

# Group Management Report

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

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

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

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

## Industry trends and competition

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

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

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

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

1) Sources: GDP for Belarus: IMF <https://www.imf.org/~media/Files/Publications/WEO/2017/October/pdf/main-chapter/text.ashx?la=en>, dated October 2017, page 66; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Serbia and Republic of Macedonia: [https://ec.europa.eu/info/sites/info/files/economy-finance/ip063\\_en.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ip063_en.pdf), dated November 2017, pages 160, 187

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

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

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

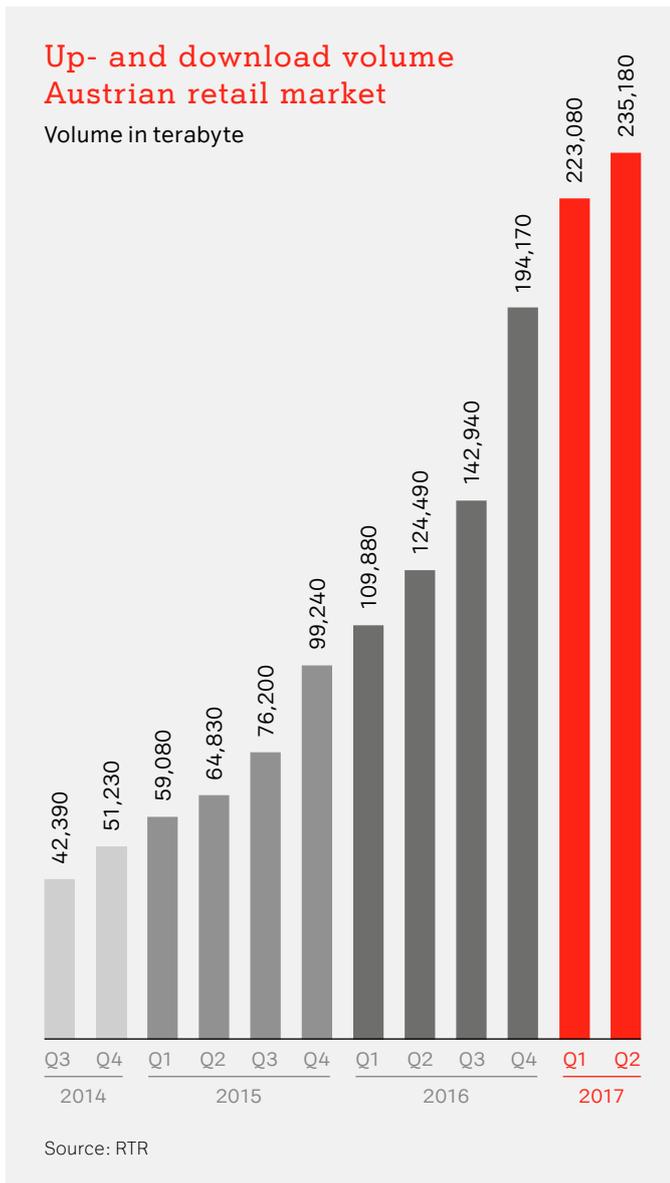
According to Statistics Austria, the share of Austrian households with Internet access rose from 85% in 2016 to 89% in 2017. Broadband lines in households increased from 85% to 88% in the same period, while lines at companies remained constant at 98%.<sup>3)</sup>

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

The positive development of the Croatian ICT market and the macroeconomic situation continued in the year under review. Broadband penetration in the fixed-line business increased to 25.3% in the third quarter of 2017 (Q3 2016: 23.9%), while mobile broadband penetration increased from 79.0% to 81.2% in the same period.<sup>5)</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. While the number of mobile network users stagnated in 2016, the number of Internet users increased. At the end of 2016, the proportion of households with Internet access was 62.5% (2015: 59.1%).<sup>6)</sup>

