

# Consolidated Financial Statements 2018

Telekom Austria Aktiengesellschaft

TELEKOM AUSTRIA AG – Consolidated Statements of Comprehensive Income	3
TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position	4
TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows	5
TELEKOM AUSTRIA AG – Consolidated Statements of Changes in Stockholders' Equity	6
TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements	8
(1) Segment Reporting	8
(2) The Company	11
(3) Basis of Presentation	11
(4) Use of Estimates	18
(5) Revenues	19
(6) Cost and Expenses	21
(7) Financial Result	22
(8) Earnings per Share	23
(9) Cash and Cash Equivalents	24
(10) Accounts Receivable: Subscribers, Distributors and Other, Net	24
(11) Related Party Transactions	24
(12) Inventories	25
(13) Other Current Assets	25
(14) Contract Assets	27
(15) Property, Plant and Equipment	27
(16) Intangibles	29
(17) Goodwill	32
(18) Investments in Associates	35
(19) Investments	36
(20) Other Non-current Assets	36
(21) Short-term Debt and Current Portion of Long-term Debt	37
(22) Accounts Payable	37
(23) Accrued Liabilities and Current Provisions, Asset Retirement Obligation and Restructuring	38
(24) Contract Liabilities and Current Deferred Income	40
(25) Long-term Debt	41
(26) Deferred Revenues and Other Non-current Liabilities	42
(27) Employee Benefits	42
(28) Stockholders' Equity	46
(29) Income Taxes	48
(30) Leases	51
(31) Share-based Compensation	52
(32) Cash Flow Statement	53
(33) Financial Instruments	54
(34) Companies and Business Combinations	61
(35) Commitments and Contingent Assets and Liabilities	64
(36) Remuneration Paid to the Management Board and Supervisory Board	64
(37) Employees	64
(38) Subsequent Events	64
(39) Release for Publication	65

The Consolidated Financial Statements are a translation from the original German version, which are the decisive versions in all cases.  
The Consolidated Financial Statements 2018 are audited but not yet approved by the Supervisory Board.

## TELEKOM AUSTRIA AG – Consolidated Statements of Comprehensive Income

in TEUR	Notes	2018	2017
Service revenues (incl. other operating income)		3,772,765	3,878,051
Equipment revenues		662,635	504,432
<b>Total revenues (incl. other operating income)</b>	<b>(5)</b>	<b>4,435,401</b>	<b>4,382,483</b>
Cost of service		-1,395,625	-1,394,198
Cost of equipment		-627,941	-584,243
Selling, general & administrative expenses		-1,007,027	-994,910
Other expenses		-13,930	-11,784
<b>Total cost and expenses</b>	<b>(6)</b>	<b>-3,044,524</b>	<b>-2,985,135</b>
<b>Earnings before interest, tax, depreciation and amortization - EBITDA</b>		<b>1,390,877</b>	<b>1,397,347</b>
Depreciation and amortization	(15) (16)	-956,518	-953,435
<b>Operating income - EBIT</b>		<b>434,360</b>	<b>443,912</b>
Interest income		5,382	14,329
Interest expense		-86,866	-95,274
Interest on employee benefits and restructuring and other financial items, net		-14,754	-11,220
Foreign currency exchange differences, net		5,145	-2,594
Equity interest in net income of associated companies		-768	-678
<b>Financial result</b>	<b>(7)</b>	<b>-91,861</b>	<b>-95,437</b>
<b>Earnings before income tax - EBT</b>		<b>342,499</b>	<b>348,474</b>
Income tax	(29)	-98,793	-3,006
<b>Net result</b>		<b>243,706</b>	<b>345,468</b>
Attributable to:			
Equity holders of the parent		241,079	319,151
Non-controlling interests	(34)	408	1,005
Hybrid capital owners	(28)	2,219	25,313
<b>Basic and diluted earnings per share attributable to equity holders of the parent in Euro</b>	<b>(8)</b>	<b>0.36</b>	<b>0.48</b>
<b>Other comprehensive income items:</b>			
<b>Items that may be reclassified to profit or loss:</b>			
Effect of translation of foreign entities	(3) (28)	-10,340	-32,450
Realized result on hedging activities, net of tax	(33)	4,380	4,380
Unrealized result on debt instruments at fair value, net of tax	(19)	-7	0
Realized result on debt instruments at fair value, net of tax	(7)	30	0
Unrealized result on securities available-for-sale, net of tax	(19)	0	198
Realized result on securities available-for-sale, net of tax	(7)	0	-33
<b>Items that will not be reclassified to profit or loss:</b>			
Remeasurement of defined benefit obligations, net of tax	(27)	-2,180	8,181
<b>Total other comprehensive income (loss)</b>		<b>-8,119</b>	<b>-19,724</b>
<b>Total comprehensive income (loss)</b>		<b>235,587</b>	<b>325,744</b>
Attributable to:			
Equity holders of the parent		232,960	299,424
Non-controlling interests	(34)	408	1,008
Hybrid capital owners	(28)	2,219	25,313

See accompanying Notes to the Consolidated Financial Statements.

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

As a result of the application of the modified retrospective method for IFRS 15 and IFRS 9, the comparative figures for 2017 have not been restated.

TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

in TEUR	Notes	December 31, 2018	January 1, 2018	December 31, 2017
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	(9)	63,631	202,390	202,390
Accounts receivable: Subscribers, distributors and other, net	(10)	830,375	708,307	679,292
Receivables due from related parties	(11)	1,382	944	944
Inventories, net	(12)	131,171	102,401	87,442
Income tax receivable	(29)	2,609	2,807	2,807
Other current assets, net	(13)	153,140	140,599	253,376
Contract assets	(14)	141,114	145,639	0
<b>Total current assets</b>		<b>1,323,422</b>	<b>1,303,087</b>	<b>1,226,251</b>
<b>Non-current assets</b>				
Property, plant and equipment, net	(15)	2,716,084	2,627,919	2,627,919
Intangibles, net	(16)	1,782,681	2,075,878	2,075,878
Goodwill	(17)	1,277,910	1,276,342	1,276,342
Investments in associated companies	(18)	33,188	33,971	33,971
Long-term investments	(19)	11,475	13,385	12,891
Deferred income tax assets	(29)	245,513	325,375	327,077
Other non-current assets, net	(20)	17,809	10,112	57,947
<b>Total non-current assets</b>		<b>6,084,660</b>	<b>6,362,981</b>	<b>6,412,026</b>
<b>TOTAL ASSETS</b>		<b>7,408,082</b>	<b>7,666,069</b>	<b>7,638,277</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Short-term debt and current portion of long-term debt	(21)	-245,257	-566	-566
Accounts payable	(22)	-937,898	-784,243	-784,243
Accrued liabilities and current provisions	(23)	-233,738	-246,167	-265,855
Income tax payable	(29)	-27,078	-35,935	-35,935
Payables due to related parties	(11)	-528	-554	-554
Contract liabilities	(24)	-160,160	-161,595	0
Deferred revenues	(24)	0	0	-156,570
<b>Total current liabilities</b>		<b>-1,604,659</b>	<b>-1,229,059</b>	<b>-1,243,722</b>
<b>Non-current liabilities</b>				
Long-term debt	(25)	-2,536,792	-2,533,607	-2,533,607
Deferred income tax liabilities	(29)	-14,992	-51,024	-41,619
Deferred revenues and other non-current liabilities	(26)	-22,580	-28,474	-38,270
Asset retirement obligation and restructuring	(23)	-575,956	-646,852	-646,852
Employee benefits	(27)	-203,654	-196,842	-196,842
<b>Total non-current liabilities</b>		<b>-3,353,974</b>	<b>-3,456,799</b>	<b>-3,457,190</b>
<b>Stockholders' equity</b>				
Capital stock		-1,449,275	-1,449,275	-1,449,275
Treasury shares		7,803	7,803	7,803
Additional paid-in capital		-1,100,148	-1,100,148	-1,100,148
Hybrid capital		0	-591,186	-591,186
Retained earnings		-603,461	-534,828	-491,948
Other comprehensive income (loss) items		698,286	690,171	690,137
Equity attributable to equity holders of the parent	(28)	-2,446,794	-2,977,462	-2,934,617
Non-controlling interests		-2,655	-2,748	-2,748
<b>Total stockholders' equity</b>		<b>-2,449,449</b>	<b>-2,980,210</b>	<b>-2,937,365</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>-7,408,082</b>	<b>-7,666,069</b>	<b>-7,638,277</b>

See accompanying Notes to the Consolidated Financial Statements.

