liabilities and equity attributable to the equity holders of the parent company, comprising common stock, treasury shares, additional paid-in capital, hybrid capital, retained earnings, available-for-sale reserve, hedging reserve and translation reserve.

Telekom Austria Group manages its capital structure to ensure going concern of all its subsidiaries while maximising the return to shareholders through the optimisation of the equity and liability structures of its entities.

Maintaining its investment grade rating of Baa2 by Moody's and BBB by Standard & Poor's is the number one priority of Telekom Austria Group's finance strategy. This will allow Telekom Austria Group to obtain the financial flexibility required for strategically important projects. A transparent dividend policy ensures the balance between shareholder remuneration and the utilisation of cash to redeem outstanding debt.

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

### Share capital

As of 31 December 2015 and 2014, the common stock of Telekom Austria AG amounts to TEUR 1,449,275, and is divided into 664.5 million bearer shares with no par value. As of 31 December 2015 and 2014, América Móvil directly and indirectly holds 59.70%, ÖBIB holds a stake of 28.42%, and the free floated shares including treasury shares amount to 11.88%.

With resolution of the Extraordinary General Meeting of Telekom Austria AG on 14 August 2014 pursuant to section 169 of the Austrian Stock Corporation Act, the Management Board is authorised within five years of registration of the relevant amendment to the Articles of Association in the commercial register, with the consent by the Supervisory Board, to increase Telekom Austria AG's share capital by a nominal maximum amount of up to TEUR 483,092 by issuing up to 221.5 million bearer shares against cash contribution. The net issue proceeds (the total proceeds from the issue less any external costs resulting from the issue which are to be borne by Telekom Austria AG) for Telekom Austria AG must not exceed TEUR 1,000,000. On 27 November 2014, the capital increase was completed to the full extent of 221.5 million shares at a price of Euro 4.57 per new share, which resulted in proceeds of the transaction of TEUR 1,012,778. The share capital was increased by TEUR 483,092 and the additional paid-in capital by TEUR 529,686. Transaction cost, accounted for as a deduction from additional paid-in capital, amount to TEUR 16,208, the respective tax benefit of TEUR 4,052 was recorded in additional paid-in capital as well.

On 23 April 2014, ÖBIB entered into a shareholders' agreement, effective since 27 June 2014, with Carso Telecom B.V., Netherlands ('Carso Telecom') and América Móvil, by which the parties have contractually undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria Group, by exercising voting rights on a concerted basis ('Syndicate Agreement'). Furthermore, the Syndicate Agreement contains rules on the uniform exercise of voting rights in the corporate bodies of Telekom Austria, nomination rights for members of the Supervisory and Management Boards and share transfer restrictions. The Supervisory Board of Telekom Austria will consist of ten shareholder representatives, eight of which will be nominated by Carso Telecom and two will be nominated by ÖBIB. ÖBIB will have the right to nominate the chairman of the Supervisory Board. Carso Telecom will nominate the deputy chairman. Based on the regulations of the syndicate agreement the Management Board will consist of three members, two of which will be nominated by Carso Telecom while one Management Board member, namely the Chief Executive Officer (CEO) will be nominated by ÖBIB. On 24 July 2015, the function of the Chief Executive Officer of Telekom Austria AG was transferred to a management board member nominated by Carso Telecom, namely Alejandro Plater, based on the proposal of the parties of the syndicate contract. Since 1 August 2015, the Management Board of Telekom Austria Group therefore consists of two members. In the extraordinary shareholders' meeting of 14 August 2014 the Articles of Association of Telekom Austria were amended: As long as the Republic of Austria directly or indirectly holds at least 25% plus one share in the registered share capital, resolutions on capital increases and on the issuance of instruments which contain a conversion right or a conversion obligation into shares of Telekom Austria Group as well as changes to this provision of the Articles of Association shall require a majority of at least three quarters of the share capital present at the vote.

On 15 May 2014, Carso Telecom, which is controlled by América Móvil, published a voluntary public takeover offer for all shares of Telekom Austria AG ('Offer'). On 17 July 2014, at the end of the Offer period, América Móvil held in total 50.81% of the share capital of Telekom Austria Group, while ÖBIB continued to hold 28.42%. The Syndicate Agreement currently covers 351.0 million shares of Telekom Austria, which equates to a shareholding of 79.23%. During the three months' additional acceptance ('sell-out') period, which ended on 16 October 2014, shareholders were able to tender their shares to Carso Telecom under the Offer conditions. During this extended period, Carso Telecom acquired another 38.4 million shares of Telekom Austria AG, which equates to a shareholding of approximately 8.68%.

One subsidiary, the paybox Bank AG located in Vienna, has to fulfil certain regulatory minimum equity requirements regarding credit risk and the operational risks as well as liquidity coverage requirements. On 31 December 2015 and 2014, these requirements were fulfilled.

The numbers of authorised, issued and outstanding shares and shares in treasury are presented below:

At 31 December	2015	2014
Shares authorised	664,500,000	664,500,000
Shares issued	664,500,000	664,500,000
Shares in treasury	-415,159	-415,159
Shares outstanding	664,084,841	664,084,841

The shares issued are fully paid.

The following table provides the development of shares outstanding:

	2015	2014
Outstanding as of 1 January	664,084,841	442,584,841
Capital increase	0	221,500,000
Outstanding as of 31 December	664,084,841	664,084,841

### Dividend payment

The following dividends were approved by the shareholders at the Annual General Meeting and paid by Telekom Austria AG. Regarding the coupon payments on the hybrid capital see 'Hybrid Capital':

	2015	2014
Date of Annual General Meeting	27 May 2015	28 May 2014
Dividend per share in Euro	0.05	0.05
Total dividend paid in TEUR	33,204	22,129
Date of payment	3 June 2015	6 June 2014

In 2015, the net income of Telekom Austria AG according to Austrian GAAP amounts to TEUR 384,941, while in 2014, the net loss of Telekom Austria AG according to Austrian GAAP amounted to TEUR 1,147,123. In 2015, an amount of TEUR 351,700 was allocated to reserves reported in retained earnings for the year ended 31 December 2015, and in 2014, an amount of TEUR 1,180,210 was released to reserves reported in retained earnings. These transfers resulted in unappropriated retained earnings of TEUR 33,242 and TEUR 33,205 as of 31 December 2015 and 2014, respectively. The Management Board plans after approval from the Supervisory Board to propose to the shareholders at the Annual General Meeting to distribute a dividend of Euro 0.05 per share from unappropriated retained earnings.

### Treasury shares

At the Annual General Meeting of Telekom Austria AG held on 29 May 2013, the Management Board was authorised to acquire treasury shares for a period of 18 months until November 2014 up to the maximum of 5% of the share capital at a minimum price of Euro 5 and at a maximum price of Euro 15 per share. Additionally, the Management Board was empowered to:

- (a) use these treasury shares to settle obligations under the share-based compensation plans described in Note (31) and/or to transfer them for or without a consideration to employees, managers and members of the Management Board/management of Telekom Austria AG and of its affiliated companies;
- (b) use them as consideration for acquisitions, or
- (c) sell treasury shares at any time via the stock exchange or by public offer for a period of five years from the day of the resolution in any manner permitted by law, also other than via the stock exchange, whereby the Management Board is entitled to exclude the general purchase opportunity.

	2015	2014
Shares held in treasury as of 31 December		
Number of treasury shares	415,159	415,159
Average price per share in Euro	18.80	18.80
Deduction in equity in TEUR	7,803	7,803

### Additional paid-in capital

The additional paid-in capital results from the incorporation of Telekom Austria Group as well as subsequent reorganisation of the group. Furthermore, effects relating to the employee participation plan and the retirement of treasury shares are reported in additional paid-in capital. In 2014, the increase of TEUR 517,530 is due to the capital increase described above.

### Hybrid capital

On 24 January 2013, Telekom Austria Group issued a hybrid bond with a volume of TEUR 600,000. The hybrid bond is a subordinated bond with indefinite maturity which is, based on its conditions, classified as stockholders' equity according to IFRS. Accordingly, related discount and issue cost in the amount of TEUR 11,752 were recorded net of a tax benefit of TEUR 2,938 in stockholders' equity. Therefore stockholders' equity was increased by TEUR 591,186. The bond can be redeemed at par at the earliest after a period of five years. Additionally, Telekom Austria AG has an early termination right subject to certain conditions. The annual coupon amounts to 5.625% until the first reset date, 1 February 2018. Subsequently there will be a reset date every five years. The coupon is established two days prior to the respective reset dates. Coupon payments of TEUR 33,750 affected in February 2015 and 2014 are recognised as distribution of dividends in stockholders' equity.

In the local financial statements, coupon payments are recognised as interest expense in profit or loss according to Austrian GAAP. While the tax benefit resulting from the accrued interest is recognised in profit or loss according to local GAAP, it is recognised in stockholders' equity as 'distribution of dividend' in the Consolidated Financial Statements according to IAS 12. The net result attributable to hybrid capital holders is presented in the consolidated statements of profit or loss in the allocation of the net result and equals interest recognised in profit or loss according to local GAAP in both years reported amounting to TEUR 33,750, net of the relating tax benefit of TEUR 8,438, which is recognised in stockholders' equity in 2015 and 2014.

**Earnings per share**

Basic and diluted earnings per share for the years ended 31 December 2015 and 2014 are calculated as follows:

	2015	2014
Net result attributable to owners of the parent in TEUR	367,286	-210,900
Weighted average number of common shares outstanding	664,084,841	461,296,913
<b>Basic and diluted earnings per share in Euro</b>	<b>0.55</b>	<b>-0.46</b>

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

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred as of 31 December 2015 and 2014.

**Reserve for available-for-sale marketable securities, hedging reserve and translation adjustment**

The development of the reserve for available-for-sale marketable securities and the hedging reserve as well as the translation adjustment are presented in the consolidated statements of comprehensive income and consolidated statements of changes in stockholders' equity. The foreign currency translation adjustment mainly relates to the consolidation of velcom in Belarus and Vip mobile in the Republic of Serbia. The translation adjustment as of 31 December 2015 and 2014 relating to the consolidation of Vip mobile amounts to TEUR 149,233 and TEUR 147,821, respectively. The change of the translation adjustment in 2015 mainly results from devaluation of the Belarusian Rouble, because on 1 January 2015 hyperinflation accounting was ceased. Due to the application of hyperinflation accounting in accordance with IAS 29 to the subsidiary in Belarus until 31 December 2014 the relating translation adjustment of TEUR 302,062 remained unchanged from 2011 until 31 December 2014. At 31 December 2015, the translation adjustment amounts to TEUR 439,834.

**(30) Income Taxes**

Income tax expense (benefit) attributable to income before income taxes consists of the following:

in TEUR	2015	2014
Current income tax	62,615	43,107
Deferred income tax	-38,787	-41,826
<b>Income taxes</b>	<b>23,829</b>	<b>1,281</b>

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

in TEUR	2015	2014
Continuing operations	23,829	1,281
Other comprehensive income	3,211	-4,974
Tax benefit relating to hybrid capital*	-8,438	-8,438
Tax benefit relating to capital increase*	0	-4,052
<b>Total income taxes</b>	<b>18,602</b>	<b>-16,183</b>

\* See Note (29).

The following table shows the major reconciling items between the reported income taxes and the amount of income taxes that would have resulted by applying the Austrian statutory income tax rate of 25% to pre-tax income:

in TEUR	2015	2014
Income tax expense (benefit) at statutory rate	104,151	-46,029
Foreign tax rate differential	-17,019	33,091
Tax-non-deductible expenses	7,165	9,876
Tax incentives and tax-exempted income	-7,644	-10,428
Tax-free income (loss) from investments	-95	-180
Tax expense previous years	28	6,854
Changes in deferred tax assets not recognised	-164,261	184,739
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	101,456	-201,109
Impairment of goodwill	0	30,821
Result from changes in reporting entities	-118	-6,870
Other	166	517
<b>Income taxes</b>	<b>23,829</b>	<b>1,282</b>
Effective income tax rate	5.72%	-0.70%

In 2015 and 2014, non-deductible expenses mainly consist of withholding taxes on dividends and representation expenses as well as non-deductible remuneration of managers in Austria. Tax incentives and tax-exempted income relate mainly to investment incentives in Slovenia and to tax incentives within the group taxation regime in Austria. Additionally, they relate mainly to a tax incentive in Belarus, which allows for the tax-neutral revaluation of carrying amounts of property, plant and equipment for tax purposes in order to increase the future basis of depreciation as well as research, education and investment incentives and other government grants are included.

The tax expense for prior periods recognised in 2014 results mainly from the application of financial reporting in hyperinflationary economies in accordance with IAS 29 in Belarus.

In 2014, the impairment of goodwill mainly relates to the effect of the impairment in the segment Bulgaria amounting to TEUR 34,060 as well as the relating deferred tax gain of TEUR 3,749 from the release of a deferred tax liability on goodwill which was tax deductible in Bulgaria until 2006.

The result from changes in reporting entities in 2014 relates to the gain resulting from the sale of GPS Bulgaria (see Note (2)) and in 2014 to the gain of the merger of mobilkom liechtenstein.

Impairments (reversals of impairments) of investments relate to write-downs and reversals of write-downs of investments in affiliated companies in Austria, which are recognised over a period of seven years for tax purposes and for which deferred tax is calculated (according to the respective guidance in 'Effects of tax write-downs according to section 12 (3) No 2 of the Austrian Corporate Tax Act on the accounting of income taxes according to IAS 12 in consolidated or single IFRS financial statements' issued by the Austrian Financial Reporting and Auditing Committee).