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



2) [https://www.rtr.at/de/inf/TK\\_Monitor\\_Q2\\_2017/RTR\\_Telekom\\_Monitor\\_Q2\\_2017.pdf](https://www.rtr.at/de/inf/TK_Monitor_Q2_2017/RTR_Telekom_Monitor_Q2_2017.pdf); A1 Telekom Austria Group calculations  
 3) [http://www.statistik.at/web\\_de/statistiken/informationsgesellschaft/index.html](http://www.statistik.at/web_de/statistiken/informationsgesellschaft/index.html)  
 4) [http://www.nsi.bg/sites/default/files/files/pressreleases/ICT\\_hh2017\\_en\\_ZW9AP4W.pdf](http://www.nsi.bg/sites/default/files/files/pressreleases/ICT_hh2017_en_ZW9AP4W.pdf); [http://www.nsi.bg/sites/default/files/files/pressreleases/ICT\\_hh2016\\_en\\_TSV05D.pdf](http://www.nsi.bg/sites/default/files/files/pressreleases/ICT_hh2016_en_TSV05D.pdf)  
 5) [https://www.hakom.hr/UserDocImages/2017/e\\_trziste/KVA%20ENG%20Q3%202017%20Fixed%20broadband%20penetration.pdf](https://www.hakom.hr/UserDocImages/2017/e_trziste/KVA%20ENG%20Q3%202017%20Fixed%20broadband%20penetration.pdf); [https://www.hakom.hr/UserDocImages/2017/e\\_trziste/KVA%20ENG%20Q3%202017%20Mobile%20broadband%20penetration.pdf](https://www.hakom.hr/UserDocImages/2017/e_trziste/KVA%20ENG%20Q3%202017%20Mobile%20broadband%20penetration.pdf)  
 6) <http://www.belstat.gov.by/en/ofitsialnaya-statistika/real-sector-of-the-economy-communication-and-ict/communication/annual-data/main-indicators-of-general-use-communications-development/>; Statistical Yearbook of the Republic of Belarus, 2017: [http://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/statistical-publications-data-books-bulletins/public\\_compilation/index\\_8145/](http://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/statistical-publications-data-books-bulletins/public_compilation/index_8145/), page 342; note: only figures for 2016 are available for Belarus.  
 7) [http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre\\_Repozitorij/&lang=1](http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre_Repozitorij/&lang=1); A1 Telekom Austria Group calculations

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

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

## Regulation

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

## Fixed-line telecommunication markets

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

## Mobile communications markets

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

### Glide paths for mobile termination rates

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

1) National MTRs stated. International MTRs differ.

2) Values that apply to Belarus: prime time/downtime. MTS: Mobile TeleSystems; BeST: Belarus Telecommunications Network

1) [http://webrzs.stat.gov.rs/WebSite/repository/documents/00/02/59/78/Saopstenje\\_2017\\_engl.pdf](http://webrzs.stat.gov.rs/WebSite/repository/documents/00/02/59/78/Saopstenje_2017_engl.pdf)

2) <http://www.stat.gov.mk/pdf/2017/8.1.17.33.pdf>; <http://www.stat.gov.mk/pdf/2016/8.1.16.30.pdf>

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

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

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

In 2016, the European Commission presented the draft of a new directive revising the current framework, access, authorisation and universal service directives and introducing a range of new regulations (European Electronic Communications Code). This initial proposed legislation is being negotiated in the European Parliament and at the level of the EU member states. An agreement shall be made by mid-2018 at the latest. The European Parliament has again brought forward a previous proposal for the abolition

of surcharges for international calls within the EU. Policy objectives for a 'gigabit society' and a 5G plan of action were also presented. This will involve both legal and regulatory risks as well as financial risks in future. The frequency allocation of the 3.4-3.8 GHz band is also imminent in Austria. The auction is likely to take place in the second half of 2018.

## Information on financial reporting

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

The presentation and analysis of financial information and key performance indicators until page 19 may differ from the financial information presented in the Consolidated Financial Statements. This is due to the fact that the presentation and analysis are partially based on proforma figures that include M&A transactions between the start of the comparison period and the end of the reporting period.