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

As a result of the application of the modified retrospective method for IFRS 15 and IFRS 9, the comparative figures for 2017 have not been restated.

## TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows

in TEUR	Notes	2018	2017
Earnings before income tax - EBT		342,499	348,474
<b>Items not requiring the use of cash and other reconciliation:</b>			
Depreciation	(15)	500,146	532,354
Amortization of intangible assets	(16)	456,371	421,082
Result from measurement of investments	(7)	107	0
Equity interest in net income of associated companies	(18)	768	678
Result on sale of investments	(7)	39	-76
Result on sale of property, plant and equipment	(5) (6)	4,871	5,684
Net period cost of labor obligations and restructuring	(7) (23) (27)	39,350	-5,511
Foreign currency exchange differences, net	(7)	-5,145	2,594
Interest income	(7)	-5,382	-14,329
Interest expense	(7)	94,635	99,100
Other adjustments		-4,860	-10,807
<b>Changes in financial positions:</b>			
Accounts receivable: Subscribers, distributors and other, net	(10)	-121,615	-40,049
Prepaid expenses	(13)	6,352	6,696
Due from related parties	(11)	-438	-19
Inventories	(12)	-29,096	-5,919
Other assets	(13) (20)	-3,869	-15,772
Contract assets	(14)	4,836	0
Employee benefits and restructuring	(23) (27)	-101,288	-108,450
Accounts payable and accrued liabilities	(22) (23)	113,841	-264
Due to related parties	(11)	-26	-5,864
Contract liabilities	(24)	-1,484	0
Deferred revenues	(24) (26)	0	-6,629
<b>Others:</b>			
Interest received	(7)	5,423	14,329
Income taxes paid	(29)	-63,699	-42,491
<b>Net cash flow from operating activities</b>		<b>1,232,337</b>	<b>1,174,810</b>
Capital expenditures paid	(32)	-771,459	-705,422
Dividends received from associates	(18)	771	-0
Proceeds from sale of plant, property and equipment	(15)	7,520	15,141
Purchase of investments	(19)	-231	-45
Proceeds from sale of investment	(19)	1,921	2,620
Acquisition of businesses, net of cash acquired	(34)	-3,727	-86,731
Sale of shares of associated companies	(18) (34)	127	4,052
<b>Net cash flow from investing activities</b>		<b>-765,078</b>	<b>-770,386</b>
Long-term debt obtained	(25) (32)	0	248,762
Repayments of long-term debt	(25) (32)	0	-522,000
Interest paid	(7)	-84,243	-99,841
Change in short-term debt	(21) (32)	7,877	1,857
Dividends paid	(28)	-167,341	-166,885
Issuance of short-term debt		240,000	0
Redemption of hybrid bond	(28)	-600,000	0
Acquisition of non-controlling interest	(34)	-105	-1,235
Deferred consideration paid for business combinations	(34)	-1,200	-120,000
<b>Net cash flow from financing activities</b>		<b>-605,012</b>	<b>-659,342</b>
Adjustment to cash flows due to exchange rate fluctuations, net	(3)	-1,006	-152
<b>Net change in cash and cash equivalents</b>		<b>-138,759</b>	<b>-255,070</b>
Cash and cash equivalents beginning of period	(9)	202,390	457,460
Cash and cash equivalents end of period	(9)	63,631	202,390

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

As a result of the application of the modified retrospective method for IFRS 15 and IFRS 9, the comparative figures for 2017 have not been restated.

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

in TEUR	Common stock Par value	Treasury shares at cost	Additional paid-in capital	Hybrid capital	Retained earnings
<b>At January 1, 2017</b>	1,449,275	-7,803	1,100,148	591,186	306,338
Net result	0	0	0	0	344,464
Other comprehensive income (loss)	0	0	0	0	0
<b>Total comprehensive income</b>	0	0	0	0	344,464
Distribution of dividends	0	0	0	0	-158,131
Change in reporting entities	0	0	0	0	-722
<b>At December 31, 2017</b>	1,449,275	-7,803	1,100,148	591,186	491,948
Impact of change in accounting policy	0	0	0	0	42,879
<b>At January 1, 2018</b>	1,449,275	-7,803	1,100,148	591,186	534,828
Net result	0	0	0	0	243,298
Other comprehensive income (loss)	0	0	0	0	0
<b>Total comprehensive income</b>	0	0	0	0	243,298
Distribution of dividends	0	0	0	0	-165,827
Redemption of hybrid capital	0	0	0	-591,186	-8,814
Addition from acquisition	0	0	0	0	0
Acquisition of non-controlling interests	0	0	0	0	-24
<b>At December 31, 2018</b>	1,449,275	-7,803	1,100,148	0	603,461

In 2017, the measurement of debt instruments includes the available-for-sale reserve (see Notes (19) and (3)).

For changes in accounting policies, see Note (3).

See accompanying Notes to the Consolidated Financial Statements.

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

The tax benefit resulting from the accrued interest attributable to hybrid capital holders is included in the distribution of dividends (see Note (28)).

In the change in reporting entities in 2017, non-controlling interests related to acquisitions as well as acquisitions made within the business year are netted.

## Consolidated Financial Statements 2018

Remeasurement of defined benefit plans	Measurement of debt instruments	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
-37,336	-221	-28,468	-604,384	2,768,734	1,993	2,770,727
0	0	0	0	344,464	1,005	345,468
8,181	165	4,380	-32,454	-19,727	3	-19,724
8,181	165	4,380	-32,454	324,736	1,008	325,744
0	0	0	0	-158,131	-318	-158,449
0	0	0	0	-722	65	-657
-29,155	-56	-24,088	-636,837	2,934,617	2,748	2,937,365
0	-34	0	0	42,845	0	42,845
-29,155	-90	-24,088	-636,837	2,977,462	2,748	2,980,210
0	0	0	0	243,298	408	243,706
-2,180	22	4,380	-10,337	-8,115	-3	-8,119
-2,180	22	4,380	-10,337	235,183	404	235,587
0	0	0	0	-165,827	-774	-166,602
0	0	0	0	-600,000	0	-600,000
0	0	0	0	0	355	355
0	0	0	0	-24	-78	-102
-31,335	-68	-19,709	-647,175	2,446,794	2,655	2,449,449

TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements

(1) Segment Reporting

2018 (in TEUR) without application of IFRS 15	Austria	Bulgaria	Croatia	Belarus
External revenues	2,629,618	435,286	436,283	388,801
Intersegmental revenues	28,352	10,874	8,169	468
<b>Total revenues (incl. other operating income)</b>	<b>2,657,971</b>	<b>446,160</b>	<b>444,452</b>	<b>389,269</b>
Segment expenses	-1,752,277	-308,131	-330,326	-225,475
<b>EBITDA</b>	<b>905,693</b>	<b>138,029</b>	<b>114,126</b>	<b>163,794</b>
Depreciation and amortization	-431,751	-243,149	-106,488	-76,179
<b>Operating income - EBIT</b>	<b>473,942</b>	<b>-105,120</b>	<b>7,638</b>	<b>87,614</b>
Interest income	2,357	2,579	4,304	1,920
Interest expense	-22,850	-515	-7,115	-2,481
Other financial result	-5,979	-5,692	4,546	-1,636
Equity interest in net income of associated companies	127	0	0	0
<b>Earnings before income tax - EBT</b>	<b>447,596</b>	<b>-108,748</b>	<b>9,373</b>	<b>85,418</b>
Income taxes	-112,015	15,548	-2,610	-15,543
<b>Net result</b>	<b>335,580</b>	<b>-93,200</b>	<b>6,763</b>	<b>69,875</b>
EBITDA margin	34.1%	30.9%	25.7%	42.1%
Capital expenditures - intangible	79,876	34,139	17,087	13,040
Capital expenditures - tangible	389,473	52,364	70,699	36,655
<b>Total capital expenditures</b>	<b>469,349</b>	<b>86,502</b>	<b>87,786</b>	<b>49,695</b>
Assets by segment	4,969,389	752,519	664,110	379,731
Property, plant and equipment	1,790,177	228,982	260,687	189,847
Goodwill	708,212	242,691	127,762	13,703
Brand names and patents	158,351	7,571	0	21,833
Licenses and rights of use	884,604	42,487	51,450	19,894
Other intangible assets	182,927	47,495	62,015	24,034
Investments in associated companies	0	0	0	0
Liabilities by segment	-2,490,712	-144,462	-450,944	-104,076
2017 (in TEUR)	Austria	Bulgaria	Croatia	Belarus
External revenues	2,594,580	421,001	424,222	388,757
Intersegmental revenues	27,731	10,206	10,669	1,698
<b>Total revenues (incl. other operating income)</b>	<b>2,622,311</b>	<b>431,207</b>	<b>434,891</b>	<b>390,456</b>
Segment expenses	-1,708,079	-301,060	-326,871	-209,187
<b>EBITDA</b>	<b>914,232</b>	<b>130,147</b>	<b>108,020</b>	<b>181,269</b>
Depreciation and amortization	-472,171	-215,717	-95,587	-58,212
<b>Operating income - EBIT</b>	<b>442,061</b>	<b>-85,571</b>	<b>12,433</b>	<b>123,057</b>
Interest income	2,244	3,178	5,123	441
Interest expense	-20,611	-631	-9,358	-3,018
Other financial result	-9,153	-3,972	1,156	-4,949
Equity interest in net income of associated companies	-277	0	0	0
<b>Earnings before income tax - EBT</b>	<b>414,264</b>	<b>-86,995</b>	<b>9,355</b>	<b>115,531</b>
Income taxes	-100,123	10,598	-1,835	-19,741
<b>Net result</b>	<b>314,141</b>	<b>-76,397</b>	<b>7,520</b>	<b>95,790</b>
EBITDA margin	34.9%	30.2%	24.8%	46.4%
Capital expenditures - intangible	74,341	27,468	15,431	9,135
Capital expenditures - tangible	361,194	53,787	69,312	37,927
<b>Total capital expenditures</b>	<b>435,536</b>	<b>81,255</b>	<b>84,742</b>	<b>47,062</b>
Assets by segment	4,903,251	840,842	676,234	393,977
Property, plant and equipment	1,705,260	236,142	248,295	191,795
Goodwill	708,211	242,691	126,041	14,146
Brand names and patents	158,351	144,017	19,431	54,673
Licenses and rights of use	950,634	45,249	54,217	23,525
Other intangible assets	175,203	59,563	65,697	24,163
Investments in associated companies	0	0	0	0
Liabilities by segment	-2,441,252	-138,719	-472,477	-100,032