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are set out below:

in TEUR, at 31 December	2015	2014
<b>Deferred tax assets</b>		
Deferred deduction for impairments of investments in subsidiaries	128,612	149,355
Loss carry-forwards	71,972	8,517
Accounts receivable – trade	6,855	6,463
Deferred income and other liabilities	677	715
Other current assets and prepaid expenses	821	849
Provisions, long-term	60,306	66,721
Employee benefit obligations	26,484	28,179
Property, plant and equipment	2,654	1,463
Other	8,702	9,765
<b>Deferred tax assets</b>	<b>307,082</b>	<b>272,026</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	-23,259	-30,375
Other intangible assets	-140,563	-154,741
Provisions	-5,769	-3,915
Write down of treasury shares for tax purposes	-1,427	-1,380
Other	-772	-1,525
<b>Deferred tax liabilities</b>	<b>-171,791</b>	<b>-191,935</b>

in TEUR, at 31 December	2015	2014
Deferred tax assets	206,719	170,895
Deferred tax liabilities	-71,427	-90,804
<b>Deferred taxes, net</b>	<b>135,292</b>	<b>80,091</b>

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

Impairments of investments in subsidiaries according to section 9 (7) of the Austrian Corporate Tax Act are treated as temporary differences related for tax purposes. According to IAS 12.39, no deferred tax liabilities are recorded in that case. Impairments of investments in subsidiaries relate to impairments for which the recognition of expense is deferred over seven years according to Austrian tax law.

The following deferred tax assets were not recognised as the realisation in the near future is not probable according to tax planning.

in TEUR, at 31 December	2015	2014
Net operating loss carry-forwards	483,584	576,323
Temporary differences related to impairments of investments in consolidated subsidiaries	166,885	341,371
<b>Deferred tax assets not recognised</b>	<b>650,469</b>	<b>917,695</b>

In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all deferred tax assets will be realised. The realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. Management considers the scheduled release of deferred tax liabilities and projected future taxable income when making this assessment.

Based on long-term positive operative results and projections for future taxable income over the periods in which deferred tax assets become deductible Management believes that in spite of taxable losses in the past it is probable that Telekom Austria Group will realise the benefits of the deferred tax assets recognised in the statements of financial position.

At 31 December 2015, Telekom Austria Group had TEUR 2,518,660 of operating loss carry-forwards. The following loss carry-forwards mainly relating to the Republic of Serbia will expire in the following years:

Year	in TEUR
2016	227
2017	88,681
2018	104,245
2019	118,697
2020	106
2022	1,109
<b>Total</b>	<b>313,065</b>

The remaining net operating loss carry-forwards mainly relate to companies located in Austria and can be carried forward indefinitely. In Austria, the annual usage is generally limited to 75% of the taxable income for a year.

As of 31 December 2015 and 2014, Telekom Austria Group did not recognise a deferred tax liability for temporary differences related to investments in associates in the amount of TEUR 30,178 and TEUR 28,003, respectively.

Income tax receivables relate to fiscal years not yet assessed. As of 31 December 2015 and 2014, income tax receivable mainly relates to Austrian and Croatian subsidiaries. As of 31 December 2015 and 2014, income tax payable mainly relates to foreign subsidiaries.

### (31) Share-based Compensation

#### Long-term incentive (LTI) programme

Telekom Austria Group introduced a long-term incentive programme (LTI) in 2010. Participants are required to invest an amount depending on the annual gross basic salaries and the management level of the entitled employee in Telekom Austria shares and to hold these shares until the end of the holding period (at least three years). For each tranche, the number of shares granted is calculated based on the average Telekom Austria stock price for a defined period. The performance period for meeting the performance targets was determined to be three years.

On 1 June 2011 the second tranche (LTI 2011) and on 1 August 2012 the third tranche (LTI 2012) were granted. Free cash flow, total shareholder return and EBITDA were defined as key performance indicators. The target values for these key indicators were determined by the Supervisory Board at the beginning of each tranche. At the vesting date (at the earliest three years after the grant date), bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, bonus shares equal to the personal investment will be allocated to the participants. If the targets are exceeded, additional shares will be allocated up to a maximum of 175% of the shares on a pro rata basis. In case of a significant underperformance, no shares will be allocated. For LTI 2011, the actual performance and the bonus shares allocated are summarised in the subsequent table.

On 1 September 2013, the fourth tranche (LTI 2013) and on 1 July 2014, the fifth tranche (LTI 2014) were granted. Net income, relative total shareholder return and EBITDA were defined as key performance indicators. The relative total shareholder return is determined based on a balanced peer group of nine European telecommunications providers. The target values for these key indicators were determined by the Supervisory Board. At the vesting date (at the earliest three years after the grant date), bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, additional shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no shares will be allocated.

On 1 September 2015, the sixth tranche (LTI 2015) was granted. EBITDA comparable, free cash flow and a revenue-based key figure were defined as key performance indicators. The target values for these key indicators were determined by the Supervisory Board. At the vesting date (at the earliest three years after the grant date), bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, proportionally additional shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no shares will be allocated.

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

	LTI 2015	LTI 2014	LTI 2013	LTI 2012
Start of the programme	1 January 2015	1 January 2014	1 January 2013	1 January 2012
Grant date	1 September 2015	1 July 2014	1 September 2013	1 August 2012
End of vesting period	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Vesting date	1 September 2018	1 July 2017	1 September 2016	1 August 2015
Personal investment at grant date	240,835	299,239	343,738	510,986
Thereof Management Board****	57,771	51,974	53,705	42,174
Personal investment at reporting date*	171,259	220,000	247,960	426,658
Expected performance**	93.30%	50.20%	45.00%	18.00%
Expected bonus shares***	284,743	202,969	223,164	0
Maximum bonus shares***	599,408	770,001	867,860	0
Fair value of programme in TEUR	1,413	1,037	1,167	0
Allocated bonus shares	0	0	0	71,531
Average stock price at end of vesting period in Euro	0	0	0	5.73
Share-based compensation in TEUR	0	0	0	410

\* For LTI 2012 personal investment at the end of the vesting period.

\*\* For LTI 2012 actual performance at the end of the vesting period.

\*\*\* Taking into account the allocation of bonus shares equal to the double personal investment for LTI2013–2015.

\*\*\*\* LTI 2013–2015 including the personal investment of Siegfried Maryhofer, Hannes Ametsreiter and Günther Ottendorfer. LTI 2015 including the personal investment of Alejandro Plater, LTI 2012 including the personal investment of Siegfried Maryhofer and Hannes Ametsreiter (see Note (35)).

As of the reporting date, a liability measured at fair value for the portion of the expected future expense of the LTI programme, which has already vested, is recognised. The fair value of the liability is measured based on the expected target achievement and the expected share price, as determined by applying a binomial calculation model generally used for share price analysis, taking into account expected dividends. The liability is recognised over the vesting period (see Notes (23) and (28)). The following personnel expense is recognised in the consolidated statement of profit or loss (negative values indicate income):

in TEUR	2015	2014
LTI 2011	–5	–20
LTI 2012	–76	149
LTI 2013	386	7
LTI 2014	176	526
LTI 2015	474	0
<b>Expense</b>	<b>955</b>	<b>662</b>

#### Sensitivity analysis

A change of one Euro in the average stock price expected at the end of the vesting period would result in the following changes in fair values (negative values indicate a reduction):

in TEUR, at 31 December	1 Euro increase	1 Euro decrease
Fair value of LTI 2013	232	–232
Fair value of LTI 2014	216	–216
Fair value of LTI 2015	285	–285

A change of five percentage points in the EBITDA applied would result in the following changes of fair values (negative values indicate a reduction):

in TEUR, at 31 December	5 percentage points increase	5 percentage points decrease
Fair value of LTI 2013	262	–173
Fair value of LTI 2014	198	–139
Fair value of LTI 2015	109	–95

### (32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

in TEUR	2015	2014
<b>Cash paid for</b>		
Interest	157,285	162,783
Income taxes	39,551	50,540
<b>Cash received for</b>		
Interest	19,716	12,326
Income taxes	7,430	0

Cash flows relating to interest and income taxes are reported in the cash flow from operating activities. The dividends received in 2015 and 2014 (see Note (7)) had already been settled in cash as of 31 December. In 2015 and 2014, dividends paid include dividends paid to the non-controlling interests of subsidiaries in the amount of TEUR 163 and TEUR 84, respectively (see Note (38)).

In 2014, the item 'Other', which is part of the reconciliation of net result to gross cash flow, amounts to TEUR 39,649 and consists mainly of the non-cash gain on the merger of mobilkom liechtenstein amounting to TEUR 26,785, the decrease in revenues due to the change in estimate amounting to TEUR 47,505 (see Note (9)), interest expense on the reversal of the hedging reserve (see Note (33)) as well as non-cash changes in provisions (see Note (22)).

In 2015 and 2014, cash and cash equivalents acquired totalled TEUR 3,518 and TEUR 325, respectively, and cash and cash equivalents of TEUR 129 and TEUR 4,458, respectively, were disposed of due to the sale of subsidiaries (see Note (2)).

At 31 December 2015 and 2014, TEUR 187,025 and TEUR 136,196, respectively, of the additions to intangible assets and property, plant and equipment are unpaid (see 'Table of Other Intangible Assets' and 'Table of Property, Plant and Equipment').

### (33) Financial Instruments

#### Financial risk management

##### Overview

Telekom Austria Group is exposed to market risks, including liquidity risk, interest rate and foreign currency exchange rate risk and credit risk associated with underlying financial assets, liabilities and anticipated transactions. Potential risks relating to interest rate and foreign exchange rate fluctuations can be limited by entering into derivative financial instruments. These policies are laid down in the Treasury Guidelines.

Telekom Austria Group neither holds nor issues derivative financial instruments for trading or speculative purposes.

This Note presents information about Telekom Austria Group's exposure to each of the above risks, as well as the objectives, policies and the processes for limiting and measuring these risks.

The Chief Financial Officer (CFO) of the holding company has overall responsibility for the implementation and oversight of Telekom Austria Group's risk management and is responsible for monitoring Telekom Austria Group's risk management process.

Telekom Austria Group's risk management policies are established in order to identify and analyse the risks faced by Telekom Austria Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and Telekom Austria Group's activities. Telekom Austria Group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### Liquidity risk

Liquidity risk is the risk that Telekom Austria Group will not be able to meet its financial obligations as they fall due. Telekom Austria Group's approach to managing liquidity is to ensure that Telekom Austria Group will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. Furthermore, all measures required to assure sufficient liquidity for the needs according to the liquidity plan shall be taken. The liquidity risk expresses itself in the monthly and yearly cumulated difference between incoming and outgoing payments (dynamic liquidity risk) as well as in the structure of the statements of financial position (structural liquidity risk).

The analysis of the dynamic liquidity risk is conducted by means of liquidity planning. The given monthly liquidity requirement based on the forecasted liquidity planning is compared against the existing financing or available lines of credit and liquid financial assets. The difference between the two will result in either a liquidity gap, which will be financed, or excess liquidity, which, if necessary, will be invested. On the basis of the existing business plan, a rolling monthly liquidity plan is drawn up for Telekom Austria Group. In the liquidity plan, all known incoming and outgoing payments are processed and a worst-case scenario is calculated.

An analysis of the structural liquidity risk takes place upon determining the net working capital and the redemption structure of the financing portfolio (risk of concentration of maturities). Individual investment financing is structured in such a way that a balanced redemption schedule can be adhered to in the aggregate portfolio and any concentration of maturities in a single year is avoided.

Telekom Austria Group invests excess liquidity in instruments with counterparties and within limits approved by the CFO. All long-term instruments and derivatives, if used, are contracted with counterparties having an investment grade rating from Standard & Poor's or an equivalent rating from another globally recognised rating agency. If no such external rating is available, an internal rating based on quantitative ratios is carried out.

The exposure to liquidity risk, the set targets, the principles and processes to monitor the risk on an ongoing basis as well as the methods used to assess liquidity risk remained unchanged to prior years.

#### *Funding sources*

Telekom Austria Group pursues a central treasury approach in meeting the capital needs of its subsidiaries. Telekom Austria Group's treasury department acts as an internal financial services provider, realising potential synergies in financing the operations of Telekom Austria Group's subsidiaries. Its primary goal is to assure liquidity in a cost-effective manner by applying the pooling of cash flows and the clearing of Telekom Austria Group's accounts to enable the management of short-term investments and borrowings at optimal interest rates with minimal administrative effort.

Cash flow from operations is the basis for securing sufficient liquidity of Telekom Austria Group. Principal sources of external funding are bonds issued on Austrian and international debt capital markets as well as bank loans. For details of outstanding long-term debt and a description of the different classes of the debt as of the reporting date see Note (25).

#### *Other funding sources*

In order to diversify its short-term funding sources, Telekom Austria Group implemented a multi-currency short-term treasury notes programme (multi-currency notes) with a maximum volume of TEUR 300,000 in 2007. The programme was concluded for an indefinite period. As of 31 December 2015 and 2014, no multi-currency notes were issued.

As of 31 December 2015 and 2014, Telekom Austria Group had total credit lines of TEUR 1,000,000 and TEUR 1,000,000, respectively. These credit lines were not utilised. The credit line commitments have a term until November 2019.

*Exposure to liquidity risk*

The following table sets forth the contractual (undiscounted) interest and redemption payments of financial liabilities. At 31 December 2015 and 2014, no variable interest-rate liabilities existed. Foreign currencies were translated at the rates valid on the reporting date.

	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
<b>At 31 December 2015</b>						
<b>Financial liabilities</b>						
Bonds	3,574,938	849,063	33,938	585,188	191,813	1,914,938
Bank debt	387,844	8,193	58,359	57,580	263,711	0
Accounts payable – trade	573,650	572,272	489	641	151	97
Other financial liabilities	50,702	34,450	11,545	2,807	927	973
<b>At 31 December 2014</b>						
<b>Financial liabilities</b>						
Bonds	3,707,938	99,063	33,938	883,000	713,063	1,978,875
Bank debt	660,255	12,940	257,803	66,985	322,528	0
Accounts payable – trade	523,977	521,492	2,102	171	155	56
Other financial liabilities	54,867	34,950	12,059	3,541	3,273	1,044

It is not expected that the cash flows of the financial liabilities included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**Market risks**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect Telekom Austria Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. All financial transactions are carried out within the Treasury Guideline. At 31 December 2015 and 2014, Telekom Austria Group held not derivative financial instruments.

The calculation of fair values (mark-to-market) is based on contractually agreed future cash flows related to such transactions. For the purpose of determining the fair value of the existing financial instruments, Telekom Austria Group considers the interest rate curve applicable to calculate discount factors of matching maturities.

The exposure to market risk, its origin and the objectives, policies and processes for managing market risk (interest rate risk and exchange rate risk) and the methods used to measure credit risk remained unchanged to prior years.

**Interest rate risk**

Telekom Austria Group considers changing interest rates as its major market risk exposure. Telekom Austria Group's risk management strategy strives to balance the related exposure to fair value and cash flow risks.