### EU roaming glide path

Retail (in EUR)	July 2014	30 April 2016	15 June 2017		
Data (per MB)	0.20	domestic tariff + 0.05 <sup>1)</sup>	domestic tariff		
Voice calls made (per minute)	0.19	domestic tariff + 0.05 <sup>1)</sup>	domestic tariff		
Voice calls received (per minute)	0.05	weighted average MTR <sup>1)</sup>	0		
SMS (per SMS)	0.06	domestic tariff + 0.02 <sup>1)</sup>	domestic tariff		
<b>Wholesale (in EUR)</b>	<b>July 2014</b>	<b>30 April 2016</b>	<b>15 June 2017</b>	<b>1 January 2018</b>	<b>1 January 2019</b>
Data (per MB)	0.05	0.05	0.0077	0.006	0.0045
Voice (per minute)	0.05	0.05	0.032	0.032	0.032
SMS (per SMS)	0.02	0.02	0.01	0.01	0.01

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

To reflect the performance on an operational basis, the proforma figures present comparison figures for previous periods as if M&A transactions executed between the start of the comparison period and the end of the reporting period had already been fully consolidated in the relevant months of the comparison period. Alternative Performance Measures (APM) are used to describe the operational performance. Please therefore also refer to the financial information presented in the Consolidated Financial Statements, which do not contain proforma figures, as well as the reconciliation tables provided on page 20.

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

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

## Revenue and earnings development

Proforma view			
Key financials in EUR million	2017 reported	2016 proforma	Change in %
Total revenues	4,382.5	4,254.9	3.0
EBITDA	1,397.3	1,370.4	2.0
% of total revenues	31.9%	32.2%	-
Operating income	443.9	496.2	-10.5

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

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

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

## Revenue and earnings development

The following analysis is based on proforma figures if not stated otherwise<sup>1)</sup>.

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

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

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

In September 2017, the A1 Telekom Austria Group took a further step in strengthening its brand profile and announced its decision to introduce the A1 brand stepwise in all markets according to local circumstances and thereby harmonise its brands throughout the Group. This triggered the continuous amortisation of local brand values, which had reached a total of around EUR 350 mn by the end of 2016. The respective companies will amortise the brand values until the phase-out of the old brands, which is expected to have a negative impact on the net result until the financial year 2019, with more than

half of the impact in 2017 and Q1 2018. In 2017, the brand value amortisation resulting thereof amounted to EUR 121.8 mn and stemmed primarily from the segment Bulgaria as well as to a lesser extent from the segments Belarus, Croatia and Republic of Macedonia.

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

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

2017:

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

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

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

2017:

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

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

## Key figures of the A1 Telekom Austria Group

(in EUR million)

### Proforma view

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

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

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

2016:

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

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

In mobile communications, the number of A1 Telekom Austria Group subscribers decreased slightly by 0.2% to 20.7 million subscribers in the year under review. Declining subscriber numbers in Bulgaria, Austria, Belarus, the Republic of Macedonia and Slovenia were offset in part by an increase in the number

of A1 Digital M2M customers as well as growth in Croatia and the Republic of Serbia. The number of mobile subscribers in Austria decreased by 1.9% in 2017, which was driven by the prepaid segment. Almost all markets saw a shift from prepaid to postpaid offers. The number of revenue-generating units (RGUs) in the Group's fixed-line business decreased by 0.6% year-on-year (reported: +2.3%). The decline in RGUs in Austria and Bulgaria, which was driven primarily by voice RGUs, was partially offset by increases in the other markets.

## Key figures of the A1 Telekom Austria Group

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

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

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

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

The following analysis is presented solely on a reported basis.

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

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

### Company Key Figures

Reported view

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

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

The following analysis is presented solely on a reported basis.

## Net assets and financial position

### Balance sheet structure

#### Reported view

in EUR million	31 Dec 2017 reported	As % of the balance sheet total	31 Dec 2016 reported	As % of the balance sheet total
<b>Current assets</b>	<b>1,226.3</b>	<b>16.1</b>	<b>1,438.9</b>	<b>18.1</b>
Property, plant and equipment	2,627.9	34.4	2,550.8	32.1
Goodwill	1,276.3	16.7	1,241.8	15.6
Intangible assets	2,075.9	27.2	2,321.4	29.2
Other assets	431.9	5.7	390.4	4.9
<b>Total assets</b>	<b>7,638.3</b>	<b>100.0</b>	<b>7,943.2</b>	<b>100.0</b>
<b>Current liabilities</b>	<b>1,243.7</b>	<b>16.3</b>	<b>1,847.8</b>	<b>23.3</b>
Long-term debt	2,533.6	33.2	2,303.5	29.0
Employee benefits	196.8	2.6	206.3	2.6
Langfristige Rückstellungen	646.9	8.5	731.8	9.2
Other long-term liabilities	79.9	1.0	83.1	1.0
Stockholders' equity	2,937.4	38.5	2,770.7	34.9
<b>Total liabilities and stockholders' equity</b>	<b>7,638.3</b>	<b>100.0</b>	<b>7,943.2</b>	<b>100.0</b>