The EBITDA margin is calculated by dividing EBITDA by total revenues (including other operating income).

Additions to assets do not include additions related to ARO, see Notes (15) and (16).

“Without application of IFRS 15” signifies reported according to IAS 18 as in the previous year.



## Consolidated Financial Statements 2018

Slovenia	Serbia	Macedonia	Corporate & Other	Eliminations	Consolidated
209,460	242,443	117,616	6,904	0	4,466,412
4,593	6,799	1,547	5,604	-66,405	0
<b>214,053</b>	<b>249,242</b>	<b>119,163</b>	<b>12,507</b>	<b>-66,405</b>	<b>4,466,412</b>
-175,956	-202,232	-83,797	-68,200	60,581	-3,085,814
<b>38,098</b>	<b>47,009</b>	<b>35,366</b>	<b>-55,693</b>	<b>-5,824</b>	<b>1,380,598</b>
-29,210	-42,933	-26,048	-1,608	850	-956,518
<b>8,888</b>	<b>4,077</b>	<b>9,317</b>	<b>-57,301</b>	<b>-4,974</b>	<b>424,081</b>
2,313	1,534	294	33,535	-33,310	15,524
-479	-1,175	-1,280	-84,292	33,321	-86,866
-141	243	46	379,991	-380,987	-9,609
0	0	0	-895	0	-768
<b>10,580</b>	<b>4,679</b>	<b>8,378</b>	<b>271,037</b>	<b>-385,950</b>	<b>342,362</b>
-1,200	-142	-1,077	16,225	1,147	-99,668
<b>9,380</b>	<b>4,536</b>	<b>7,301</b>	<b>287,262</b>	<b>-384,803</b>	<b>242,694</b>
17.8%	18.9%	29.7%	n.a.	n.a.	30.9%
9,544	8,787	2,214	2,368	-6,309	160,747
17,932	25,318	16,989	4,192	-3,389	610,232
<b>27,476</b>	<b>34,105</b>	<b>19,203</b>	<b>6,560</b>	<b>-9,698</b>	<b>770,979</b>
434,768	374,123	185,662	7,687,801	-8,059,581	7,388,521
69,829	84,185	82,328	4,638	5,412	2,716,084
147,632	0	30,060	131,281	-123,430	1,277,910
910	4,536	722	1,981	0	195,904
68,730	127,927	24,298	0	-7,239	1,212,150
21,760	19,713	13,010	3,531	142	374,627
0	0	0	33,188	0	33,188
-69,338	-118,992	-62,520	-3,472,225	1,930,715	-4,982,555
Slovenia	Serbia	Macedonia	Corporate & Other	Eliminations	Consolidated
211,562	224,193	112,019	5,729	418	4,382,483
4,517	6,608	2,007	6,784	-70,219	0
<b>216,079</b>	<b>230,801</b>	<b>114,025</b>	<b>12,513</b>	<b>-69,801</b>	<b>4,382,483</b>
-175,514	-192,434	-83,966	-53,760	65,736	-2,985,135
40,565	38,368	30,059	-41,247	-4,065	1,397,347
-30,090	-45,131	-36,039	-429	-59	-953,435
10,475	-6,763	-5,980	-41,676	-4,124	443,912
2,273	801	242	36,580	-36,554	14,329
-1,306	-1,628	-1,391	-93,862	36,529	-95,274
1	3,220	653	715,234	-716,005	-13,814
0	0	0	-400	0	-678
11,444	-4,370	-6,477	615,876	-720,154	348,474
-907	-569	269	108,600	701	-3,006
<b>10,537</b>	<b>-4,939</b>	<b>-6,207</b>	<b>724,476</b>	<b>-719,453</b>	<b>345,468</b>
18.8%	16.6%	26.4%	n.a.	n.a.	31.9%
22,548	9,113	3,454	1,576	-5,494	157,572
19,255	25,998	17,861	1,129	-7,169	579,294
<b>41,803</b>	<b>35,111</b>	<b>21,316</b>	<b>2,705</b>	<b>-12,663</b>	<b>736,866</b>
432,967	375,932	190,198	7,910,058	-8,085,181	7,638,277
70,180	82,177	81,943	1,563	10,563	2,627,919
147,632	0	30,060	131,025	-123,465	1,276,342
990	4,873	6,429	1,907	0	390,671
73,305	141,633	26,544	0	-4,116	1,310,990
18,390	16,742	12,965	1,520	-28	374,217
0	0	0	33,971	0	33,971
-73,584	-125,992	-74,359	-3,239,035	1,964,537	-4,700,912

## Consolidated Financial Statements 2018

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

The Management Board of A1 Telekom Austria Group, which regularly meets in Management Board meetings, acts as the chief operating decision maker. Members of the Management Board are the Group CEO, the Group COO and the Group CFO (see Note (36)). The Management Board focuses on revenue, EBITDA and capital expenditure (CAPEX). Revenue and EBITDA are managed without the application of IFRS 15, i.e. according to IAS 18 (see Note (3)).

The following table provides a reconciliation of the total reportable segments' revenues and results ("without application of IFRS 15") to A1 Telekom Austria Group's total consolidated revenues and results ("as reported IFRS 15"):

2018 (in TEUR)	Without application of IFRS 15	Adjustments	As reported IFRS 15
External revenues	4,466,412	-31,011	4,435,401
<b>Total revenues (incl. other operating income)</b>	<b>4,466,412</b>	<b>-31,011</b>	<b>4,435,401</b>
Segment expenses	-3,085,814	41,290	-3,044,524
<b>EBITDA</b>	<b>1,380,598</b>	<b>10,279</b>	<b>1,390,877</b>
Depreciation and amortization	-956,518	0	-956,518
<b>Operating income - EBIT</b>	<b>424,081</b>	<b>10,279</b>	<b>434,360</b>
Interest income	15,524	-10,142	5,382
Interest expense	-86,866	0	-86,866
Other financial result	-9,609	0	-9,609
Equity interest in net income of associated companies	-768	0	-768
<b>Earnings before income tax - EBT</b>	<b>342,362</b>	<b>137</b>	<b>342,499</b>
Income taxes	-99,668	875	-98,793
<b>Net result</b>	<b>242,694</b>	<b>1,012</b>	<b>243,706</b>
Assets by segment	7,388,521	19,561	7,408,082
Liabilities by segment	-4,982,555	23,922	-4,958,633

The accounting policies of the segments are the same as those of A1 Telekom Austria Group without application of IFRS 15, i.e. according to IAS 18 (see Note (3)). The segments offer the services and products disclosed in Note (5), for brand names, see Note (16).