Since all of Telekom Austria Group's long-term debt have fixed interest rates, no cash flow exposure due to fluctuating interest rates exists. However, the fair value of fixed rate debt increases when market rates are below the rates fixed on these loans.

*Exposure to interest rate risk*

The risk of changes in interest rates is considered low due to the short-term nature of financial assets.

For details on the risks related to long-term financial liabilities, see Note (25).

*Fair value sensitivity analysis for financial instruments*

One measure used to express the potential change in the value of a portfolio of financial liabilities in response to a change in interest rates is the modified duration. Modified duration (sensitivity measure) follows the concept that interest rates and the price of fixed-rate financial instruments move in opposite directions. The sensitivity is based on the assumption of a one percentage point parallel shift in market interest rates for all terms occurring at the reporting date. The methods and assumptions used remained unchanged to those used in prior years. The modified duration (sensitivity) is set forth in the following table (negative amounts represent decreases in financial liabilities):

in TEUR, at 31 December	Capital amounts	Change in financial portfolio	
		Increase	Decrease
<b>2015</b>			
Fixed rate financial liabilities	3,405,305		
Sensitivity at 4.044%		-137,711	137,711
<b>2014</b>			
Fixed rate financial liabilities	3,626,000		
Sensitivity at 4.913%		-178,131	178,131

*Cash flow sensitivity analysis for variable-rate financial instruments*

Since all of Telekom Austria Group's long-term debt have fixed interest rates at 31 December 2015 and 2014 no sensitivity analysis is provided.

*Information with respect to hedging reserve*

The hedging reserve results from the three forward-starting interest rate swap contracts (pre-hedges) concluded in 2011 with a face value of TEUR 100,000 each. The relating hedging reserve will be released in profit or loss in accordance with the recognition of interest expense on the bond, which was issued on 4 July 2013, as the interest rate risk on that bond was hedged. In the years reported, the release of the hedging reserve through other comprehensive income resulted in interest expense amounting to TEUR 5,840 and a tax benefit amounting to TEUR 1,460, respectively.

**Exchange rate risk**

As of 31 December 2015 and 2014, of all accounts receivable – trade and accounts payable – trade, only the following are denominated in a currency other than the functional currency of the reporting entities (for foreign exchange rates, see Note (1)):

in TEUR, at 31 December	2015			2014		
	EUR	USD	Other	EUR	USD	Other
Denominated in						
Accounts receivable – trade	13,822	973	13,553	15,597	2,246	18,673
Accounts payable – trade	54,414	7,665	15,568	57,880	6,057	13,003

A change of 5% in the exchange rate of EUR to HRK would have increased (decreased) foreign exchange rate differences by TEUR 153 and TEUR 883 in 2015 and 2014, respectively. A change of 10% in the exchange rate of EUR to RSD would have increased (decreased) foreign exchange rate differences by TEUR 1,191 and TEUR 1,267 in 2015 and 2014, respectively. In 2015, a change of 10% of EUR to BYR would have increased (decreased) foreign exchange rate differences by TEUR 367. In 2014, a sensitivity analysis for a change of the BYR was not performed due to the application of accounting in hyperinflationary economies. No sensitivity analysis was performed for other accounts receivable or for accounts payable – trade, denominated in foreign currencies, as there is no significant risk due to diversification.

**Credit risk**

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from accounts receivable – trade, investment activities and, if used, derivative financial instruments.

The exposure to credit risk, its origin and the objectives, policies and processes for managing credit risk as well as the methods used to measure credit risk remained unchanged to prior years.

Telekom Austria Group does not have significant exposure to any individual customer or counterparty, nor does it have any major concentration or credit risk related to any financial instrument other than noted under the section concentration of risk in 'Significant Accounting Policies' (Note (1)). Due to internal guidelines and the setting of counterparty limits, Telekom Austria Group does not have significant exposure to credit risk in respect to individual financial instruments.

*Accounts receivable – trade and other receivables*

Telekom Austria Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or group of customers. The demographics of Telekom Austria Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk.

The Credit Management Department has established a credit policy that requires, within the framework of the applicable legal regulations, each new customer to be analysed individually for creditworthiness.

Credit risk or the risk of default in payment by contractual partners is continuously monitored via credit checks, credit limits and verification routines. Due to the large number of customers and the high level of diversification of the portfolios, the default of any single debtor would not entail grave consequences (low concentration risk) in respect of the Consolidated Financial Statements. Within Telekom Austria Group, operative credit risk management functions are performed at the operating company level.

Telekom Austria Group requires from both retail and wholesale customers collateral for accounts receivable – trade and for other receivables depending on the outcome of the analysis of the creditworthiness. These collaterals consist of bank guarantees, warranty und indemnity declarations on behalf of subsidiaries and cash deposits.

*Financial investments*

Telekom Austria Group limits its exposure to credit risk by only investing in fungible financial instruments and by placing deposits only with counterparties that have an appropriate external or internal rating based on quantitative and qualitative parameters. As Telekom Austria Group's investments are generally of a short-term nature, it does not expect any counterparties to fail to meet their obligations. Therefore, the exposure to any significant credit risk is low.

*Exposure to credit risk*

The carrying amount of financial assets and accounts receivable – trade represents the maximum credit risk exposure. The maximum exposure to credit risk related to financial assets was:

in TEUR, at 31 December	2015	2014
Available-for-sale investments	8,884	21,279
Financial investments valued at cost	1,710	554
Loans and receivables	117,707	113,905
Cash and cash equivalents	909,176	1,018,065
<b>Carrying amount of financial assets</b>	<b>1,037,476</b>	<b>1,153,803</b>

At 31 December 2015 and 2014, Telekom Austria Group holds cash deposits of TEUR 7,362 and TEUR 7,214 (see Notes (23) and (28)) and bank guarantees, warranty und indemnity declarations on behalf of subsidiaries of TEUR 13,235 and TEUR 13,421, respectively.

The following table sets forth the maximum exposure to credit risk for accounts receivable – trade, which equals the carrying amount, by geographic region:

in TEUR, at 31 December	2015	2014
Domestic	736,786	689,556
Foreign	88,436	83,475
Allowances	-200,588	-172,963
<b>Accounts receivable – trade</b>	<b>624,635</b>	<b>600,068</b>

Accounts receivable – trade from Telekom Austria Group's most significant customer amount to TEUR 10,781 and TEUR 8,744 as of 31 December 2015 and 2014, respectively. Thus, no major concentration of credit risk exists. With respect to the ageing of accounts receivable – trade and the allowance for doubtful accounts, see Note (9).

### Fair value of financial instruments

The following table shows the carrying amounts and the fair values of the financial instruments per class of financial assets:

in TEUR, at 31 December	Carrying amount	Fair value 2015	Carrying amount	Fair value 2014
<b>Financial assets</b>				
<b>Cash and cash equivalents</b>	<b>909,176</b>	<b>909,176</b>	<b>1,018,065</b>	<b>1,018,065</b>
Accounts receivable – trade	624,635	624,635	600,068	600,068
Receivables due from related parties	878	878	1,255	1,255
Other current financial assets	80,507	80,507	75,672	75,672
Other non-current financial assets	36,322	36,322	36,978	36,978
<b>Loans and receivables</b>	<b>742,342</b>	<b>742,342</b>	<b>713,973</b>	<b>713,973</b>
Long-term investments	6,525	6,525	6,846	6,846
Short-term investments	2,367	2,367	14,433	14,433
<b>Available-for-sale investments</b>	<b>8,893</b>	<b>8,893</b>	<b>21,279</b>	<b>21,279</b>
<b>Investments at cost</b>	<b>1,701</b>	<b>1,701</b>	<b>554</b>	<b>554</b>

Cash and cash equivalents, accounts receivable – trade and other current financial assets have maturities lower than one year. As their carrying amounts reported approximate their fair values, no further information on the classification in the fair value hierarchy is provided.

The fair values of other non-current financial assets with a maturity of more than one year correspond to the present values of the payments related to the assets, taking into account the current interest rates that reflect market and partner-based changes to terms, conditions and expectations and are thus classified as Level 2 of the fair value hierarchy.

The fair values of available-for-sale investments are based on market prices.

Telekom Austria Group estimates the fair values of investments in equity instruments and investments in unconsolidated subsidiaries that do not have a quoted market price in an active market based on the audited financial statements, if available. For information on the stake in CEESEG AG and CATV-047 d.o.o. Kabelska televizija, see Note (16).

The following table shows the carrying amounts and the fair values of the financial instruments per class of financial liabilities:

in TEUR, at 31 December	Carrying amount	Fair value 2015	Carrying amount	Fair value 2014
<b>Financial liabilities</b>				
Liabilities to financial institutions	5,087	5,087	0	0
Bonds	3,033,907	3,297,392	3,029,679	3,430,116
Other current financial liabilities	150,014	150,014	53,755	53,755
Non-current liabilities to financial institutions	355,305	391,617	602,632	655,521
Other non-current liabilities	839	839	969	969
Accounts payable – trade	573,650	573,650	522,344	522,344
Payables due to related parties	1,829	1,829	7,058	7,058
Accrued interest	93,200	93,200	93,459	93,459
<b>Financial liabilities at amortised cost</b>	<b>4,214,094</b>	<b>4,508,804</b>	<b>4,309,895</b>	<b>4,763,222</b>

Non-current liabilities to financial institutions include their short-term portion.

Accounts payable – trade and other payables have maturities below one year. As their carrying amounts approximate their fair values, no further information on the classification in the fair value hierarchy is provided.

The fair values of the quoted bonds (EMTN bonds and Eurobonds) equal the face value multiplied by the price quotations at the reporting date and are thus classified as Level 1 of the fair value hierarchy.

The fair values of liabilities to financial institutions, promissory notes and other financial liabilities are measured at the present values of the cash flows associated with the debt, based on the applicable yield curve and credit spread curve for specific currencies and are thus classified as Level 2 of the fair value hierarchy.

### Fair value hierarchy of financial instruments

The following table shows the fair value hierarchy (per class of financial instrument) of financial instruments measured at fair value that reflects the significance of the inputs in such fair value measurements:

in TEUR	Level 1	Level 2	Level 3	Total
At 31 December 2015				
Available-for-sale & other investments	7,136	1,757	0	8,893
<b>Financial assets measured at fair value</b>	<b>7,136</b>	<b>1,757</b>	<b>0</b>	<b>8,893</b>
At 31 December 2014				
Available-for-sale & other investments	7,296	13,983	0	21,279
<b>Financial assets measured at fair value</b>	<b>7,296</b>	<b>13,983</b>	<b>0</b>	<b>21,279</b>

### (34) Commitments and Contingent Assets and Liabilities

A tax audit of the years 2003 to 2007 performed in an Austrian subsidiary resulted in a potential additional payment of TEUR 17,000 for prior periods. Based on the circumstances and the rules to be applied, Telekom Austria Group estimates an actual payment to be improbable.

In June 2014, Mobiltel EAD ('Mobiltel') received the tax assessment act related to the taxation treatment of amortisation of brand name and customer base in 2007. Mobiltel appealed to the highest tax authority in Sofia. In December 2014 this appeal was rejected. Mobiltel appealed to the administrative court in Sofia. At 31 December 2015, the total amount of the tax claim including accrued interest amounts to TEUR 21,397.

On 26 October 2015, the administrative court decided in favour of Mobiltel. On 13 November 2015, the tax authorities appealed to the highest administrative court. The tax case is therefore assigned to the highest administrative court as final instance. Mobiltel has issued a bank guarantee covering up to TEUR 22,200 to secure the possible tax claim.

On 24 September 2015, the tax authorities issued a second tax assessment act regarding the tax treatment of the brand name and the customer base. The assessment relates to the financial year 2008 and amounts to TEUR 19,738 including interest up to 31 December 2015. Mobiltel appealed to the highest Bulgarian tax authority. At the same time it requested suspension of the administrative appealing procedure until the highest administrative court has reached a final decision relating to the financial year 2007. The request for suspension was answered positively. Mobiltel has issued three further bank guarantees covering up to TEUR 20,500 to secure the possible tax claim for 2008.

Moreover, a subsequent tax audit covering the years 2009 to 2012 is currently ongoing, the results of which are hard to estimate because the outcome is depending on the decision of the highest administrative court.

In case of an unfavourable outcome of the court proceedings, Mobiltel might face a further potential additional claim for the years 2009 to 2012 of up to TEUR 59,008 including penalty interest.

Mobiltel expects the court decision to be in favour of Mobiltel due to the fact that Mobiltel followed the approach confirmed by the Minister of Finance and two consecutive tax audits in the past. Mobiltel assesses an additional claim including interest to be improbable. Mobiltel has already issued a bank guarantee covering up to TEUR 42,700 to secure the possible tax claim.

For interest on debt in the amount of TEUR 16,821, which is non-deductible based on section 12 (1) No 9 of the Austrian Corporate Tax Act, no addition has been made, since there are justified doubts regarding the legality of the tax regulation. A provision was not necessary because substantive loss carry-forwards are available.

In the normal course of business, Telekom Austria Group is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to network access. Such matters are subject to many uncertainties, and the outcomes are not predictable with certainty. Consequently, Management is unable to ascertain the ultimate aggregate amount of the monetary liability or the impact on the financial position of Telekom Austria Group with respect to these matters at 31 December 2015. These matters could materially affect the operating results or cash flows of any quarter when resolved in future periods. However, Management believes that after final settlement, any monetary liability or financial impact on Telekom Austria Group, beyond such provided for at year-end, would not be material to its Consolidated Financial Statements.

### (35) Remuneration Paid to the Management and Supervisory Board

As of 31 December 2015, the Management Board of Telekom Austria Group is composed of Alejandro Plater as Chief Executive Officer (CEO), and Siegfried Mayrhofer as Chief Financial Officer (CFO). Since 6 March 2015, Alejandro Plater is a member of the Management Board and since 1 August 2015 he is CEO. On 1 June 2014, Siegfried Mayrhofer succeeded Hans Tschuden as Chief Financial Officer. Hannes Ametsreiter prematurely left Telekom Austria Group as CEO on 31 July 2015 and Günther Ottendorfer as CTO on 5 March 2015.