## Net assets and financial position

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

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

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

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

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

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

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

## Net debt

### Reported view

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

## Net debt

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

## Cash flow

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

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

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

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

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

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

## Cash flow

### Reported view

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

## Capital expenditures<sup>1)</sup>

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

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

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

## Segment analysis

### Segment Austria

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

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

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

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

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

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

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

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

## Key performance indicators Austria

Proforma view (= Reported view)

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

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

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

In 2017, total costs and expenses in the Austrian segment rose by 2.2 % year-on-year. Adjusted for the positive one-off effects in total costs and expenses amounting to EUR 21.4 mn for the same period in the previous year as well as the restructuring expenses in 2016 and 2017, total costs and expenses increased by 2.4 % year-on-year. Cost of equipment,

interconnection expenses, attributable to increased volumes, and roaming costs in particular experienced an increase. These increases were partially offset by lower network maintenance and advertising costs. Cost of equipment rose primarily due to higher handset subsidies and higher quantities as well as increased costs for ICT equipment.

## Costs and expenses

Proforma view (= Reported view)

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

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

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

## Segment Bulgaria

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

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

### Key performance indicators Bulgaria

Proforma view (= Reported view)

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

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

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

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

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

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

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

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

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

## Segment Croatia

**The following analysis is based on proforma figures if not stated otherwise.<sup>1)</sup>**

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

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

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

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

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

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

## Key performance indicators Croatia

Proforma view

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

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

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

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

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

## Segment Belarus

The following analysis is based on proforma figures if not stated otherwise.<sup>1)</sup>

In Belarus, strong operational developments continued to face macroeconomic challenges, although there were some improvements and the GDP increased slightly by 0.7% in 2017 (IMF estimation; 2016: -2.6%). In this context, the government is maintaining its focus on stabilising inflation, which came in at 4.6% in 2017, and keeping in place the caps on certain

price increases. In the year under review, velcom continued with its consolidation strategy in the fixed-line business with the acquisition of Garant (Gomel). The company has been consolidated as of 1 August 2017. Since September 2017, after opening its own data centre, velcom has also been able to offer cloud services and digital products (Infrastructure as a Service, Platform as a Service). Moreover, inflation-linked price increases in the amount of 9% were implemented for the mobile business as of 12 April 2017. This followed a price increase in the fixed-line business as of 1 March 2017.

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

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

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

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

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

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

## Key performance indicators Belarus

Proforma view

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

Wireless indicators	2017 reported	2016 proforma	Change in %
Postpaid subscribers (in '000)	3,964.5	3,972.5	-0.2
Prepaid subscribers (in '000)	899.7	972.3	-7.5
Wireless subscribers (in '000)	4,864.2	4,944.9	-1.6
thereof mobile broadband subscribers (in '000)	303.2	391.6	-22.6
ARPU (in EUR)	4.7	4.1	13.7
Churn (%)	1.7%	1.6%	-
Market share	42.5%	43.2%	-
Penetration	120.5%	120.3%	-

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

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

## Key performance indicators Slovenia

Proforma view (= Reported view)

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

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

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

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

## Segment Slovenia

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

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

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

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

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

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

## Segment Republic of Serbia

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

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

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

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

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

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

### Key performance indicators Republic of Serbia

Proforma view (= Reported view)

Key financials in EUR million	2017 reported	2016 proforma	Change in %
Key financials	230.8	221.1	4.4
thereof wireless revenues	224.6	213.9	5.0
thereof service revenues	139.6	139.9	-0.2
thereof equipment revenues	76.4	69.8	9.5
EBITDA	38.4	38.8	-1.2
% of total revenues	16.6%	17.6%	-
Operating income	-6.8	-7.8	13.1
% of total revenues	-2.9%	-3.5%	-
<b>Wireless indicators</b>	<b>2017 reported</b>	<b>2016 proforma</b>	<b>Change in %</b>
Postpaid subscribers (in '000)	1,367.8	1,236.8	10.6
Prepaid subscribers (in '000)	814.9	908.5	-10.3
Wireless subscribers (in '000)	2,182.8	2,145.3	1.7
thereof mobile broadband subscribers (in '000)	140.2	98.1	42.9
ARPU (in EUR)	5.4	5.6	-3.8
Churn (%)	3.2%	3.3%	-
Market share	24.1%	22.4%	-
Penetration	128.6%	135.0%	-