Segment revenues, segment expenses and segment results include deliveries and services between operating segments. Such deliveries and services are accounted for at transfer prices that are constantly monitored and documented to ensure that pricing is at arm's length. These intersegmental transactions are eliminated in consolidation.

The column Corporate & Other comprises mainly holding companies, the group financing company as well as A1 Digital, which focuses its business activities on the CEE region and Germany and which will be further expanded internationally.

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

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

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

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

## (2) The Company

Telekom Austria Aktiengesellschaft (Telekom Austria AG) is incorporated as a joint stock corporation under the laws of the Republic of Austria and is located in Austria, Lassallestrasse 9, 1020 Vienna. Telekom Austria AG and its subsidiaries (A1 Telekom Austria Group) provide the services and products listed in revenues (Note (5)) in Austria, Bulgaria, Croatia, Belarus, Slovenia, Serbia and Macedonia.

The ultimate parent company of A1 Telekom Austria Group is América Móvil, S.A.B. de C.V. (América Móvil), which is located in Mexico. The Federal Republic of Austria, through Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB), is the second significant shareholder of A1 Telekom Austria Group. América Móvil's and ÖBIB's stakes in A1 Telekom Austria Group are disclosed in Note (28).

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

## (3) Basis of Presentation

### Functional currency

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

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

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

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

	Exchange rates at December 31		Average exchange rates for the year	
	2018	2017	2018	2017
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.4125	7.5137	7.4184	7.4635
Czech Koruna (CZK)	25.7240	25.5350	25.6444	26.3345
Hungarian Forint (HUF)	320.9800	310.3300	318.8321	309.2175
Serbian Dinar (CSD)	118.1946	118.4727	118.2737	121.4206
Swiss Franc (CHF)	1.1269	1.1702	1.1551	1.1112
Rumanian Leu (RON)	4.6635	4.6585	4.6542	4.5683
Turkish Lira (TRY)	6.0588	4.5464	5.6996	4.1186
Macedonian Denar (MKD)	61.4950	61.4950	61.5121	61.5748
Belarusian Rouble (BYN)	2.4734	2.3553	2.4055	2.1816
US Dollar (USD)	1.1450	1.1993	1.1817	1.1291
Great Britain Pound (GBP)	0.8945	0.8872	0.8846	0.8765
Bosnian convertible mark (BAM)	1.9558	1.9558	1.9558	1.9558
Polish Zloty (PLN)	4.3014	4.1770	4.2605	4.2577

### Accounting

A1 Telekom Austria Group prepared the Consolidated Financial Statements as of December 31, 2018 in compliance with the International Financial Reporting Standards (IFRS/IAS), issued by the International Accounting Standards Board (IASB), the interpretations of the IFRS Interpretations Committee (IFRIC) and the interpretation of the former Standards Interpretation Committee (SIC), effective as of December 31, 2018 and as endorsed by the European Union, as well as in accordance with the supplemental regulations of Section 245a of the Austrian Commercial Code (UGB).

**Significant accounting policies**

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

**Changes in accounting policies**

The following amendments to existing and new IFRS are effective as of January 1, 2018.

IFRS 15	Revenue from Contracts with Customers
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers - Clarifications
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
Several IFRSs	Annual Improvements 2014 - 2016
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRS 4	Amendments: Application of IFRS 9 with IFRS 4 Insurance Contracts
IAS 40	Transfers of Investment Property (Amendments to IAS 40)

**Impact of IFRS 15**

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

**Impact at January 1, 2018**

At January 1, 2018, A1 Telekom Austria Group initially applied IFRS 15, electing the modified retrospective approach for the initial application in accordance with the transition guidance. Accordingly, the comparative figures for 2017 were not adjusted, i.e. they correspond to the figures published according to IAS 18 and the respective interpretations.

The following table shows the quantitative effects of the initial application of IFRS 15 on the Consolidated Statements of Financial Position as of January 1, 2018 including detailed explanations (see columns a) to f)):

in TEUR at January 1, 2018	Total	a)	b)	c)	d)	e)	f)
Accounts receivable: Subscribers, distributors and other, net (10)	29,015	155,852	-17,550			-109,288	
Inventories (12)	14,959		14,959			0	
Contract assets (14)	145,639					145,639	
Contract cost (13)	42,316				42,316	0	
Prepaid expenses (13)	-35,562		-35,562			0	
Other assets (13)	-17,565					-17,565	
Installment sales (13) (20)	-149,802	-149,802				0	
Contract liabilities (24)	-161,595			-150,421		-11,174	
Accrued liabilities (23)	19,688			18,483		1,205	
Deferred revenues (24) (26)	166,366			131,938		34,428	
Deferred taxes (29)	-11,108					0	-11,108
<b>Stockholders' equity</b>	<b>-42,352</b>	<b>-6,050</b>	<b>38,152</b>	<b>0</b>	<b>-42,316</b>	<b>-43,246</b>	<b>11,108</b>

For references related to the Notes, see brackets.

The equity effect of the loss allowance of TEUR 2,277 (see "Impact of IFRS 9") is included in column e).

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

Starting 2018, this leads to an improvement in EBITDA, as installment sales revenues that were recognized previously at the present value with the interest component reported in the financial result shall now be recognized at their full amount in revenues (see table "Impact on the Consolidated Statement of Comprehensive Income"). In addition, starting 2018, the total amount of installment sales receivables is reported in accounts receivable: subscribers, distributors and other, net.

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

According to IAS 18, subsidies to dealers were recognized in prepaid expenses at the date of sale of mobile devices and expensed over the minimum contractual term. According to IFRS 15, these subsidies are treated as a reduction in revenue. Thus the prepaid expenses were derecognized and the effect was recognized directly in shareholders' equity at January 1, 2018.

Starting 2018, the classification of dealers as agents leads to a later recognition of equipment revenues effected via dealers. At the same time, the fact that subsidies are recognized as a reduction in revenue in 2018 will lead to a shift from expenses to equipment revenues (see table "Impact on the Consolidated Statement of Comprehensive Income").

- c) Provisions for discounts granted retrospectively on the basis of service revenue generated and deferred income are qualified as contract liabilities according to IFRS 15 and were reclassified accordingly.
- d) According to IAS 18, discounts and provisions granted to third parties and to employees were fully expensed. If these discounts and provisions are incremental costs of obtaining a customer contract, they are recognized as deferrals (contract costs) according to IFRS 15 and are expensed according to the expected duration of the underlying contract. The effect from the initial recognition of contract costs at January 1, 2018 was reported directly in shareholders' equity.

Starting 2018, this results in a later recognition of expense, yet there was no further significant impact on EBITDA in 2018 (see table "Impact on the Consolidated Statement of Comprehensive Income").

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

The application of the criteria for identifying performance obligations according to IFRS 15 resulted in a re-evaluation of performance obligations for fixed-line services. For mobile communication services, the allocation according to IFRS 15 results in a higher transaction price for mobile equipment and a lower transaction price for mobile services compared to the allocation according to IAS 18. The adjusted allocation of the transaction price has also insignificant effects on the amount of deferrals for customer loyalty programs. The effect of the re-evaluation of performance obligations for fixed-line services as well as, in accordance with IFRS 15, the effect of the allocation of the transaction price for multiple-element arrangements for mobile services and on deferrals for customer loyalty programs was recognized directly in shareholders' equity at January 1, 2018.

Starting 2018, the change in the allocation of transaction prices leads to a shift from service revenues to equipment revenues; the related effect on EBITDA is not significant. For fixed-line telephone services, the application of the criteria of IFRS 15 for identifying performance obligations results in a later revenue recognition in 2018, which did not have a significant impact (see table "Impact on the Consolidated Statement of Comprehensive Income").