The following table summarises the remuneration of members of the Management Board and Supervisory Board:

in TEUR	2015	2014
Basic remuneration (fixed salary incl. remuneration in kind)	1,489	1,484
Variable remuneration	1,695	1,374
Share-based compensation (long-term incentive programme)*	29	87
<b>Total</b>	<b>3,213</b>	<b>2,945</b>
Severance and termination expenses	3,472	1,800
Compensation Supervisory Board	235	212

\*See Note (31).

Severance and termination expenses include benefits to Hannes Ametsreiter, Günther Ottendorfer and Hans Tschuden in 2015 and to Hans Tschuden only in 2014.

Hannes Ametsreiter resigned from his function as CEO as per 31 July 2015 and his employment relationship was terminated at the same date. In the table above termination expenses of TEUR 290 and severance expenses of TEUR 1,114 are included.

Günther Ottendorfer's contract with a term until 31 August 2016 was prematurely terminated as per 5 March 2015. In the table above termination expenses of TEUR 1,757 are included.

Hans Tschuden's contract with a term until 31 March 2015 was prematurely terminated as per 31 March 2014. In the table above termination expenses of TEUR 311 are included (2014: TEUR 1,800).

### (36) Employees

The average number of employees during the years 2015 and 2014 was 16,471 and 16,155, respectively. As of 31 December 2015 and 2014, Telekom Austria Group employed 17,673 and 16,240 employees (full-time equivalents).

### (37) Subsequent Events

Since 31 December 2015 no reportable subsequent events have occurred.

## (38) Affiliated Companies

Name and company domicile	Share in capital as of 31 December 2015 in %	Method of consolidation*	Share in capital as of 31 December 2014 in %	Method of consolidation*
<b>Segment Austria</b>				
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00	FC	100.00	FC
Telekom Austria Personalmanagement GmbH, Vienna	100.00	FC	100.00	FC
Telekom Austria Beteiligungen GmbH, Vienna	100.00	FC	100.00	FC
CableRunner GmbH, Vienna	76.00	FC	76.00	FC
CableRunner Austria GmbH & Co. KG, Vienna	76.00	FC	76.00	FC
World-Direct eBusiness solutions Gesellschaft m.b.H., Vienna	100.00	FC	100.00	FC
ÖFEG GmbH, Vienna	100.00	FC	100.00	FC
paybox Bank AG, Vienna	100.00	FC	100.00	FC
paybox Service GmbH, Vienna	100.00	FC	100.00	FC
3G Mobile Telecommunications GmbH, Vienna	100.00	FC	100.00	FC
mk Logistik GmbH, Vienna	100.00	FC	100.00	FC
JetStream Hungary Kft., Budapest	100.00	FC	100.00	FC
JetStream Slovakia s.r.o., Bratislava	100.00	FC	100.00	FC
JetStream RO s.r.l., Bucharest	100.00	FC	100.00	FC
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00	FC	100.00	FC
JetStream Switzerland GmbH, Zurich	100.00	FC	100.00	FC
JetStream Poland Spolka Z Ograniczona Odpowiedzialnoscia, Warsaw	100.00	FC	100.00	FC
JetStream Germany GmbH, Frankfurt on the Main	100.00	FC	100.00	FC
JetStream Italy S.r.l., Milan	100.00	FC	100.00	FC
TA CZ sítě s.r.o., Prague	100.00	FC	100.00	FC
JetStream BH d.o.o. drustvo za telekomunikacije, Sarajevo	100.00	FC	100.00	FC
JetStream England Limited, London	100.00	FC	100.00	FC
media.at GmbH, Vienna	25.3228	EQ	25.3228	EQ
<b>Segment Bulgaria</b>				
MobilTEL EAD, Sofia	100.00	FC	100.00	FC
Bultel Cable EAD, Sofia	100.00	FC	–	–
Blizoo Media and Broadband EAD, Sofia	100.00	FC	–	–
Cabletel-Prima AD, Nessebar	51.00	FC	–	–
Citynet TV OOD, Aytos	51.00	FC	–	–
Globo EOOD, Sofia	100.00	NC	–	–
Cable Information System AD, Russe	87.55	NC	–	–
Evrocom Sofia Cable EOOD, Sofia	100.00	NC	–	–
Vereia Cable AD, Sofia	100.00	NC	–	–
M repair and service EAD, Sofia	LIQ	–	100.00	FC
M Support Services EOOD, Sofia	ME	–	100.00	FC
GPS Bulgaria AD, Sofia	SO	–	90.00	FC
<b>Segment Croatia</b>				
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. Kabela televizija, Karlovac	100.00	NC	–	–
<b>Segment Belarus</b>				
Unitary enterprise velcom, Minsk	100.00	FC	100.00	FC
Unitary enterprise TA-Engineering, Minsk	100.00	FC	100.00	FC
Unitary enterprise TA-Installation, Minsk	ME	–	100.00	FC
Adelfina Ltd., Minsk	100.00	FC	100.00	FC
<b>Segment Additional Markets</b>				
Telekom Austria Group M2M GmbH, Vienna	100.00	FC	100.00	FC
Amis d.o.o., Maribor	100.00	FC	–	–
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00	FC	100.00	FC
TA Mreža d.o.o., Ljubljana	100.00	FC	100.00	FC

Name and company domicile	Share in capital as of 31 December 2015 in %	Method of consolidation*	Share in capital as of 31 December 2014 in %	Method of consolidation*
Vip mobile d.o.o., Belgrade	100.00	FC	100.00	FC
Amis Telekomunikacije d.o.o., Belgrade	100.00	FC	–	–
one.Vip DOO, Skopje-Zentar	55.00	FC	100.00	FC
Vip operator usluga DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
Vip operator prodazba DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
Astra Plus DOOEL, Kocani	100.00	FC	–	–
Kabel Riz DOOEL, Kocani	100.00	FC	–	–
Filadelfija -2002 Dooel, Kocani	100.00	FC	–	–
Studio Andes DOOEL, Radovish	100.00	FC	–	–
BLIZOO DOOEL, Skopje	100.00	FC	100.00	FC
Digi plus Multimedia DOOEL, Skopje	100.00	FC	–	–
<b>Corporate &amp; Other</b>				
Telekom Projektentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
Telekom Finanzmanagement GmbH, Vienna	100.00	FC	100.00	FC
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00	FC	100.00	FC
mobilkom Bulgarien BeteiligungsverwaltungsgmbH, Vienna	100.00	FC	100.00	FC
mobilkom Bulgarien GeschäftsentwicklungsgmbH, Vienna	100.00	FC	100.00	FC
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
SB Telecom Ltd., Limassol	100.00	FC	100.00	FC
Amisco N.V., Grimbergen	100.00	FC	–	–
Telecom Liechtenstein AG, Vaduz	24.90	EQ	24.90	EQ

\* FC – full consolidation, EQ – equity method, LIQ – liquidation, ME – merged, NC – not consolidated because not material, SO – sold

All affiliated companies have 31 December as their reporting date except for media.at-Group which has 30 June as its reporting date.

### (39) Release for Publication

On 25 January 2016, the Management Board approved the Consolidated Financial Statements for submission to the Supervisory Board. The Supervisory Board will review the Consolidated Financial Statements and report its decision on approval.

Vienna, 25 January 2016



CEO and COO Alejandro Plater



CFO Siegfried Mayrhofer

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Telekom Austria Aktiengesellschaft, Vienna, for the financial year from January 1, 2015 to December 31, 2015. These consolidated financial statements comprise the consolidated statements of financial position as of December 31, 2015, the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of cash flows and the consolidated statements of changes in stockholders equity for the financial year ended December 31, 2015, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 245a UGB. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

### Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2015 and of its financial performance and its cash flows for the financial year from January 1, 2015 to December 31, 2015 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

### Comments on the consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the consolidated management report is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, January 26, 2016

Ernst & Young  
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Erich Lehner mp  
Wirtschaftsprüfer / Certified Auditor

Mag. (FH) Severin Eisl mp  
Wirtschaftsprüfer / Certified Auditor

\*) This report is a translation of the original report in German, which is solely valid. Publication of the consolidated financial statements together with our auditor's opinion may only be made if the consolidated financial statements and the consolidated management report are identical with the audited version attached to this report. Section 28: paragraph 2 UGB (Austrian Commercial Code) applies.

# DECLARATION OF THE MANAGEMENT BOARD

We confirm to the best of our knowledge that the consolidated financial statements prepared according to the applicable accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and that the Group management report describes the development and performance of the business and the position of the Group in a way that it gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Group management report describes the principal risks and uncertainties the Group faces.

The Management Board



Alejandro Plater  
CEO and COO



Siegfried Mayrhofer  
CFO

# TELEKOM AUSTRIA AG CHANGED FINANCIAL STATEMENTS 2015

Separate Financial Statements according to Austrian Commercial Code — UGB

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for the Year 2015

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Telekom Austria Aktiengesellschaft, Vienna

## CHANGED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2015

	31.12.2015	31.12.2014
Assets	EUR	TEUR
<b>A. Long-term assets</b>		
<i>Financial assets</i>		
1. Investments in affiliated companies	6,622,760,769.00	6,284,371
2. Other investments	543,341.86	543
	<b>6,623,304,110.86</b>	<b>6,284,914</b>
<b>B. Current assets</b>		
<i>I. Receivables</i>		
1. Accounts receivable – trade	7,206.99	1
2. Receivables – affiliated companies	112,124,222.63	623,521
3. Receivables – associated companies	0.00	88
4. Other accounts receivable	10,093,096.92	21,594
	<b>122,224,526.54</b>	<b>645,204</b>
<i>II. Treasury shares</i>	2,093,646.84	2,285
<i>III. Cash and cash equivalents</i>	86.35	1
	<b>124,318,259.73</b>	<b>647,490</b>
<b>C. Prepaid expenses</b>	<b>9,292,905.14</b>	<b>12,504</b>
	<b>6,756,915,275.73</b>	<b>6,944,908</b>

## ANNEX I/2

Telekom Austria Aktiengesellschaft, Vienna

	31.12.2015	31.12.2014
	EUR	TEUR
<b>Liabilities and stockholders' equity</b>		
<b>A. Stockholders' equity</b>		
<i>I. Common stock</i>	1,449,274,500.00	1,449,275
<i>II. Additional paid-in capital</i>		
Appropriated	1,582,004,573.67	1,582,004
<i>III. Retained earnings</i>		
1. Reserve for treasury shares	2,093,646.84	2,285
2. Other reserves (unrestricted reserves)	406,892,317.83	314,531
	408,985,964.67	316,816
<i>IV. Net income</i>	292,772,081.99	33,205
thereof carried forward: EUR 767,59; previous year: TEUR 118		
	3,733,037,120.33	3,381,300
<b>B. Provisions</b>		
1. Provisions for severance obligations	4,887,861.19	3,189
2. Tax provisions	214,034,812.75	238,746
3. Other provisions	4,842,967.33	6,056
	223,765,641.27	247,991
<b>C. Liabilities</b>		
1. Subordinated capital/hybrid bond	600,000,000.00	600,000
2. Liabilities to banks	30,791,268.84	30,791
3. Accounts payable – trade	2,121,778.35	5,751
4. Liabilities due to affiliated companies	2,166,019,756.75	2,678,258
5. Other liabilities	1,179,710.19	817
thereof to social security: EUR 451.823,24; previous year: TEUR 382		
	2,800,112,514.13	3,315,617
	6,756,915,275.73	6,944,908
<b>Contingent liabilities</b>	4,163,886,683.00	4,155,274

## ANNEX II

Telekom Austria Aktiengesellschaft, Vienna

## CHANGED STATEMENT OF PROFIT OR LOSS FOR 2015

	2015		2014	
	EUR	EUR	TEUR	TEUR
1. Revenues		27,306,412.88		26,894
2. Other operating income				
a) Income from reversal of provisions	0.00		5	
b) Other	228,583.09	228,583.09	238	243
3. Personnel expenses				
a) Salaries	-22,316,726.01		-20,988	
b) Expenses for severance payments and payments to staff contribution plans	-4,492,356.60		-1,120	
c) Pension expense	-945,756.66		-1,017	
d) Expenses for statutory social security and payroll related taxes and contributions	-4,318,975.05		-4,259	
e) Other social benefits	-44,913.25	-32,118,727.57	-69	-27,453
4. Other operating expenses				
a) Other business taxes	-154,013.73		-10,269	
b) Other	-22,445,280.88	-22,599,294.61	-29,138	-39,407
5. Subtotal from line 1 to 4 (operating result)		-27,183,026.21		-39,723
6. Income from investments		220,140,000.00		159,653
<i>thereof from affiliated companies: EUR 220.000.000,00;</i> <i>previous year: TEUR 159.600</i>				
7. Income from the reversal of impairment losses on long-term financial assets		406,670,000.00		71,400
8. Expenses for long-term financial assets and treasury shares		-129,292,418.67		-1,293,852
thereof: a) impairment losses: EUR 105.291.388,30; previous year: TEUR 1.265.240				
b) expenses from affiliated companies: EUR 129.101.030,37; previous year: TEUR 1.293.852				
9. Interest and similar expenses		-140,884,786.08		-147,738
thereof related to affiliated companies: EUR 105.379.273,90; previous year: TEUR 112.232				
10. Subtotal from line 6 to 9 (financial result)		356,632,795.25		-1,210,537
11. Earnings/Loss before income taxes		329,449,769.04		-1,250,260
12. Income taxes		55,491,545.36		103,137
13. Earnings/loss after income taxes		384,941,314.40		-1,147,123
14. Transfer from other reserves to net income		314,500,000.00		1,180,210
15. Transfer from net income to other reserves		-406,670,000.00		0
16. Profit carried forward from prior year		767.59		118
17. Retained Profit		292,772,081.99		33,205

ANNEX III

# CHANGED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR 2015

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Notice of rounding: The accumulation of rounded amounts and percentages may cause calculation differences.  
Disclaimer: This is a translation of the original German-language Financial Statements 2015 (Separate Financial Statements according to Austrian Commercial Code — UGB) of Telekom Austria Aktiengesellschaft. The original German Financial Statements are the legally binding version.

## I Accounting Principles

### I.1 General Principles

The following financial statements are an updated version (according to § 268 Abs 3 UGB). The updates had to be done due to changes in the other reserves compared to the original financial statement as of 25 January 2016.