## Segment Republic of Macedonia

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

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

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

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

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

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

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

### Key performance indicators Republic of Macedonia

Proforma view (= Reported view)

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

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

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

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

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

The following tables present all the proforma tables from the previous section on a reported as well as on a proforma basis. Additionally, the difference between reported and proforma values is also provided and stems from the M&A activities between the start of the comparison period and the end of the reporting period mentioned on page 6. Alternative performance measures are used to describe the operational performance. Further explanations are provided to give additional, useful and relevant detail on the company's performance.

### ARPL (reported)

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

#### ARPL-relevant revenues

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

#### Access lines

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

### ARPU (proforma)

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

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

### Free cash flow (reported)

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

## Belarus Key Financials in EUR and BYN

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

### Belarus Key Financials

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

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

## Presentation of proforma reconciliation

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

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

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

## Group summary

Key financials in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Total revenues	4,382.5	4,211.5	4.1	4,254.9	3.0	43.4
EBITDA	1,397.3	1,354.3	3.2	1,370.4	2.0	16.1
% of total revenues	31.9%	32.2%	-	32.2%	-	-
Operating income	443.9	486.7	-8.8	496.2	-10.5	9.5
<b>Costs and expenses</b> in EUR million	<b>2017 reported</b>	<b>2016 reported</b>	<b>% change</b>	<b>2016 proforma</b>	<b>% change proforma</b>	<b>Absolute change (proforma—reported)</b>
Cost of service	1,394.2	1,346.5	3.5	1,362.7	2.3	16.1
Cost of equipment	584.2	521.9	12.0	521.9	11.9	0.0
Selling, general & administrative expenses	994.9	986.1	0.9	997.2	-0.2	11.1
Others	11.8	2.7	n. m.	2.7	n. m.	0.0
<b>Total costs and expenses</b>	<b>2,985.1</b>	<b>2,857.2</b>	<b>4.5</b>	<b>2,884.5</b>	<b>3.5</b>	<b>27.3</b>
thereof employee costs	793.9	787.1	0.9	796.6	-0.3	9.6
thereof restructuring charges	-18.2	7.2	n. m.	7.2	n. m.	0.0
Impairment charges	0.0	2.3	n. a.	2.3	n. a.	0.0
Depreciation and amortisation	953.4	865.3	10.2	871.9	9.4	6.6

## Segment Croatia

Key financials in EUR million	2017 reported	2016 reported	% change	2016 proforma	% change proforma	Absolute change (proforma—reported)
Total revenues	434.9	398.3	9.2	423.9	2.6	25.6
thereof wireless revenues	313.3	307.9	1.8	308.0	1.7	0.1
thereof service revenues	258.8	249.9	3.6	249.8	3.6	-0.1
thereof equipment revenues	48.2	51.2	-5.8	51.2	-5.7	0.0
thereof fixed-line and other revenues	121.6	90.5	34.4	116.0	4.9	25.5
EBITDA	108.0	88.3	22.4	98.6	9.6	10.3
% of total revenues	24.8%	22.2%	-	23.2%	-	-
Operating income	12.4	9.4	32.1	15.0	-17.2	5.6
% of total revenues	2.9%	2.4%	-	3.5%	-	-
<b>Wireline indicators</b> in EUR million	<b>2017 reported</b>	<b>2016 reported</b>	<b>% change</b>	<b>2016 proforma</b>	<b>% change proforma</b>	<b>Absolute change (proforma—reported)</b>
RGUs (in '000)	654.1	620.1	5.5	645.8	1.3	25.7
thereof fixed-line broadband RGUs	250.0	234.4	6.7	248.4	0.6	14.0