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

## Consolidated Financial Statements 2018

### Impact on the period reported

The following tables summarize the effects of applying IFRS 15 on the Condensed Consolidated Financial Statements (items without any adjustments are summarized in "Other"):

#### Impact on the Consolidated Statement of Comprehensive Income

2018 (in TEUR)	As reported IFRS 15	Adjustments	Without application of IFRS 15
Service revenues (incl. other operating income)	3,772,765	147,398	3,920,163
Equipment revenues	662,635	-116,387	546,249
<b>Total revenues (incl. other operating income)</b>	<b>4,435,401</b>	<b>31,011</b>	<b>4,466,412</b>
Cost of service	-1,395,625	0	-1,395,625
Cost of equipment	-627,941	1,009	-626,932
Selling, general & administrative expenses	-1,007,027	-42,299	-1,049,326
Other expenses	-13,930	0	-13,930
<b>Total cost and expenses</b>	<b>-3,044,524</b>	<b>-41,290</b>	<b>-3,085,814</b>
<b>Earnings before interest, tax, depreciation and amortization - EBITDA</b>	<b>1,390,877</b>	<b>-10,279</b>	<b>1,380,598</b>
Interest income	5,382	10,142	15,524
Other	-1,053,760	0	-1,053,760
<b>Earnings before income tax - EBT</b>	<b>342,499</b>	<b>-137</b>	<b>342,362</b>
Income tax	-98,793	-875	-99,668
<b>Net result</b>	<b>243,706</b>	<b>-1,012</b>	<b>242,694</b>

#### Impact on the Condensed Consolidated Statements of Financial Position

in TEUR, at December 31, 2018	As reported IFRS 15	Adjustments	Without application of IFRS 15
Accounts receivable: Subscribers, distributors and other, net	830,375	-75,946	754,429
Inventories, net	131,171	-13,967	117,204
Other current assets, net	153,140	143,144	296,284
Contract assets	141,114	-141,114	0
Other	65,013	0	65,013
<b>Total current assets</b>	<b>1,323,422</b>	<b>-87,883</b>	<b>1,235,539</b>
Deferred income tax assets	245,513	4,846	250,359
Other non-current assets, net	17,809	63,476	81,285
Other	5,821,338	0	5,821,338
<b>Total non-current assets</b>	<b>6,084,660</b>	<b>68,322</b>	<b>6,152,982</b>
<b>TOTAL ASSETS</b>	<b>7,408,082</b>	<b>-19,561</b>	<b>7,388,521</b>
Accrued liabilities and current provisions	-233,738	-18,183	-251,921
Contract liabilities	-160,160	160,160	0
Deferred revenues	0	-162,135	-162,135
Other	-1,210,760	0	-1,210,760
<b>Total current liabilities</b>	<b>-1,604,659</b>	<b>-20,157</b>	<b>-1,624,816</b>
Deferred income tax liabilities	-14,992	5,419	-9,574
Deferred revenues and other non-current liabilities	-22,580	-9,184	-31,763
Other	-3,316,402	0	-3,316,402
<b>Total non-current liabilities</b>	<b>-3,353,974</b>	<b>-3,765</b>	<b>-3,357,739</b>
Retained earnings	-603,461	43,500	-559,960
Other comprehensive income (loss) items	698,286	-17	698,269
Other	-2,541,619	0	-2,541,619
<b>Total stockholders' equity</b>	<b>-2,449,449</b>	<b>43,483</b>	<b>-2,405,966</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>-7,408,082</b>	<b>19,561</b>	<b>-7,388,521</b>

Impact on the Condensed Consolidated Statements of Cash Flows

2018 (in TEUR)	As reported IFRS 15	Adjustments	Without application of IFRS 15
Earnings before income tax - EBT	342,499	-137	342,362
<b>Items not requiring the use of cash and other reconciliation:</b>			
Interest income	-5,382	-10,142	-15,524
Other	1,086,283	0	1,086,283
<b>Changes in financial positions:</b>			
Accounts receivable: Subscribers, distributors and other, net	-121,615	48,266	-73,349
Prepaid expenses	6,352	2,463	8,816
Inventories	-29,096	-992	-30,088
Other assets	-3,869	-49,646	-53,515
Contract assets	4,836	-4,836	0
Accounts payable and accrued liabilities	113,841	-1,505	112,336
Contract liabilities	-1,484	1,484	0
Deferred revenues	0	4,903	4,903
Interest received	5,423	10,142	15,565
Other	-165,451	0	-165,451
<b>Net cash flow from operating activities</b>	<b>1,232,337</b>	<b>0</b>	<b>1,232,337</b>

The adoption of IFRS 15 does not have an effect on cash flows from investing and financing activities.

Impact of IFRS 9

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

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

## Consolidated Financial Statements 2018

The following table shows the effects on the classification and the existing book values of financial assets according to IAS 39 in TEUR (there are no effects on financial liabilities):

Item	Classification IAS 39	Classification IFRS 9	Carrying amount at Dec. 31, 2017 IAS 39	Carrying amount at Jan. 1, 2018 IFRS 9
Cash and cash equivalents	Cash and cash equivalents	Financial assets at amortized cost	202,390	202,390
Accounts receivable: Subscribers, distributors and other	Loans and receivables	Financial assets at amortized cost	679,292	679,292
Receivables due from related parties	Loans and receivables	Financial assets at amortized cost	944	944
Other current financial assets	Loans and receivables	Financial assets at amortized cost	111,631	111,631
Other non-current financial assets	Loans and receivables	Financial assets at amortized cost	49,390	49,390
Long-term investments			12,891	13,385
thereof:				
		Debt instruments at fair value through other comprehensive income - mandatory		
Quoted bonds	Available-for-sale investments		3,563	3,563
		Equity instruments at fair value through profit or loss - mandatory		
Quoted equity instruments	Available-for-sale investments		1,798	1,798
		Debt instruments at fair value through profit or loss - mandatory		
Other long-term investments*	Available-for-sale investments		2,177	2,177
Fixed deposits	Available-for-sale investments	Financial assets at amortized cost	3,808	3,808
		Equity instruments at fair value through profit or loss - mandatory		
Unquoted equity instruments	Carried at cost		1,546	2,039

\*Solely payment of principal and interest ("SPPI") criterion not met

The loss allowance of accounts receivable trade is measured in accordance with the simplified approach of IFRS 9 at an amount equal to lifetime expected losses. Due to the good credit quality of the customers, the current measurement of accounts receivable according to the incurred loss method differs only insignificantly from the required method of lifetime expected credit losses. Thus the adoption of IFRS 9 does not have a significant impact on the Consolidated Financial Statements (see Note (33)). The application of the simplified approach for the calculation of lifetime expected credit losses on financial assets, accounts receivable: subscribers, distributors and other as well as contractual assets and contractual costs according to IFRS 9 leads to a reduction in shareholders' equity of TEUR 2,277 at January 1, 2018.

Allowance in TEUR	December 31, 2017	Adjustments	January 1, 2018
Financial assets and accounts receivable: Subscribers, distributors and other	236,108	-1,998	234,110
Contract assets	0	3,344	3,344
Contract cost	0	931	931
<b>Total</b>	<b>236,108</b>	<b>2,277</b>	<b>238,385</b>

The effect on shareholders' equity ("Adjustments") is included in column (e) of the table on IFRS 15.

As at December 31, 2017, A1 Telekom Austria Group invests only short-term with counterparties with investment grade rating, the calculation resulted in insignificant expected credit losses on all other financial assets (see Note (33)).

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

Compared to IAS 39, the application of IFRS 9 has an immaterial effect on the Consolidated Financial Statements 2018.



**Impact on Consolidated Shareholders' Equity**

The following tables summarize the effects of the initial application of IFRS 15 and IFRS 9 on consolidated shareholders' equity at January 1, 2018.

	Retained earnings	Measurement of debt instruments	Available-for-sale reserve	Total stockholders' equity
Reclassification available-for-sale to FVPL	34		-34	0
Reclassification available-for-sale to FVOCI		-90	90	0
Valuation financial instruments at cost to FVPL	493			493
Application of IFRS 15	42,352			42,352
<b>Impact of change in accounting policy</b>	<b>42,879</b>	<b>-90</b>	<b>56</b>	<b>42,845</b>

FVPL: at fair value through profit or loss, FVOCI: at fair value through other comprehensive income (see Note (19))

For details on the adoption of IFRS 15, see "Impact of IFRS 15 at January 1, 2018" table.

The effect of the loss allowance according to IFRS 9 on shareholders' equity amounting to TEUR 2,277 ("Adjustments") is included in the line "Application of IFRS 15".