The changes in statement of financial position and statement of profit or loss concern the following items:

	2015 Original EUR	2015 Updated EUR	Difference EUR
<b>Statement of financial position</b>			
A. Stockholders' Equity			
III. Retained Earnings			
2. other reserves (unrestricted reserves)	666,422,317.83	406,892,317.83	-259,530,000.00
A. Stockholders' Equity			
IV. Net income	33,242,081.99	292,772,081.99	259,530,000.00
<b>Statement of Profit or Loss</b>			
14. Transfer from other reserves to net income	54,970,000.00	314,500,000.00	259,530,000.00
17. Retained Profit	33,242,081.99	292,772,081.99	259,530,000.00

Due to the changes in the statement of financial position and the statement of profit or loss following changes had to be done in the annex:

The phrase "At the Annual General Meeting on 25 May 2016, the Management Board will propose to distribute a dividend of EUR 0.05 per eligible share." was replaced by "The Management Board will propose the Supervisory Board to distribute a dividend of EUR 0.05 per eligible share."

The financial statements have been prepared in accordance with the provisions of the Austrian Commercial Code (UGB), taking into account Austrian generally accepted accounting principles and in compliance with the general principle of providing a true and fair view of the net assets, financial position and result of operations of the Company.

The financial statements were prepared by adhering to the principle of completeness.

The principles of individual measurement and going concern were complied with in measuring assets and liabilities.

The principle of prudence was observed in that only profits realised as of the reporting date were recognised. All identifiable risks and contingent losses were taken into account.

The statement of operations was prepared in accordance with the total cost format. The figures presented in the notes to the financial statements are shown in thousands of Euros (TEUR). The reporting date is 31 December.

### I.2 Long-term Assets

Investments in affiliated companies and Other investments are measured at acquisition cost. Impairment losses are recognised if the fair value at the reporting date is lower than the carrying amount of the asset and is expected to be permanent in duration. Impairment losses are reversed if the reason for the impairment no longer exists.

### I.3 Current Assets

Receivables are measured at their nominal value unless the lower net realizable value is recognised in the event of identifiable individual risks. Specific valuation allowances are recognised to account for default risks. Receivables denominated in foreign currencies are measured at the euro reference rate of the European Central Bank at the reporting date if it is lower than the accounting rate.

Treasury shares, which are reported in current assets, are measured at acquisition cost or the lower fair value in accordance with the strict lower of cost or market principle. In 2015, an impairment loss of TEUR 191 (previous year: TEUR 0) was recognised.

#### 1.4 Provisions

Provisions for severance obligations are recognised for the legal and contractual obligations to members of the Management Board and for employees, whose employment with Telekom Austria Aktiengesellschaft started before 1 January 2003. The calculation is based on the principles of actuarial mathematics using the projected unit credit method according to the basis of actuarial calculation of retirement insurance for employees issued by the Austrian Actuarial Association (Tafelwerk AVÖ 2008 P Angestellte – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler) applying an interest rate of 2.25% and an employee turnover rate of 0.5%. The retirement age was calculated in compliance with the retirement age according to the Austrian Ancillary Budget Act (Budgetbegleitgesetz) 2011, using 56.5-62 years for female employees and 61.5-62 years for male employees.

Provisions for anniversary bonuses are similar to those for severance obligations and are measured in the same way as the provision for severance obligations, but calculated with an interest rate of 1.25% and a retirement age of 62 years.

In previous years the provisions for severance obligations and anniversary bonuses were calculated based on the principles of financial mathematics using the partial value method. According to a statement issued in June 2015 by AFRAC concerning provisions for retirement benefits, severance obligations and anniversary bonuses as well as other long-term obligations according to the Austrian Commercial Code (Rückstellungen für Pensions-, Abfertigungs-, Jubiläumsgeld- und vergleichbare langfristig fällige Verpflichtungen nach den Vorschriften des Unternehmensgesetzbuches) the calculation of these provisions has to be based on the principles of actuarial mathematics. This method also corresponds to the Change of the Austrian Commercial Code (Rechnungslegungsänderungsgesetz or RÄG, respectively) 2014, allowing for an amendment of Section 211 UGB as of 1 January 2016, thereby stipulating the compulsory application of the calculation principles of actuarial mathematics. According to the statement issued by AFRAC mentioned above an early adoption is allowed, therefore the Company has opted for an implementation in the financial year 2015. Therefore no previous year's values are available. The difference resulting from the first time application is recognised in the Statement of Profit or Loss.

	Difference as of 1 January 2015
	TEUR
Severance payments	1,841
Anniversary bonuses	21
	1,862

Other provisions are recognised in the estimated amount of the obligation and take identifiable risks into account as well as uncertain amounts regarding liabilities incurred.

#### 1.5 Liabilities

Liabilities are recognised at settlement amount taking into account the prudence principle. Liabilities denominated in foreign currencies are measured at the euro reference rate of the European Central Bank at the reporting date if it is higher than the accounting rate.

## 2 Notes on Statement of Financial Position

### 2.1 Long-term Assets

The development of the individual fixed asset items is shown in the schedule of long-term assets (Appendix 1).

The composition of investments in affiliated companies is shown in the schedule of investments (Appendix 4).

On 1 April 2009, Telekom Austria AG, which holds 99% in Telekom Projektentwicklungs GmbH, concluded a profit and loss exclusion contract with Telekom Finanzmanagement GmbH and Telekom Projektentwicklungs GmbH, the sole shareholder of Telekom Finanzmanagement GmbH, with the consent of A1 Telekom Austria Aktiengesellschaft (A1 Telekom Austria AG), which holds 1% in Telekom Projektentwicklungs GmbH. This contract became effective on 1 January 2009 and can be terminated in writing by either contractual party at the end of each financial year with a notice period of three months.

### 2.2 Receivables

The structure and maturities of receivables are shown in the receivables aging report (Appendix 2).

As in the previous year, other receivables do not include any material earnings for which payment will be received after the reporting date.

### 2.3 Prepaid Expenses

Prepaid expenses mainly comprise discounts for intra-company loans resulting from bond issuances as part of the 2012 and 2013 EMTN Programs, the placement of a hybrid bond in 2013 and a bond issued in 2009.

### 2.4 Share Capital

The share capital of Telekom Austria AG amounts to TEUR 1,449,275 and is divided into 664,500,000 no-par shares. ÖBIB holds 28.42%, América Móvil holds 59.70%, either directly or indirectly, 11.81% of the shares are attributable to the free float and the remaining 0.06% are held as treasury shares. Treasury shares amount to TEUR 905 of the share capital, equal to 415,159 shares and were acquired in September 2007.

Pursuant to the resolution of the Annual General Meeting on 29 May 2013, the Management Board is authorised to use treasury shares for the issue to employees, senior staff and members of the Management Board/management of the Company and its affiliated companies and/or to service stock options from performance share programs either in return for payment or gratuitously. The Management Board was also authorised to use treasury shares as consideration for the acquisition of companies, business operations, business units or shares in one or more companies, both in the home country and abroad. The Management Board was also authorised to sell treasury shares in accordance with Section 65 (1b) of the Austrian Stock Corporation Act (AktG) via the stock exchange at any time or by public offer for a period of five years in any other legally admissible manner, including off-market, whereby the Management Board may also decide to exclude the public from buying.

### 2.5 Dividends

The Management Board will propose the Supervisory Board to distribute a dividend of EUR 0.05 per eligible share. The remaining net income will be carried forward.

### 2.6 Provisions

As of 31 December 2015, tax provisions primarily related to provisions for deferred taxes in the amount of TEUR 212,471 (previous year: TEUR 238,746). In accordance with the expert opinion of the Professional Committee for Commercial Law and Audit of the Austrian Chamber of Professional Accounting (Fachsenat für Handelsrecht und Revision) "Deferred Taxes in Separate Financial Statements and in Consolidated Financial Statements" (KFS/RL15), the Company recognised a provision for deferred taxes.

Other provisions include provisions for:

	31 December 2015	31 December 2014
	TEUR	TEUR
Personnel	3,613	5,118
Long Term Incentive Program (LTI)	1,050	764
Other	180	174
	<b>4,843</b>	<b>6,056</b>

## 2.7 Liabilities

On 24 January 2013, Telekom Austria AG placed an interest-bearing, perpetual hybrid bond with a volume of over EUR 600 million and a coupon of 5.625%. The bond was placed at a reoffer price of 98.943% and the first reset date was stipulated on 1 February 2018.

The maturities and structure of liabilities are presented in the schedule of liabilities (Appendix 3).

As in the previous year, other liabilities do not include any material expenses for which payment is made after the reporting date.

## 2.8 Contingent Liabilities

	31 December 2015 TEUR	31 December 2014 TEUR
Guarantees as part of the EMTN Programs	2,300,000	2,300,000
Guarantee as part of the 2009 bond	750,000	750,000
Bank guarantees	1,113,887	1,105,274
	<b>4,163,887</b>	<b>4,155,274</b>

On 27 January 2005, TFG issued two EUR 500 million Eurobonds with fixed interest rate of 3.375% and 4.250% and terms of five and 12 years, respectively, under the EMTN Program. The bonds were placed at reoffer prices of 99.598% and 98.829%. The former was repaid in January 2010 as set out in the contract.

On 29 January 2009, TFG issued a EUR 750 million bond with fixed interest rate of 6.375% and a term of seven years. The bond was placed at a reoffer price of 99.238% and used to refinance existing liabilities.

Both Telekom Austria AG and A1 Telekom Austria AG have issued irrevocable and unconditional guarantees in favour of the bondholder.

In March 2012, Telekom Austria AG and Telekom Finanzmanagement GmbH initiated a new Euro Medium Term Note (EMTN) Program with a volume of TEUR 2,500,000. All payments from bonds issued by Telekom Finanzmanagement GmbH under this program are irrevocably and unconditionally guaranteed by Telekom Austria AG.

On 2 April 2012, TFG issued a TEUR 750,000 bond with a fixed interest rate of 4% and a term of ten years under the EMTN Program. The bond was placed at a reoffer price of 98.984% and used to refinance existing liabilities.

On 4 July 2013, TFG issued a TEUR 300,000 bond with a fixed interest rate of 3.5% and a term of ten years under the EMTN Program. The bond was placed at a reoffer price of 99.503%. On 3 December 2013, TFG issued a TEUR 750,000 bond with a fixed interest rate of 3.125% and a term of eight years under the EMTN Program. The bond was placed at a reoffer price of 99.367%.

Guarantees in the total amount of TEUR 1,105,274 (prior year: 1,105,274) were granted to Telekom Austria Finanzmanagement GmbH.

With a guarantee dated 10 November 2008, the Company warrants Telekom Austria Personalmanagement GmbH that A1 Telekom Austria AG will fulfil its obligations resulting from the profit and loss exclusion contract. Furthermore Telekom Austria Personalmanagement GmbH is guaranteed to be able to fulfil its commitments in case that A1 Telekom Austria AG fails to satisfy its obligations to the former.

### 3 Notes on the Statement of Profit or Loss

#### 3.1 Revenues

Revenues of TEUR 27,306 (previous year: TEUR 26,894) relate to services such as public relations and communications work, coordinating product development and the technical infrastructure, legal and tax advice and investment controlling, services in conjunction with the Department of Human Resource and Civil Service Regulations (Beamtendienstrecht) together with salary and collective agreement negotiations that are predominantly charged to A1 Telekom Austria AG, Telekom Austria Group M2M GmbH, Telekom Finanzmanagement GmbH, Telekom Austria Personalmanagement GmbH, MobilTel EAD, Si.mobil d.d., Vip mobile d.o.o., one.VIP d.o.o., VIPnet d.o.o. and Unitary enterprise Velcom by Telekom Austria AG on the basis of intercompany agreements.

#### 3.2 Other Operating Income

In 2015, other operating income mainly comprises income from credit balances resulting from company tax in the amount of TEUR 229 (previous year: TEUR 238).

#### 3.3 Personnel Expenses

	2015 TEUR	2014 TEUR
Salaries	22,317	20,988
Severance expense and payments to staff contribution plans	4,492	1,120
Pension expenses	946	1,017
Expenses for statutory social security and payroll related taxes and contributions	4,319	4,259
Other social benefits	45	69
	<b>32,119</b>	<b>27,453</b>

Severance expense and payments to staff contribution plans as well as pension expenses were as follows:

	2015 TEUR	2014 TEUR
Members of the Management Board	1,418	867
Senior staff	396	62
Other employees	3,624	1,208
	<b>5,438</b>	<b>2,137</b>

The average number of full-time employees was 176 (previous year: 162). The average number of full-time civil servants was nine (prior year: ten).

The severance expense payments and staff contribution plans in the amount of TEUR 4,492 (previous year: 1,120) comprise severance payments amounting to TEUR 4,289 (previous year: TEUR 957).

#### 3.4 Other Operating Expenses

	2015 TEUR	2014 TEUR
Other Business Taxes	154	10,269
Other	22,445	29,138
	<b>22,599</b>	<b>39,407</b>

Other operating expenses include expenses related to the services of A1 Telekom Austria AG amounting to TEUR 12,142 (previous year: TEUR 10,129).

In the previous year additional expenses in the amount of TEUR 16,208 in connection to the realised increase in Share capital were included, whereas TEUR 10,128 were related to taxes.

#### 3.5 Income from Investments

Income from investments includes dividend income from A1 Telekom Austria AG of TEUR 140,000 (previous year: TEUR 159,600) as well as dividend income from mobilkom Belarus Geschäftsentwicklungs GmbH of TEUR 80,000 (previous year: TEUR 0).

Furthermore Income from Other investments includes dividend income from CEESEG Aktiengesellschaft amounting to TEUR 140 (previous year: TEUR 53).

### 3.6 Income from the Reversal of Impairment Losses on Long-Term Financial Assets

Pursuant to Section 208 (1) of the Austrian Commercial Code (UGB) in conjunction with Section 6 No. 13 of the Austrian Tax Act (EStG) the reversal of previously recognised impairment losses of TEUR 406,670 (previous year: TEUR 71,400) was required to be recognised based on current company valuations. The reversal of the impairment loss in an amount of TEUR 181,700 (previous year: TEUR 71,400) related to mobilkom Belarus Geschäftsentwicklungs GmbH. Additionally in 2015, a reversal of an impairment loss in the amount of TEUR 23,400 for mobilkom CEE Geschäftsentwicklungs GmbH, an amount of TEUR 90,200 related to mobilkom Bulgarien Geschäftsentwicklungs GmbH, an amount of TEUR 84,770 for mobilkom Mazedonien Geschäftsentwicklungs GmbH and an amount of TEUR 26,600 related to A1 Kroatien Geschäftsentwicklungs GmbH were included.