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

## Segment Belarus

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

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

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

## Revenues

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

## EBITDA

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

## Depreciation & amortisation

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

## EBIT

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

## Capital expenditures<sup>1)</sup>

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

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

## Capital expenditures—tangible

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

## Capital expenditures – intangible

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

## Consolidated non-financial statement

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

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

### Shareholder structure and capital disclosures

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

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

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

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

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

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

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

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

As long as ÖBIB holds 25 % plus one share or more of the share capital of Telekom Austria Aktiengesellschaft, ÖBIB shall have the following rights of codetermination in accordance with the voting rights agreement: the right to veto capital increases of Telekom Austria Aktiengesellschaft and its subsidiaries, the issue of certain convertible instruments, the appointment of the auditor of the financial statements, related party transactions, the relocation of the registered office of the company and material business functions, including research and development, the disposal of the company's core business, and changes to the name of Telekom Austria Aktiengesellschaft and the brands of Telekom Austria Aktiengesellschaft, among other things. ÖBIB shall also be granted the blocking minority rights accruing by law to a minority shareholder with an equity

interest of 25 % plus one share. ÖBIB's veto rights in connection with capital increases and the issue of certain convertible instruments are also set out in the Articles of Association of the company. If ÖBIB's equity interest falls below 20 % but remains above 10 %, ÖBIB shall retain certain veto rights. The voting rights agreement shall expire automatically if the equity interest held by one of the parties falls below 10 %.

## Changes to the Management Board and the Supervisory Board

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

## Cash use policy

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

### Telekom Austria Aktiengesellschaft: members of the Supervisory Board

Name (year of birth)	Date of first appointment	End of current term of office/leaving date
Alejandro Cantú Jiménez (1972)	14.08.2014	2019 <sup>2)</sup>
Karin Exner-Wöhrer (1971)	27.05.2015	2020 <sup>3)</sup>
Carlos García Moreno Elizondo, first Deputy Chairman (1957)	14.08.2014	2018 <sup>1)</sup>
Peter Hagen (1959)	25.05.2016	2019 <sup>2)</sup>
Carlos M. Jarque (1954)	14.08.2014	2018 <sup>1)</sup>
Peter F. Kollmann (1962)	20.09.2017	2021 <sup>4)</sup>
Reinhard Kraxner (1970)	14.08.2014	2018 <sup>1)</sup>
Ronny Pecik (1962)	23.05.2012	09.06.2017
Stefan Pinter (1978)	14.08.2014	2018 <sup>1)</sup>
Wolfgang Ruttenstorfer, Chairman (1950)	27.05.2010 to 14.08.2014, reappointed on 27.05.2015	2020 <sup>3)</sup>
Oscar Von Hauske Solís (1957)	23.10.2012	2018 <sup>1)</sup>

#### 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 Kehrner (1962)	27.10.2010

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

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

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

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

## Risk management

### Principles and methods

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

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

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

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

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

### Risks

#### 1. Market and strategic risks

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

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

#### 2. Compliance risks

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

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

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

### 3. Physical risks

#### Technical and topographical risks

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

#### Environmental risks

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

### 4. Cyber risks

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

Essential elements in managing cyber risks are continuous assessments and software updates to the infrastructure to be protected as well as employee training. The A1 Telekom Austria

Security Committee is made up of highly qualified security experts from all countries of the A1 Telekom Austria Group and regularly exchanges information about the latest local, regional and global cyber risks and cyber attacks. This working group also discusses and coordinates cross-country protection measures in critical situations.

### 5. Operational risks

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

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

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

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

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

## 6. Financial risks

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

### Investment risks

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

## 7. Political, legal and regulatory risks

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

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

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

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

## Internal control system for financial reporting

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

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

## Outlook

### A1 Telekom Austria Group outlook for the full year 2018

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

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

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

Both in Austria and in the CEE markets, the competitive environment in mobile markets is anticipated to continue, while the demand for fixed-line services is expected to remain a positive driver across all markets. In the CEE segments, operational results are expected to benefit increasingly from measures taken in the past as well as from the macroeconomic improvements with GDP growth forecasted in all markets (see page 1).

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

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

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

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

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

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

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

Vienna, 30 January 2018

The Management Board



Alejandro Plater, CEO & COO  
A1 Telekom Austria Group



Siegfried Mayrhofer, CFO  
A1 Telekom Austria Group