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

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

		Effective *	Effective**
IFRS 16	Leases	January 1, 2019	January 1, 2019
IFRIC 23	Uncertainty over Tax Treatments	January 1, 2019	January 1, 2019
IFRS 9	Amendments: Prepayment Features with Negative Compensation	January 1, 2019	January 1, 2019
Several IFRSs	Annual Improvements 2015 - 2017	January 1, 2019	not endorsed
IAS 28	Amendments: Long-term Interests in Associates and Joint Ventures	January 1, 2019	not endorsed
IAS 19	Amendments: Plan Amendment, Curtailment or Settlement	January 1, 2019	not endorsed
IFRS 3	Amendments: Definition of a Business	January 1, 2020	not endorsed
IAS 1 and 8	Amendments: Definition of Material	January 1, 2020	not endorsed
Framework	Amendments: References to the Conceptual Framework	January 1, 2020	not endorsed
IFRS 17	Amendments: Application of IFRS 9 with IFRS 4 Insurance Contracts	January 1, 2021	not endorsed

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

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

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

**Impact of IFRS 16**

At January 1, 2019, A1 Telekom Austria Group initially applies IFRS 16, which replaces the former leasing standard IAS 17 as well as its respective interpretations. Under IFRS 16, lessors continue to classify into operating lease and finance lease as previously under IAS 17, while lessees will be required to introduce extensive modifications. The initial application of IFRS 16 is based on the modified retrospective approach, therefore the comparative figures for previous periods are not adjusted. The overall impact on net assets, financial position and results of operations of A1 Telekom Austria Group as well as other components of the Consolidated Financial Statements, which was analyzed in a group-wide project for the implementation of IFRS 16, is the following:

In the Consolidated Statement of Financial Position, assets are now recognized as follows: rights of use to leased assets in the amount of the future discounted payment obligation. The recognition exemptions for low-value assets and short-term leases will be elected for certain rights of use that are immaterial for business operations. The recognition exemptions will not be applied to base stations, technical sites and facilities as well as buildings and vehicles. For all contracts already classified as operating leasing, the right of use assets recognized are based on the future payment obligations discounted at the incremental borrowing rate of A1 Telekom Austria Group plus existing prepayments and other deferred direct costs. According to the current status of analysis of lease contracts, the initial adoption of IFRS 16 will result in lease obligations and right of use assets of approximately TEUR 948,000 at January 1, 2019. Retained earnings are not expected to change materially. The increase in total assets and total liabilities will reduce the equity ratio from 33% to 29%.

In the Statement of Comprehensive Income there will be a shift from rental and lease expenses, which are reported in EBITDA, to depreciation and interest expense by roughly TEUR 160,000. No significant impacts are expected for EBT.

In the Statement of Cash Flows, payments for operating leasing contracts were included in the cash flow from operating activities up to now. In future, these payments will essentially be reported in the cash flow from financing activities, broken down into redemption of lease liability and interest payment. Prepayments and other deferred direct costs, which are paid before delivery of the lease asset, are shown in the cash flow from investing activities.

Actual effects at January 1, 2019 may differ from the expected effect as the functionality of controls ensuring that the amounts recognized, which are calculated by IT systems, are in conformity with IFRS 16 has not been completely examined yet.

IFRS 16 will require estimates that affect the valuation of right-of-use assets as well as the lease liabilities. This will include the determination of contracts that fall under IFRS 16, lease terms, and the incremental borrowing rate used for discounting the future payment obligations. For lease contracts with an indefinite term, the length of the contract is estimated to be in line with the planning period of seven years to 15 years for certain leases related to fixed lines. The incremental borrowing rate will be derived from risk-free interest rates representing the related contract term adjusted for country, currency and entity risks.

#### (4) Use of Estimates

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

Management has made judgments in the process of applying A1 Telekom Austria Group's accounting policies. Additionally, at the reporting date, Management has made the following key assumptions concerning the future and has identified other key sources of estimation uncertainty that are subject to the risk of a material change in the carrying amounts of assets and liabilities in the next financial year. For all sensitivity analyses, the remaining parameters of the original calculation remain unchanged, thus no possible correlation effects are taken into account.

- a) Revenues: Changes in the allocation of the transaction prices of multi-element arrangements for goods and services as well as changes in the expected average contractual term may lead to a shift in timing of revenue recognized (see Note (5)).
- b) Employee benefit plans: The measurement of the various pension and other post-employment benefit plans as well as service awards is based on a method that uses various parameters, such as the expected discount rate, pension and salary increases, mortality rate and rate of employee turnover. Changes in these parameters could result in higher or lower expenses (see Note (27)).
- c) Impairments: The impairment test for goodwill, other intangible assets and property, plant and equipment is generally based upon discounted estimated future net cash flows from the continuing use and ultimate disposal of the assets. Changes in the discount rates used, in the development of revenues, in cost drivers as well as in capital expenditures could lead to impairments or, to the extent permitted, to reversals of impairments (see Note (17)). For more information on the carrying amounts of goodwill, other intangible assets and property, plant and equipment, see Notes (17), (16) and (15).
- d) The estimated useful lives of property, plant and equipment and intangible assets subject to depreciation and amortization represent the estimated periods during which the assets will be in use. With respect to changes in depreciation and amortization resulting from changes in the useful lives, see Note (15).
- e) Share-based compensation: Obligations under the long-term incentive program are measured based on the fair value, which depends on expected target achievement and the expected share price at vesting date. Compensation expense and liabilities could differ from the estimated amount as of the reporting date if the underlying parameters were to change (see Note (31)).
- f) Deferred taxes: In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all deferred tax assets will be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences will become deductible. If A1 Telekom Austria Group does not generate sufficient taxable income, deferred tax assets cannot be realized and therefore will not be recognized (see Note (29)).
- g) Restructuring (includes provisions for onerous contracts according to IAS 37 as well as provisions for social plans according to IAS 19): The provision is based on various parameters such as discount rate, salary increase and the probability of the acceptance of termination offers. Changes in these parameters could result in higher or lower expenses (see Note (23)).

## Consolidated Financial Statements 2018

- h) Allowances for financial assets and contract assets are based on the estimated probability of default. Deviation of actual customer behavior may result in higher or lower expenses (see Note (33)).
- i) Asset retirement obligation: The calculation of the provision is based on parameters such as estimated decommissioning costs, discount rate and inflation rate. Changes in these parameters may result in higher or lower provisions (see Note (23)).

### (5) Revenues

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

A1 Telekom Austria Group generates revenues from the sale of end-user terminal equipment as well as fixed-line services and mobile communication services to individuals, commercial and non-commercial organizations and other national and foreign carriers. Furthermore, A1 Telekom Austria Group offers innovative digital products, cloud and IoT services as well as mobile payment services.

Fixed-line services include access fees, domestic and long distance services including Internet services, fixed-to-mobile calls, international traffic, voice value-added services, interconnection, call center services, data and ICT solutions, television services, IPTV and smart home services.

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

The following table shows the disaggregated revenues per product line and segment:

2018 (in TEUR) as reported IFRS 15	Austria	Bulgaria	Croatia	Belarus	Slovenia	Serbia	Macedonia	Other*	Consolidated
Mobile service revenues	923,627	245,793	234,990	247,018	120,977	178,096	71,257	-18,176	2,003,582
Fixed-line service revenues	1,373,930	102,324	125,011	39,858	35,281	6,670	25,760	-31,595	1,677,239
<b>Service revenues</b>	<b>2,297,556</b>	<b>348,117</b>	<b>360,001</b>	<b>286,876</b>	<b>156,258</b>	<b>184,766</b>	<b>97,018</b>	<b>-49,771</b>	<b>3,680,820</b>
Mobile equipment revenues	250,260	85,909	61,639	85,654	45,889	71,007	20,145	7	620,510
Fixed-line equipment revenues	35,869	3,459	2,273	274	293	0	421	-464	42,125
<b>Equipment revenues</b>	<b>286,129</b>	<b>89,368</b>	<b>63,912</b>	<b>85,929</b>	<b>46,182</b>	<b>71,007</b>	<b>20,565</b>	<b>-457</b>	<b>662,635</b>
<b>Other operating income</b>	<b>53,791</b>	<b>7,623</b>	<b>5,996</b>	<b>18,107</b>	<b>5,732</b>	<b>2,973</b>	<b>1,393</b>	<b>-3,670</b>	<b>91,945</b>
<b>Total revenues (incl. OOI)</b>	<b>2,637,476</b>	<b>445,109</b>	<b>429,909</b>	<b>390,911</b>	<b>208,172</b>	<b>258,746</b>	<b>118,976</b>	<b>-53,898</b>	<b>4,435,401</b>

2017 (in TEUR) without application of IFRS 15	Austria	Bulgaria	Croatia	Belarus	Slovenia	Serbia	Macedonia	Other*	Consolidated
Mobile service revenues	1,006,174	267,027	258,824	273,078	132,919	139,639	80,624	-19,292	2,138,992
Fixed-line service revenues	1,359,366	91,990	120,860	30,631	35,001	6,189	26,002	-33,736	1,636,304
<b>Service revenues</b>	<b>2,365,540</b>	<b>359,017</b>	<b>379,684</b>	<b>303,709</b>	<b>167,920</b>	<b>145,828</b>	<b>106,626</b>	<b>-53,028</b>	<b>3,775,296</b>
Mobile equipment revenues	164,430	57,549	48,239	71,515	43,471	76,444	6,367	-786	467,229
Fixed-line equipment revenues	34,043	1,819	758	18	376	0	328	-139	37,203
<b>Equipment revenues</b>	<b>198,473</b>	<b>59,367</b>	<b>48,997</b>	<b>71,533</b>	<b>43,848</b>	<b>76,444</b>	<b>6,695</b>	<b>-924</b>	<b>504,432</b>
<b>Other operating income</b>	<b>58,298</b>	<b>12,822</b>	<b>6,210</b>	<b>15,214</b>	<b>4,312</b>	<b>8,529</b>	<b>704</b>	<b>-3,336</b>	<b>102,755</b>
<b>Total revenues (incl. OOI)</b>	<b>2,622,311</b>	<b>431,207</b>	<b>434,891</b>	<b>390,456</b>	<b>216,079</b>	<b>230,801</b>	<b>114,025</b>	<b>-57,288</b>	<b>4,382,483</b>

\*Other includes: Corporate & Other and Eliminations

The shift from service revenues to equipment revenues is substantially due to the adoption of IFRS 15 (see Note (3)).