### 3.7 Expenses for Long-Term Financial Assets

Expenses from affiliated companies result from expenses incurred under the profit and loss exclusion contract with Telekom Projektentwicklungs GmbH in the amount of TEUR 24,001 (previous year: TEUR 28,612) and from the impairment loss recognised on A1 Telekom Austria AG in the amount of TEUR 105,291 (previous year: TEUR 389,400) based on current company valuations. In the previous year impairment losses due to current company valuations were additionally recognised for mobilkom Bulgarien GeschäftsentwicklungsgmbH in the amount of TEUR 212,540, for mobilkom Mazedonien Geschäftsentwicklungs GmbH in the amount of TEUR 41,700, for mobilkom CEE Geschäftsentwicklungs GmbH in the amount of TEUR 103,200 and for A1 Kroatien Geschäftsentwicklungs GmbH in the amount of TEUR 518,400.

### 3.8 Income taxes

The Company is the head of a tax group as defined in Section 9 of the Austrian Corporation Tax Act (KStG) and has concluded a group and tax allocation agreement with 3G Mobile Telecommunications GmbH, Telekom Austria Personalmanagement GmbH, A1 Telekom Austria Aktiengesellschaft, Telekom Projektentwicklungs GmbH, Telekom Finanzmanagement GmbH, ÖFEG GmbH, World-Direct eBusiness solutions Gesellschaft m.b.H., Telekom Austria Beteiligungen GmbH, paybox Bank AG, mk Logistik GmbH and paybox Service GmbH as members of the tax group (as of 31 December 2015). Due to the earnings position of the tax group, the 2005 group and tax allocation contract was thoroughly revised with effect 1 January 2012, taking into account the regulatory framework for company law and is structured as follows:

Tax group members who transfer taxable profit to the head of the group are required to pay 25% of the profit transferred to the extent it results in a tax expense at the group level. The tax expense charged on the profit of the tax group member is calculated by dividing the tax base at group level by the total amount of allocated taxable profit, therefore after consideration of intragroup tax loss carry forwards, but without taking into account current losses transferred from members of the tax group. For taxable profits of tax group members that do not result in a tax expense at group level, group allocation amounts to 12%. Tax group members transferring a tax loss to the head of the group receive no compensation, but can carry forward this tax loss as an intra-group tax loss carry forward and offset the entire amount with future taxable profit within the group. Therefore, tax allocation is not required for intragroup loss carry forward. Intragroup loss carry forwards not yet offset at the time the group member leaves the tax group are compensated to the extent required by company law upon termination of the agreement.

Due to the profit and loss exclusion contract concluded by the Company with Telekom Projektentwicklungs GmbH, Telekom Projektentwicklungs GmbH and Telekom Finanzmanagement GmbH, no tax is allocated to/from these companies.

Intragroup loss carry forward for which no provisions were recognised amounted to TEUR 113,772 (previous year: TEUR 100,770).

	2015 TEUR	2014 TEUR
Allocation to group members*)	46,227	8,690
Group allocation – current period*)	-17,010	0
Corporation Tax - Group*)	29,217	8,690
Provisions for deferred taxes*)	26,275	94,447
<b>Total tax benefits*)</b>	<b>55,492</b>	<b>103,137</b>

In the current financial year, the head of the group was required to use tax loss carry forwards in the amount of TEUR 204,128 (previous year: TEUR 0).

\* in above table, positive amounts (+) represent tax benefits and negative amounts (-) represent tax expenses

## 4 Other Information

### 4.1 Remuneration of the Management and Supervisory Board of the Company

In 2015, remuneration of the members of the Management Board amounted to TEUR 3,185 (previous year: TEUR 2,858), and include remuneration charged from affiliated companies in an amount of TEUR 592 (previous year: TEUR 268). Benefits paid under the Long Term Incentive Program are not included in the amount of remuneration of members of the Management Board. These benefits are included in section 4.2.

In 2015, remuneration of former members of the Management Board after resignation amounted to TEUR 3,545 (previous year: TEUR 1,800).

In the current financial year remuneration of members of the Supervisory Board amounted to TEUR 235 (previous year: TEUR 212).

### 4.2 Long Term Incentive (LTI) Program

On December 9, 2009, the Supervisory Board of Telekom Austria AG approved the LTI Program, in particular the first tranche of 2010, and announced further tranches. The second tranche was approved on 21 February 2011. The third tranche was approved on 7 May 2012. A fourth tranche was approved on 6 May 2013. A fifth tranche was approved on 1 July 2014. The sixth tranche was approved on 21 April 2015 and granted on 1 September 2015. Participants are required to make a personal investment in Telekom Austria shares in an amount depending on the annual gross basic salaries and the management level of the entitled employee and to hold these shares until the end of the holding period. For each tranche, the number of shares granted is calculated based on the average Telekom Austria stock price for a defined period. This right is not transferrable.

The performance period for meeting the performance targets was determined to be three years. Free cash flow, total shareholder return and EBITDA were defined as key performance indicators for the tranches of the years 2010, 2011 and 2012. Net income, EBITDA and relative total shareholder return (determined on a basis of a weighted comparison group of nine European telecommunications providers) were defined as key performance indicators for the tranches of the years 2013 and 2014. For the tranche 2015 EBITDA comparable, free cash flow and a revenue based key performance indicator were defined. The target values for these key indicators are determined at the beginning of each tranche. If the targets are fully met, bonus shares equal to the personal investment will be allocated to the participants for the years 2010, 2011 and 2012; for the tranches of the years 2013, 2014 and 2015 the proportion of personal investment to bonus shares is 0,5; settlement will be in cash. If the targets are exceeded, additional shares will be allocated proportionally up to a maximum of 175% of the shares or a maximum of 350% based on meeting the targets with 100%. In case of significant underperformance, no shares are allocated.

The Program LTI 2011 was exercised in the financial year 2014. 0.280 bonus shares per share of personal investment were allocated at a share price of 6.04. The settlement was in cash.

LTI 2011	Personal investment in shares as exercised
Dr. Hannes Ametsreiter	25,674
Mag. Johann Tschuden	25,674
Senior Staff	17,466
Other employees	53,722
Total Company	122,536
Members of Management and Supervisory Boards and entitled employees of subsidiaries	321,250

The Program LTI 2012 was exercised in the financial year 2015. 0.180 bonus shares per share of personal investment were allocated at a share price of 5.73. For Mr. Ametsreiter and Mr. Tschuden 0.08 bonus shares per share were allocated. The settlement was in cash.

LTI 2012	Personal investment in shares as exercised
Dr. Hannes Ametsreiter	25,674
Dipl.Ing. Siegfried Mayrhofer	16,500
Alejandro Plater	0
Mag. Johann Tschuden	27,000
Senior Staff	26,500
Other employees	56,141
<b>Total Company</b>	<b>151,815</b>
Members of Management and Supervisory Boards and entitled employees of subsidiaries	247,843

On the reporting date, a liability is recognised for the share of the future anticipated expense of the LTI program already earned, which was measured at fair value. The fair value is determined by using the expected achievement of the performance criteria and the expected share price, which is based on the binomial tree process. Expected dividends were also considered in measuring the fair value. The liability is recognized over the service period.

	LTI 2015	LTI 2014	LTI 2013
Program start	1 January 2015	1 January 2014	1 January 2013
Grant date	1 September 2015	1 July 2014	1 September 2013
End of vesting period	31 December 2017	31 December 2016	31 December 2015
Vesting date	1 September 2018	1 July 2017	1 September 2016

Personal investment in shares as of 31 December 2015	LTI 2015	LTI 2014	LTI 2013
<b>Members of Management Board</b>			
Dr. Hannes Ametsreiter	5,579	13,717	22,108
Dipl.Ing. Siegfried Mayrhofer	24,134	18,825	10,725
Dipl.Ing. Günther Ottendorfer	13,408	19,432	20,872
Alejandro Douglass Plater	14,650		
Senior staff	6,950	17,675	17,745
Other employees	46,474	56,685	65,067
<b>Total Company</b>	<b>111,195</b>	<b>126,334</b>	<b>136,517</b>
Members of Management and Supervisory Boards and entitled employees of subsidiaries	60,064	108,052	121,436

LTI 2013	2015	2014	2013
Expected bonus shares	122,865	48,729	187,005
Maximum bonus shares	477,810	459,835	480,205
Fair value in TEUR	643	266	988

LTI 2014	2015	2014
Expected bonus shares	116,553	131,078
Maximum bonus shares	442,169	466,218
Fair value in TEUR	595	699

LTI 2015	2015
Expected bonus shares	184,873
Maximum bonus shares	389,183
Fair value in TEUR	917

Expenses for the LTI Program in the amount of TEUR 427 (previous year: TEUR 389) are recognised in the income statement.

#### 4.3 Other Information

Telekom Austria Aktiengesellschaft has a group relationship with América Móvil, S.A.B. de C.V., Mexico City, and its affiliated companies and is fully consolidated in its consolidated financial statements since 1 July 2014, which is the largest group of companies for which group financial statements are prepared. América Móvil Group is listed on the Mexican Stock Exchange, the NASDAQ New York and on the New York Stock Exchange. Consolidated financial statements of América Móvil, S.A.B. de C.V. are filed with the SEC (U.S. Securities and Exchange Commission) in Washington, D.C.

The Company is a parent company required to prepare consolidated financial statements in accordance with Section 244 Austrian Commercial Code (UGB). The consolidated financial statements are filed with the commercial register at the Commercial Court in Vienna.

Related party transactions were always effected at arm's-length.

In accordance with Section 237 No. 14 UGB, the Company exercises the right not to disclose information on expenses for the auditor.

The Company is a large corporation in accordance with Section 221 UGB.

## 5 Members of the Management Board and Supervisory Board

### Management Board

Chairman Alejandro Plater	since 1 August 2015
	since 6 March 2015
	Management Board Member
Dipl.Ing. Siegfried Mayrhofer	
Chairman Dr. Hannes Ametsreiter	until 31 July 2015
Dipl.Ing. Günther Ottendorfer	until 5 March 2015

### Supervisory Board

Dr. Wolfgang Ruttensdorfer	Chairman of the Supervisory Board
	since 27 May 2015
Ph.D. Carlos García Moreno Elizondo	Deputy Chairman
Silvia Bauer	
J. D. Alejandro Cantú Jiménez	
Dr. Elisabetta Castiglioni	
Dr. Karin Exner-Wöhrer	since 27 May 2015
Ing. Walter Hotz	
M.Sc.Ph.D. Carlos M. Jarque	
Ing. Gottfried Kehrer (formerly Zehetleitner)	
Mag. Reinhard Kraxner	
Werner Luksch	
Ronny Pecik	
Mag. Stefan Pinter	
Mag. (FH) Alexander Sollak	
Oscar Von Hauske Solís	
Ing. Rudolf Kemler	Chairman of the Supervisory Board
	until 27 May 2015
Mag. Günter Leonhartsberger	until 27 May 2015

Vienna, 3 February 2016

The Management Board



Chairman Alejandro Plater



Dipl.Ing. Siegfried Mayrhofer

## ATTACHEMENT I

Telekom Austria Aktiengesellschaft, Vienna

## MOVEMENT SCHEDULE OF INVESTMENTS AS OF FISCAL YEAR 2015

Financial assets	Purchase price		Balance at 31.12.2015	Accumulated depreciation	Carrying	Carrying	Additions for the fiscal year 2015	Depreciation for the fiscal year 2015
	Balance at 01.01.2015	Additions			amount as of 31.12.2015	amount as of 31.12.2014		
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
<b>1. Shares in capital of affiliated companies</b>								
Telekom Projektentwicklungs GmbH	4,157	0	4,157	2,766	1,391	1,391	0	0
mobikom Bulgarien GeschäftsentwicklungsgmbH	988,682	0	988,682	122,340	866,342	776,142	90,200	0
mobikom Mazedonien Geschäftsentwicklungs GmbH	124,540	0	124,540	0	124,540	39,770	84,770	0
Mobilkom Beteiligungs- gesellschaft mbH	368,432	2,900	371,332	0	371,332	368,432	0	0
mobikom CEE Geschäftsentwicklungs GmbH	392,031	0	392,031	79,800	312,231	288,831	23,400	0
mobikom Belarus Geschäftsentwicklungs GmbH	974,700	0	974,700	10,570	964,130	782,430	181,700	0
A1 Kroatien Geschäfts- entwicklungs GmbH	698,790	0	698,790	491,800	206,990	180,390	26,600	0
Amisco N.V., Belgium	0	33,920	33,920	0	33,920	0	0	0
A1 Telekom Austria Aktiengesellschaft	4,596,606	0	4,596,606	854,721	3,741,885	3,846,985	0	105,100
	<b>8,147,938</b>	<b>36,820</b>	<b>8,184,758</b>	<b>1,561,997</b>	<b>6,622,761</b>	<b>6,284,371</b>	<b>406,670</b>	<b>105,100</b>
<b>2. Other investments</b>								
CEESEG Aktiengesellschaft	543	0	543	0	543	543	0	0
	<b>8,148,481</b>	<b>36,820</b>	<b>8,185,301</b>	<b>1,561,997</b>	<b>6,623,304</b>	<b>6,284,914</b>	<b>406,670</b>	<b>105,100</b>

## ATTACHEMENT 2

Telekom Austria Aktiengesellschaft, Vienna

## RECEIVABLES AGING REPORT AS OF 31 DECEMBER 2015

Amounts in TEUR	Carrying value	Remaining maturity	
		up to one year	more than one year
1. Accounts receivable - trade	7	7	0
2. Receivables – affiliated companies			
- Trade	7,130	7,130	0
- Financing	22,797	22,797	0
- Others	82,197	82,197	0
	112,124	112,124	0
3. Receivables – associated companies			
- Trade	0	0	0
4. Other receivables	10,093	10,093	0
Receivables	122,224	122,224	0

## RECEIVABLES AGING REPORT AS OF 31 DECEMBER 2014

Amounts in TEUR	Carrying value	Remaining maturity	
		up to one year	more than one year
1. Accounts receivable - trade	1	1	0
2. Receivables – affiliated companies			
- Trade	6,188	6,188	0
- Financing	505,673	505,673	0
- Others	111,660	111,660	0
	623,521	623,521	0
3. Receivables – associated companies			
- Trade	88	88	0
4. Other receivables	21,594	21,594	0
Receivables	645,204	645,204	0

## ATTACHEMENT 3

Telekom Austria Aktiengesellschaft, Vienna

## LIABILITIES AGING REPORT AS OF 31 DECEMBER 2015

Amounts in TEUR	Carrying value	Remaining maturity		
		up to one year	from one to five years	more than five years
1. Subordinated capital/hybrid bond	600,000	0	600,000	0
2. Liabilities to banks	30,791	30,791	0	0
3. Accounts payable - trade	2,122	2,122	0	0
4. Liabilities to affiliated companies				
- Trade	3,495	3,495	0	0
- Financing	2,131,920	581,920	500,000	1,050,000
- Others	30,605	30,605	0	0
	2,166,020	616,020	500,000	1,050,000
5. Other liabilities	1,180	1,180	0	0
<b>Liabilities</b>	<b>2,800,113</b>	<b>650,113</b>	<b>1,100,000</b>	<b>1,050,000</b>

## LIABILITIES AGING REPORT AS OF 31 DECEMBER 2014

Amounts in TEUR	Carrying value	Remaining maturity		
		up to one year	from one to five years	more than five years
1. Subordinated capital/hybrid bond	600,000	0	600,000	0
2. Liabilities to banks	30,791	30,791	0	0
3. Accounts payable - trade	5,751	5,751	0	0
4. Liabilities to affiliated companies				
- Trade	1,467	1,467	0	0
- Financing	2,648,179	598,179	1,000,000	1,050,000
- Others	28,612	28,612	0	0
	2,678,258	628,258	1,000,000	1,050,000
5. Other liabilities	817	817	0	0
<b>Liabilities</b>	<b>3,315,617</b>	<b>665,617</b>	<b>1,600,000</b>	<b>1,050,000</b>

## ATTACHEMENT 4

Telekom Austria Aktiengesellschaft, Vienna

## SCHEDULE OF SHARES IN AFFILIATED COMPANIES AS OF 31 DECEMBER 2015

	Investment	Currency	Shareholders' equity	Net income/ loss for the year
<b>Shares in capital of affiliated companies</b>				
A1 Telekom Austria Aktiengesellschaft, Wien	100.0%	TEUR	1,176,865	260,952
Telekom Projektentwicklungs GmbH, Wien	99.0%	TEUR	1,399	-24,001
A1 Kroatien Geschäftsentwicklungs GmbH, Wien	100.0%	TEUR	206,967	26,594
Mobilkom Beteiligungsgesellschaft mbH, Wien	100.0%	TEUR	298,883	905
mobikom CEE Geschäftsentwicklungs GmbH, Wien	100.0%	TEUR	312,291	23,396
mobikom Belarus Geschäftsentwicklungs GmbH, Wien	100.0%	TEUR	1,030,119	247,695
mobikom Mazedonien Geschäftsentwicklungs GmbH, Wien	100.0%	TEUR	122,075	82,313
mobikom Bulgarien GeschäftsentwicklungsgmbH, Wien	100.0%	TEUR	866,336	90,194
Amisco N.V., Grimbergen	100.0%	TEUR	29,697	5,472 *

\*For the Belgian company Amisco N.V. only IFRS figures are available.

## ANNEX IV

# MANAGEMENT REPORT

of Telekom Austria Aktiengesellschaft for the period 1 January to 31 December 2015

### Updated financial statements

The following financial statements are an updated version (according to § 268 Abs 3 UGB). The updates had to be done due to changes in the other reserves compared to the original financial statement as of 25 January 2016.

For detailed information please look up first page of Annex.

Due to the changes in the statement of financial position and the statement of profit or loss following changes had to be done in the annex:

The phrase “At the Annual General Meeting on 25 May 2016, the Management Board will propose to distribute a dividend of EUR 0.05 per eligible share.” was replaced by “The Management Board will propose the Supervisory Board to distribute a dividend of EUR 0.05 per eligible share.”

### General economic environment<sup>1</sup>

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

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

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

### Industry trends and competition

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

In Austria, the Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed-line and mobile communications solutions under its A1 brand. The latest market report issued by the regulatory authority, which tracked the most recent market

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<sup>1</sup> Sources: GDP for World and Belarus: IMF <http://www.imf.org/external/pubs/ft/weo/2015/02/pdf/text.pdf>, dated October 2015, pages 2, 35; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Macedonia and Republic of Serbia: [http://ec.europa.eu/economy\\_finance/publications/eeip/pdf/ipor11\\_en.pdf](http://ec.europa.eu/economy_finance/publications/eeip/pdf/ipor11_en.pdf), dated 5 November 2015, pages 22, 71, 89, 107, 115, 127 and 131

data in Austria up to the first half of 2015, underlines the high degree of maturity of the Austrian market and describes the following average trends across all operators:<sup>2</sup>

- Average revenues generated per mobile customer increased in the first half year from EUR14.1 to EUR14.5, while end customer revenues also rose by 1.8% year-on-year. While the number of voice minutes fell slightly by 1.7% compared with the first half of 2014 and the number of text messages saw a further significant downturn of 17.2%, data volume enjoyed significant growth once again, rising by 71.3%. As previously, the strongest stimulus for this trend came from smartphone users, where an increase by 5.7% to more than 3.6 million users was recorded.
- On the Austrian fixed-line market, the trend of fixed to mobile substitution continued in the year under review – the number of fixed access lines decreased by 2.7% against the previous year. The share of total voice minutes attributable to fixed lines shrunk further from 14.2% in the first half of 2014 to 13.1% in the first half of 2015. Average voice revenues per month in the fixed-line segment also remained on a downward trend, declining by 10.3% for private customers and 7.5% for business customers. The strong demand for broadband solutions continued in 2015 and resulted in an overall rise by 4.0% to over 8 million broadband connections. Fixed-line broadband grew by 5.3%, while mobile broadband remained stable.

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

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

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

<sup>2</sup> [https://www.rtr.at/de/inf/TK\\_Monitor\\_4\\_2015/TM4\\_2015.pdf](https://www.rtr.at/de/inf/TK_Monitor_4_2015/TM4_2015.pdf); pages 12, 17, 18, 19, 34, 48, 53, 55, 66 (Telecom Austria Group calculation)

<sup>3</sup> [http://www.statistik.at/web\\_de/statistiken/informationsgesellschaft/index.html](http://www.statistik.at/web_de/statistiken/informationsgesellschaft/index.html)

<sup>4</sup> <http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2009/MIS2009-w5.pdf>; page 56;

[http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2014/MIS2014\\_without\\_Annex\\_4.pdf](http://www.itu.int/en/ITU-D/Statistics/Documents/publications/mis2014/MIS2014_without_Annex_4.pdf); pages 166-167;

<http://www.itu.int/en/ITU-D/Statistics/Documents/publications/misr2015/MISR2015-w5.pdf>; page 140

<sup>5</sup> <http://www.nsi.bg/en/content/6099/households-who-have-internet-access-home>

<sup>6</sup> [http://www.hakom.hr/UserDocsImages/2015/e\\_trziste/KVA%20ENG%20Q3%202015%20Share%20of%20prepaid%20and%20postpaid%20subscribers\\_Mobile.pdf](http://www.hakom.hr/UserDocsImages/2015/e_trziste/KVA%20ENG%20Q3%202015%20Share%20of%20prepaid%20and%20postpaid%20subscribers_Mobile.pdf);

[http://www.hakom.hr/UserDocsImages/2015/e\\_trziste/KVA%20ENG%20Q3%202015%20Fixed%20broadband%20penetration.pdf](http://www.hakom.hr/UserDocsImages/2015/e_trziste/KVA%20ENG%20Q3%202015%20Fixed%20broadband%20penetration.pdf)

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

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

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

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

### Financial Key Performance Indicators

Total assets as of 31 December 2015, amounted to EUR6,756.9 million compared to EUR6,944.9 million in the previous year, representing a decrease of 2.7%.

Long-term assets increased by 5.4%, from EUR6,284.9 million to EUR6,623.3 million. As shown in the tables below, current company valuations resulted in various impairment losses and reversals of such in long-term financial assets of affiliated companies:

Reversal of impairment losses from assets of affiliated companies (in millions of EUR)	2015	2014
mobilkom Belarus Geschäftsentwicklungs GmbH	181.7	71.4
mobilkom Bulgarien GeschäftsentwicklungsgmbH	90.2	0.0
mobilkom Mazedonien Geschäftsentwicklungs GmbH	84.8	0.0
A1 Kroatien Geschäftsentwicklungs GmbH	26.6	0.0
mobilkom CEE Geschäftsentwicklungs GmbH	23.4	0.0
<b>Total</b>	<b>406.7</b>	<b>71.4</b>
Impairment losses from assets of affiliated companies (in millions of EUR)	2015	2014
A1 Telekom Austria Aktiengesellschaft	105.1	389.4
A1 Kroatien Geschäftsentwicklungs GmbH	0.0	518.4
mobilkom Bulgarien GeschäftsentwicklungsgmbH	0.0	212.5
mobilkom CEE Geschäftsentwicklungs GmbH	0.0	103.2
mobilkom Mazedonien Geschäftsentwicklungs GmbH	0.0	41.7
<b>Total</b>	<b>105.1</b>	<b>1,265.2</b>

The significant decrease in current assets from EUR647.5 million to EUR124.3 million as of 31 December 2015 resulted from lower cash-pooling receivables and lower dividend receivables from affiliated companies.

As of 31 December 2015, shareholders' equity amounted to EUR3,733 million (31 December 2014: EUR3,381.3 million). The increase is mostly based on the annual result of 2015 in conjunction with retained earnings.

<sup>7</sup> <http://belstat.gov.by/en/ofitsialnaya-statistika/otrasli-statistiki/transport-i-svyaz/osnovnye-pokazateli-za-period-s-1995-po-2010-gody/main-indicators-of-general-use-communications-development/>; [http://belstat.gov.by/en/bgd/katalog-publikatsii/public\\_compilation/index\\_219/](http://belstat.gov.by/en/bgd/katalog-publikatsii/public_compilation/index_219/) (page 351)

<sup>8</sup> [http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre\\_Repozitorij/&lang=1](http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre_Repozitorij/&lang=1)

<sup>9</sup> [http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H083E&ti=&path=../Database/Hitre\\_Repozitorij/&lang=1](http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H083E&ti=&path=../Database/Hitre_Repozitorij/&lang=1)

<sup>10</sup> <http://webzrs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indId%3d270101iIND01%2662%3d1%2c2%2c3%2c4%2c5%2635%3d6%262%3d%23All%231%26sAreaId%3d270101%26dType%3dName%26IType%3dEnglish>

<sup>10</sup> <http://webzrs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indId%3d270102iIND01%2c270102iIND02%2c270102iIND03%262%3d201500%2635%3d6%26sAreaId%3d270102%26dType%3dName%26IType%3dEnglish>

<sup>10</sup> [http://www.stat.gov.mk/PrikaziSooptenie\\_en.aspx?rbrtxt=77](http://www.stat.gov.mk/PrikaziSooptenie_en.aspx?rbrtxt=77)

The decrease in liabilities by EUR 515.5 million to EUR 2,800.1 million is most notably due to the repayment of long-term financial liabilities to Telekom Finanzmanagement GmbH.

The services rendered by the management holding in 2015 led to an increase in revenues from EUR 26.9 million in 2014 to EUR 27.3 million in 2015.

Personnel expenses increased from EUR 27.5 million in the previous year to EUR 32.1 million in 2015. The increase is mostly due to severance payments to former members of the Management Board. Other operating expenses in the previous year were mostly affected by the one-time effect of the costs of capital increase and therefore decreased in 2015 to EUR 22.6 million (from EUR 39.4 million in 2014).

As a result of the developments described above, the operating loss amounted to EUR -27.2 million in 2015 compared to EUR -39.7 million in 2014.

Income from investments increased from EUR 159.7 million in 2014 to EUR 220.1 million in 2015, above all due to higher dividends distributed within the Group in 2015.

Income from reversal of impairment losses on long-term financial assets amounting to EUR 406.7 million (2014: EUR 71.4 million) is shown in more detail in the table above. In 2015, expenses from long-term financial assets amounting to EUR 129.3 million are primarily due to the impairment losses shown in the table above. Interest expense, predominantly attributable to affiliated companies, decreased by 4.6% (from EUR 147.7 million in the previous year to EUR 140.9 million in 2015).

Due to the factors described above, the income before income taxes amounted to EUR +329.4 million, compared to a loss of EUR -1,250.3 million in 2014.

Income tax gains for 2015 amount to EUR 55.5 million (2014: EUR 103.1 million), partly due to group tax allocations of EUR 29.2 million for the year 2015 (2014: EUR 8.7 million) and partly resulting from the reversal of provisions for deferred taxes of EUR 26.3 million (2014: EUR 94.4 million).

Overall, these developments result in a net income in the amount of EUR +384.9 million for the 2015 financial year (2014: net loss of EUR -1,147.1 million). In 2015 an amount of EUR 314.5 million was released from other reserves into net income, in addition an amount of EUR 406.67 million was transferred from net income to other reserves. In 2014 an amount of EUR 1,180.2 million was released from other reserves into net income.

The Management Board will propose the Supervisory Board a dividend of EUR 0.05 per eligible share. The remaining net income will be carried forward to new account.

The following section briefly explains the main financial and operational KPIs.