## Consolidated Financial Statements 2018

The following table shows revenues from customer contracts and from other sources:

in TEUR	2018
Service revenues	3,652,699
Equipment revenues	662,635
<b>Total customer contract revenues</b>	<b>4,315,334</b>
Other service revenues	28,121
Other operating income	91,945
<b>Total other revenues</b>	<b>120,066</b>
<b>Total revenues (incl. other operating income)</b>	<b>4,435,401</b>

Equipment revenues comprise an effect of accrued interest for installment sales amounting to TEUR 1,667, which is entirely due to the segment Belarus.

Other service revenues include essentially income from the rental of private automatic branch equipment ("PABX"), set top boxes, routers, servers, equipment for fixed-line customers as well as telecommunication circuits.

Other operating income comprises mainly collection fees, penalties, revenues from sale of electricity and rental income. Furthermore, income from impaired receivables is included (see Note (33)).

In 2018 and 2017, other operating income includes research tax credits amounting to TEUR 1,466 and TEUR 1,649, respectively.

The accounting principles that were applied to the recognition of revenue in 2018 (IFRS 15) are presented as follows (for the accounting principles applied in 2017 (IAS 18), see Note (3)):

Service revenues are recognized upon providing the service and are generally billed on a monthly basis. Certain SIM card services, access fees, monthly base fees, maintenance contracts, services and leased line revenues for business customers are to some extent billed in advance. These fees and revenues are recognized as deferrals (in 2018 in contract liabilities and in 2017 in deferred income (see Notes (24) and (26))) and as income over the period the service is provided or at the time the service is provided.

In accordance with contract terms, equipment revenues are recognized upon delivery and acceptance by the customers. For sales that are neither part of multiple-element arrangements nor installment sales, customers pay at the time of sale. For sales that are part of multiple-element arrangements, customers pay the amount recognized in contract assets as part of the monthly fees invoiced over the term of the contract. In case of installment sales, customers pay equal installments over the term of the contract.

Receivables and revenues from installment sales are not discounted if the period between the provision of goods and services and the payment is less than one year or if the discounting effect is insignificant. The materiality of the discounting effect of receivables with remaining terms of more than one year is considered on an individual contract level. In 2018, a discounting effect had to be recognized in Belarus only. A possible accretion effect is recognized in equipment revenues.

When equipment is sold through dealers, these distributors are considered agents, i.e. the revenue is recognized once the mobile devices are sold to end customers. At the same time, dealer subsidies are treated as a reduction in revenue.

Certain arrangements that A1 Telekom Austria Group enters into provide for the delivery of multiple deliverables. For mobile communication, these multiple-element arrangements typically include the sale of a handset, the activation fee, the service contract and, in Austria, the yearly SIM card fee. For fixed-line, these arrangements typically include Internet and fixed-line services including installation and optional TV and mobile communication services.

If the requirements of IFRS 15 are met, A1 Telekom Austria Group generally determines that such arrangements are divided into separate "units of account" based on a determination of a separable benefit for the end customer for each deliverable on a standalone basis.

Transaction prices are allocated to the performance obligations by reference to the relative stand-alone selling prices of the products and services. The stand-alone selling prices of products are based on the market prices of alternative providers whereas the stand-alone selling prices of services are available separately, as services are also offered on a stand-alone basis, i.e. without hardware.

Customer loyalty programs, which lead to claims for the acquisition of new mobile handsets or accessories on the basis of sales made and which are settled with customers in the form of bonus points, are included in the calculation of multiple deliverables as well. Revenue is reduced at the time of the granting of the award credits, while revenue is recognized once the goods are redeemed or the awards expire. The stand-alone selling prices of bonus points are determined based on the stand-alone selling prices of the future services, adjusted for the probability of usage.

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

A1 Telekom Austria Group recognizes revenue from connection and roaming services to its customers based upon calling minutes or data volume used as income at the time that the service is provided, as long as connection and roaming services are not covered by contractually agreed fee schedules.

Revenues due from other national and foreign carriers for incoming calls from outside A1 Telekom Austria Group's network (interconnection) and roaming revenues are recognized in the period the call occurs or the data volume is used.

Cash discounts and discounts granted retrospectively are accounted for as a reduction in revenue when granted. The discounts are calculated on an individual customer basis depending on the service revenue generated.

Discounts (standardized multiple-element subsidies) are generally included in the multiple-element calculation leading, in the case of pure service contracts, to an equal reduction of revenue over the term of the contract. In multiple-element contracts, discounts are usually allocated to separate performance obligations according to the method of relative stand-alone prices, whereby a part of the revenue for equipment is reduced at a certain point in time and the other part of the revenue from services is reduced over a period of time.

Due to the volumes they purchase, certain customers are granted also discounts on hardware and sometimes on services during the term of the service contract in addition to standardized multiple-element subsidies. These are included in the multiple-element calculation as well ("discounts granted for hardware").

There are no substantial warranties exceeding legal warranty obligations. Furthermore, there are no significant obligations for returns.

At December 31, 2018, the total transaction price of the unfulfilled (or partly unfulfilled) performance obligations related to multiple-element arrangements amounts to up to 30% of segment revenues and will be realized over a contract term of twelve to 33 months as a general rule. The transaction price of unfulfilled performance obligations and timing of revenue recognition are not disclosed for performance obligations recognized at the amount to which A1 Telekom Austria Group has a right to invoice.

### (6) Cost and Expenses

The following table shows cost and expenses according to type:

in TEUR	2018	2017
Cost of equipment	627,941	584,243
Employee expenses, including social benefits and taxes	850,581	793,851
Other operating expenses	1,566,001	1,607,041
<b>Total costs and expenses</b>	<b>3,044,524</b>	<b>2,985,135</b>

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

in TEUR	2018	2017
Own work capitalized	63,870	56,684

Own work capitalized represents the work performed for own purposes consisting mainly of employee costs and direct overheads capitalized primarily as part of property, plant and equipment. For the capitalization of internally developed software, see Note (16).

## Consolidated Financial Statements 2018

Impairment losses of financial assets classified at amortized cost (2017: loans and receivables) are reported in the line item selling, general and administrative expenses and amount to (see Note (33)):

in TEUR	2018	2017
Impairment losses	45,128	54,066

The line item depreciation and amortization in the Statement of Comprehensive Income is broken down as follows:

in TEUR	2018	2017
Cost of service	630,306	683,038
Cost of equipment	24,134	27,346
Selling, general & administrative expenses	302,078	243,052
Depreciation and amortization	956,518	953,436

The increase in amortization in selling, general & administrative expenses is due mainly to the amortization of the local brands because of the roll-out of the brand A1 (see Note (16)).

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

in TEUR	2018	2017
Audit fees	1,121	1,298
Other reviews	26	184
Other services	110	142
<b>Fees EY</b>	<b>1,257</b>	<b>1,623</b>

The expenses in 2017 also include charges for 2016. In 2018, other reviews relate to expenses incurred for the certification of the internal control system according to ISAE3402-1 requested by customers, while in 2017, other reviews relate to expenses incurred for the issuance of bonds (see Note (25)).

### (7) Financial Result

	2018	2017
Interest income on financial assets at amortized cost	5,306	14,198
Interest income on investments at fair value through profit or loss	65	0
Interest income on investments at fair value through other comprehensive income	10	130
<b>Interest income</b>	<b>5,382</b>	<b>14,329</b>

In 2017, interest income on investments at fair value through other comprehensive income includes interest income on available-for-sale financial assets.