- In accordance with section 23 of the Company Reorganisation Act (URG), the equity ratio amounted to 55.2% as of 31 December 2015 (31 December 2014: 48.7%). This ratio is calculated by dividing equity by total assets.
- The notional debt repayment period as set out in section 24 URG amounted to more than 15 years as of 31 December 2015. Due to a net cash outflow as of 31 December 2014 the notional debt repayment could not be calculated for the previous year. The change is due to higher dividend income from affiliated companies in 2015 compared to 2014. The notional debt repayment rate indicates the number of years until all debts are repaid on the basis of earnings/loss before income taxes.
- The earnings before interest and income tax (EBIT) corresponds to the earnings/loss before income taxes adjusted by interest income and interest expense. The EBIT increased from EUR -1,102.5 million in 2014 to EUR +470.3 million in this financial year. This is mainly due to the cumulative effect of company valuations recognised on affiliated companies of EUR -1.193.8 million in the previous year compared to EUR +301.6 million in this financial year.
- As a result of the developments described above the return on equity (ratio of EBIT to stockholders' equity) increased from -32.6% in 2014 to +12.6% in 2015. The return on assets (ratio of EBIT to liabilities and stockholders' equity) increased from -15.9% in 2014 to +7.0% in 2015.
- The net debts comprise interest-bearing liabilities less cash and cash equivalents. Net debt as of 31 December 2015 remained fairly stable at EUR 2,745 million compared to EUR 2,776.7 million in the previous year.

- The cash flow from operating activities decreased from EUR 126.5 million in 2014 to EUR 103.4 million in 2015, which is mainly attributable to changes in the capital commitments in current assets. The reduction in current assets is most notably due to lower dividend and cash-pooling receivables from affiliated companies.
- Cash flow from investing activities amounts to EUR -36.8 million in 2015 compared to EUR -7.2 million in the previous year. This change was primarily the result of the acquisition of 100% of Amisco NV (Amis), the holding company of Amis Slovenia and Amis Croatia, as of 1 September 2015.
- Cash flow from financing activities decreased from EUR +368.4 million in 2014 to EUR -549.5 million in 2015. In 2014 the cash flow from financing activities derived for the most part from the incoming payment of the capital increase less the repayment of financial liabilities which were due to Telekom Austria Finanzmanagement GmbH.

## Equity Investments

In addition to Austria, Telekom Austria Group is successfully positioned in another six European Countries as of 31 December 2015. At the end of 2015, the Group provided mobile communication services to around 20.7 million customers (2014: 20.0 million); fixed access lines amounted to around 3.4 million, representing an increase of 23.7% compared to the previous year.

In 2015, A1 Telekom Austria AG experienced a slight increase of its overall customer base for mobile communication by 0.6% to about 5.5 million customers. Its mobile market share was 39.5% compared to 41.1% in the previous year. Mobile penetration was 161.2% (2014: 155.1%). Average revenues per mobile communication customer decreased by 1.4% to EUR 15.9 (2014: EUR 16.2). Fixed line accesses rose by 3,500 in 2015 to about 2.3 million accesses. Average revenues per fixed access line amounted to EUR 29.6 (2014: EUR 30.4).

Mobiltel EAD increased the number of mobile customers by 0.3% to 4.2 million. Mobiltel, Bulgaria's leading communication provider, saw its market share rise from 37.6% to 38.8% in the reporting period. The mobile penetration rate fell to 149.2% in Bulgaria (2014: 152.7%). Following the acquisition of Bultel Cable Bulgaria EAD fixed access lines rose in the segment Bulgaria from 153,600 to 583,000 lines per end of 2015.

At VIPnet d.o.o., Croatia's second largest mobile communication provider, the number of mobile customers declined by 0.4% in 2015 to 1.7 million customers. At the end of 2015, VIPnet held a market share of 36.0% (2014: 36.0%). The mobile penetration rate in Croatia at the end of the year was 113.7% (2014: 112.6%). Fixed access lines rose in 2015 by 28.9% to 283,400 lines.

In 2015, Unitary Enterprise Velcom, the second largest mobile communication provider in Belarus, experienced a stable mobile customer base with 4.96 million customers compared to the previous year. As at the end of December 2015 Velcom held a market share of 42.5% (2014: 42.4%). The mobile penetration rate in Belarus was 123.0% (2014: 123.3%).

As of the end of 2015, Si.mobil d.d., the second largest mobile communication provider in Slovenia has gained 4.0% more customers, raising the total to 708,500. The market share rose to 29.9% (2014: 29.2%). At the end of 2015, the mobile penetration rate in Slovenia was 113.7% compared to 111.8% in 2014. Following the acquisition of Amisco N.V. Slovenia recorded 65,700 fixed access lines as of year-end 2015.

Vip mobile d.o.o., the third largest mobile communication provider in the Republic of Serbia, the number of mobile customers declined by 2.3% to 2.1 million customers, holding a market share of 22.5% at the end of 2015 (2014: 22.5%). By the end of 2015 the mobile penetration rate in the Republic of Serbia fell to 132.0% (2014: 133.6%).

In the Republic of Macedonia Vip Operator DOOEL merged with ONE Operator d.o.o. The newly formed entity one.Vip DOO had 1.2 million customers representing an increase of 87.1%. However, the market share increased from 28.2% at the end of 2014 to 53.7% at the end of 2015. As of 31 December 2015, the mobile penetration rate in the Republic of Macedonia was at 105.5% (2014: 107.4%). Fixed access lines rose from 62,600 lines in 2014 to 144,500 lines in the year under review.

## Changes to the Management and the Supervisory Board

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

## Members of the Supervisory Board

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

### Members of the Supervisory Board delegated by the Staff Council

Silvia Bauer (1968)	30.01.2009 to 03.11.2010, re-delegated on 26.07.2012
Walter Hotz (1959)	Re-delegated on 06.05.2011
Werner Luksch (1967)	03.08.2007 to 20.10.2010, re-delegated on 11.01.2011
Alexander Sollak (1978)	03.11.2010
Gottfried Kehrler (1962)	27.10.2010

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

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

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

\*\*\*\* Chairman until 27 May 2015

\*\*\*\*\* Chairman from 27 May 2015

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

## Innovation and technology

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

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

The accelerated roll-out of LTE in Austria, Croatia, Slovenia, the Republic of Serbia and the Republic of Macedonia led to a considerable improvement in the provision of high-speed mobile internet. Si.mobil already offers coverage of 96% in Slovenia, while A1 offers coverage of

74% in Austria. Vipnet in Croatia offers coverage of 55%, ONE.vip's coverage in the Republic of Macedonia is at 54% and vip mobile in the Republic of Serbia has a coverage of 24%. After the successful completion of a test phase, voice over LTE (VoLTE) was also introduced to A1's network. This technology allows calls to be set up remarkably quicker with the highest speech quality.

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

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

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

### Corporate social responsibility

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

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

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

The environmental management systems at A1 Telekom Austria AG, Si.mobil d.d. and Vip mobile d.o.o. are ISO 14001 certified. Furthermore, EMAS requirements in Austria and Slovenia are met. Energy management at A1 Telekom Austria AG is also ISO 50001 certified. Since 2014, A1 Telekom Austria AG has been the first CO<sub>2</sub> neutral network in Austria to be assessed and validated by TÜV SÜD in line with the PAS 2060 international standard.

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

### Shareholder structure and capital disclosures

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

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

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

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

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

## Risk management

### Principles and methods

As one of the leading telecommunications companies in Austria as well as Central and Eastern Europe, the Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. The risk management system of the Telekom Austria Group anticipates such

developments at an early stage in order to allow an effective response. It consists essentially of four areas: Market and business risks, which may arise in the respective countries due to competition, regulatory intervention or an unclear legal situation, are monitored and analysed throughout the Group by a central risk manager. Risks that may influence the guaranteed availability and security of the services offered, such as technical or topographical risks, are covered by business interruption management. Compliance risks are monitored by Group Compliance, which is aided by local compliance managers. Finally, financial risks such as liquidity, default, currency, transfer and interest rate risks are handled by Treasury.

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

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

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

## Risks

### Market and competition risks

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

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

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

### Regulatory and legal risks

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

After two years of negotiations, the new regulation on network neutrality and roaming ('Connected Continent' or the 'Telecom Single Market' package) was confirmed in the plenary session of the European Parliament in October 2015. In accordance with the regulation, internet access

service providers will be obliged to treat data traffic overall in an equal manner, regardless of the transmitter, receiver, application or terminal in question. In addition to internet access services, specialised services could also be offered although this has certain limitations.

As far as roaming in EU member states is concerned, the abolition of retail roaming surcharges as of 15 June 2017 was resolved. From 30 April 2016 to 14 June 2017, there will be a transition period in which network operators will be able to apply roaming surcharges in the amount of wholesale caps in addition to domestic prices. An implementing regulation to be adopted by 15 December 2016 at the latest is set to determine so-called 'fair use' borders to prevent improper or abnormal use. The named provisions will apply to the mobile communications companies of the Telekom Austria Group in EEA member states Austria, Bulgaria, Croatia and Slovenia and have a negative impact on future roaming revenues.

The regulation will have a negative impact on roaming revenues in these countries. However, the regulation lacks elements both in network neutrality and roaming details and leaves room for interpretation. Due to that the extent of its effects cannot be fully predicted at the time. This is associated with legal-regulatory as well as financial insecurity.

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

### **Compliance risks**

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

### **Financial risks**

Telekom Austria Group is exposed to various financial risks, including liquidity risk, interest rate, foreign currency exchange rate risk and credit risk associated with underlying financial assets, liabilities and anticipated transactions. Liquidity risk is the risk that Telekom Austria Group will not be able to meet its financial obligations as they fall due. Telekom Austria Group's approach to managing liquidity is to ensure that Telekom Austria Group will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. Furthermore, all measures required to assure sufficient liquidity for the needs according to the liquidity plan shall be taken. Excess liquidity is only invested in instruments with counterparties and within limits approved by the CFO. All long-term instruments and derivatives – in case they are used – are contracted with counterparties having an investment grade rating from Standard & Poor's or an equivalent rating from another globally recognised rating agency. If no such external rating is available, an internal rating based on quantitative ratios is carried out.

Interest rate and foreign currency exchange rate risk is the risk that the income of Telekom Austria Group or the value of a financial instrument held by Telekom Austria Group is influenced by changing foreign exchange rates and interest rates. The objective of risk management is to manage and control these risk exposures within acceptable parameters.

The credit risk is the risk of financial losses due to the breach of contractual obligation of a customer or the contract party of financial instruments. Credit risk or the risk of default in payment by contractual partners is continuously monitored via credit checks, credit limits and verification routines. Due to the large number of customers and the high level of diversification of the portfolios, the default of any single debtor would not entail grave consequences (low concentration risk) in respect of the consolidated financial statements of Telekom Austria Group. Within Telekom Austria Group, operative credit risk management functions are performed at the operating company level. There is no material credit risk in regard to a single contractual partner or a single financial instrument.

### **Investment risk**

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

It should also be mentioned that there is a profit and loss elimination agreement in place between A1 Telekom Austria AG and Telekom Austria Personalmanagement GmbH. Based on this agreement, A1 Telekom Austria AG takes on the profit or loss of Telekom Austria Personalmanagement GmbH and ensures its liquidity. In addition, there is a profit and loss elimination agreement in place between Telekom

Austria AG and Telekom Projektentwicklungs GmbH (TPG) and Telekom Finanzmanagement GmbH (TFG), on the basis of which TFG must transfer its profit or loss to TPG, which must accept the profit or loss of TFG, and TPG must transfer its profit or loss to Telekom Austria AG, which must accept the profit or loss of TPG.

### **Personnel-related risks**

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

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

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

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

### **Technical and topographical risks**

Maintaining a high level of availability and reliability of the services and products offered is a key aspect of operational risk management, as a host of threats such as natural disasters, major technical disruptions, third-party construction work, hidden faults or criminal activities can all impair their quality. Long-term planning takes technological developments into account, while the redundancy of critical components ensures failure safety, and efficient organisational structures for operations and security serve to secure high standards of quality. Furthermore, a separate Group guideline ensures uniform methods for the recognition and management of the most important risks to operational processes. In every major disruption, causes will be clarified and conclusions will be drawn on ways to reduce the risks of repeating the same causes of error. Fortunately, the Group did not face such crises in 2015.

### **Environmental risks**

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

### Internal control system for financial reporting

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

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

### Subsequent events

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

### Outlook 2015

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

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

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

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

Vienna, 3 February 2016

The Management Board



Alejandro Plater  
CEO and COO



Siegfried Mayrhofer  
CFO

## REPORT ON THE CHANGED FINANCIAL STATEMENT

We have audited the accompanying changed financial statements, including the accounting system, of Telekom Austria Aktiengesellschaft, Vienna, for the financial year from January 1, 2015 to December 31, 2015. These changed financial statements comprise the changed balance sheet as of December 31, 2015, the changed income statement for the financial year ended December 31, 2015, and the changed notes.

### Management's Responsibility for the Financial Statements and for the Accounting System

The Company's management is responsible for the accounting system and for the preparation and fair presentation of these changed financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory provisions. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of changed financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these changed financial statements based on our audit and our supplementary audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the changed financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

Our audit, for which we issued an unqualified audit opinion on January 26, 2016, did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as of December 31, 2015 and of its financial performance for the financial year from January 1, 2015 to December 31, 2015 in accordance with Austrian Generally Accepted Accounting Principles.

Our supplementary audit, which was performed for the changes made to the financial statements accounts other reserves and transfer from other reserves to net income, did not give rise to any objections. We refer to the explanations regarding the changes in other reserves and transfer from other reserves to net income provided by management in the notes to the financial statements. Based on the results of our supplementary audit, the results of our audit completed on January 26, 2016 remain unchanged.

### Comments on the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and if the information is applicable pursuant to Section 243a UGB.

In our opinion, the management report is consistent with the financial statements. The information pursuant to Section 243a UGB is accurate.

Vienna, February 4, 2016

Ernst & Young  
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Erich Lehner mp  
Wirtschaftsprüfer / Certified Auditor

Mag. (FH) Severin Eisl mp  
Wirtschaftsprüfer / Certified Auditor

\*) This report is a translation of the original report in German, which is solely valid. Publication of the financial statements together with our auditor's opinion may only be made if the financial statements and the management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

# DECLARATION OF THE MANAGEMENT BOARD

We confirm to the best of our knowledge that the separate financial statements prepared according to the applicable accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company and that the management report describes the development and performance of the business and the position of the company in a way that it gives a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company and the management report describes the principal risks and uncertainties of the company.

The Management Board



Alejandro Plater  
CEO and COO



Siegfried Mayrhofer  
CFO