The decrease in interest income on financial assets at amortized cost (2017: "interest income on loans and receivables as well as cash deposits") is due to the application of IFRS 15, since the presentation of a possible accretion effect was changed (see Notes (3) and (5)).

in TEUR	2018	2017
Interest expense on financial liabilities	85,683	88,053
Interest capitalized	-3,369	-5,833
Interest expense on asset retirement obligations	4,465	4,720
Interest expense on deferred considerations	88	8,333
<b>Interest expense</b>	<b>86,866</b>	<b>95,274</b>

Interest is recognized using the effective interest method. In 2017, interest expense on deferred considerations relates primarily to one.Vip in Macedonia (see Note (32)).

## Consolidated Financial Statements 2018

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. A qualifying asset is an asset that requires a substantial period of time to be prepared for its intended use. In 2018 and 2017, interest capitalized on internally developed software as well as on qualifying assets of property, plant and equipment (see Notes (15) and (16)) was based on an interest rate of 2.9% and 3.3%, respectively. In 2018 and 2017, the calculation of interest capitalized for licenses was based on an interest rate of 3.125%, which is derived from a specific financing facility.

in TEUR	2018	2017
Interest expense on employee benefit obligations	3,316	3,117
Interest expense on restructuring provision	3,861	4,824
Fees for unused credit lines	2,375	2,312
Dividends received	-339	-471
Gain on disposal of available-for-sale securities transferred from other comprehensive income	0	-44
Loss on disposal of debt instruments at fair value through other comprehensive income	39	0
Result from other investments	0	-32
Interest on taxes	5,394	1,514
Income from measurement of instruments at fair value through profit or loss	-326	0
Loss from measurement of instruments at fair value through profit or loss	434	0
<b>Interest on employee benefits and restructuring and other financial items, net</b>	<b>14,754</b>	<b>11,220</b>

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

For information on the interest rate for restructuring provisions and employee benefit obligations, see Notes (23) and (27).

In 2018, interest on taxes relates to the final decision on a tax audit in Bulgaria covering the years 2008 and 2009 (see Note (29)).

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

in TEUR	2018	2017
Foreign exchange gains	14,452	10,359
Foreign exchange losses	-9,307	-12,953
<b>Foreign exchange differences</b>	<b>5,145</b>	<b>-2,594</b>

### (8) Earnings per Share

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

	As reported IFRS 15 2018	Without application of IFRS 15 2018	2017
Net result attributable to owners of the parent in TEUR	241,079	240,067	319,151
Weighted average number of common shares outstanding	664,084,841	664,084,841	664,084,841
Basic and diluted earnings per share in euro	0.36	0.36	0.48

For the number of shares, see Note (28).

According to IAS 33.12, the after-tax dividend on the hybrid capital is deducted from the net result attributable to owners of the parent, since the hybrid capital represents equity but does not constitute net result attributable to owners of the parent (see Note (28)).

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred as of December 31, 2018 and 2017.

## (9) Cash and Cash Equivalents

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

A1 Telekom Austria Group's investments are entered into with counterparties holding investment grade ratings, thus the result of the calculation of expected credit losses for cash and cash equivalents was immaterial and was not recognized.

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

in TEUR, at December 31	2018	2017
Accounts receivable, gross	1,071,578	898,399
Allowances	-241,204	-219,106
<b>Accounts receivable, net</b>	<b>830,375</b>	<b>679,292</b>
Thereof remaining term of more than one year	66,126	0

The cumulated effect of the initial application of IFRS 15 and IFRS 9 was recognized in the opening balance at January 1, 2018 in accordance with the modified retrospective approach (see Note (3) - Impact at January 1, 2018).

At December 31, 2018, accounts receivable: subscribers, distributors and other with remaining term of more than one year relate to installment sales receivables. For the change in presentation of installment sales receivables, see Notes (3), (13) and (20).

The development of the allowance for accounts receivable: subscribers, distributors and other as well as their age structure is disclosed in "credit risk" in Note (33).

## (11) Related Party Transactions

The significant shareholders América Móvil and ÖBIB are considered related parties due to their stake in Telekom Austria AG allowing them to control and to exercise significant influence, respectively. Through América Móvil, A1 Telekom Austria Group is also related to its subsidiaries. Through ÖBIB, A1 Telekom Austria Group is related to the Republic of Austria and its subsidiaries, which are mainly ÖBB Group, ASFINAG Group and Post Group as well as Rundfunk und Telekom Regulierungs-GmbH (RTR), all of which qualify as related parties. A1 Telekom Austria Group has determined the type and amount of the transactions entered into with these related parties. In 2018 and 2017, revenues generated with these related parties amounted to approximately 2% of total revenues. In 2018 and 2017, services received from the related parties mentioned above relate mainly to postage fees, transportation, commissions, roaming and fees to RTR and amount to approximately 3% of total cost and expenses excluding employee expenses (see Note (6)).

A1 Telekom Austria Group is obligated to provide communication services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the Republic of Austria on a contractual basis. The contract with the Republic of Austria entered into in July 2016 specifies the reimbursement of EUR 10.00 per customer per month for customers having a valid official notice. The total reimbursement recorded as revenue in the service period was TEUR 12,260 and TEUR 13,419 in 2018 and 2017, respectively.

See Note (23) regarding the transfer of civil servants, who cannot be laid off, to the federal government and the related expenses, provisions and liabilities.

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

in TEUR	2018	2017
Revenues (incl. other operating income)	1,690	1,591
Expenses	569	10,759

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

At December 31, 2018 and 2017, accounts receivable due from related parties and accounts payable due to related parties, as recognized in the Consolidated Statements of Financial Position, relate primarily to Telecom Liechtenstein (see Note (18)) and subsidiaries of América Móvil.



## Consolidated Financial Statements 2018

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

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

in TEUR	2018	2017
Short-term employee benefits	7,389	7,393
Pensions	383	538
Other long-term benefits	306	229
Termination benefits	98	685
Share-based payments	759	1,752
<b>Compensation of key management</b>	<b>8,933</b>	<b>10,599</b>
Expenses for pensions and severance for other employees	21,803	21,142
Expenses for pensions and severance for Management Board	291	235

For members of the Management Board of Telekom Austria AG, see Note (36).

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

### (12) Inventories

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

As of December 31, 2018 and 2017, the carrying amount of merchandise measured at fair value less cost to sell amounted to TEUR 36,754 and TEUR 47,482, respectively. The net amount related to impairment loss and reversal of impairment of inventory that is recognized in cost of equipment consists of:

in TEUR	2018	2017
Write-down/ reversals of write-down of inventories	-513	-973

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

### (13) Other Current Assets

Other current assets are broken down as follows:

in TEUR, at December 31	2018	2017
Prepaid expenses	62,017	103,782
Other current assets	50,928	149,594
Contract costs	40,195	0
<b>Total</b>	<b>153,140</b>	<b>253,376</b>

#### Prepaid expenses

in TEUR, at December 31	2018	2017
Advances to employees	16,169	16,920
Rent	9,910	11,106
Marketing expenses	1,997	38,421
Concession fees	18,517	22,559
Other	15,425	14,777
<b>Prepaid expenses</b>	<b>62,017</b>	<b>103,782</b>

## Consolidated Financial Statements 2018

At December 31, 2017, prepaid marketing expenses consist mainly of subsidies for mobile handsets, which were expensed over the minimum contractual term. According to IFRS 15, these subsidies are recognized as a reduction in revenue (see Note (3)).

### Other current assets

in TEUR, at December 31	2018	2017
Installment sales	0	116,785
Other financial assets	7,495	10,077
<b>Financial assets</b>	<b>7,495</b>	<b>126,862</b>
Fiscal authorities	3,064	4,932
Customer loyalty program deferrals	0	17,565
Advance payments	2,859	1,617
Government grants	30,962	8,264
Other non-financial assets	9,837	8,136
<b>Non-financial assets</b>	<b>46,721</b>	<b>40,512</b>
<b>Other current assets, gross</b>	<b>54,216</b>	<b>167,374</b>
Less allowance for financial assets	-724	-15,231
Less allowance for non-financial assets	-2,564	-2,550
<b>Other current assets</b>	<b>50,928</b>	<b>149,594</b>

At December 31, 2017, installment sales receivables relate to mobile handsets and tablets and equal the present value of the installments less already amortized amounts and relate to all segments. As of 2018, installment sales receivables are reported in accounts receivable: subscribers, distributors and other, net (see Notes (3) and (10)).

According to IFRS 15, deferrals for customer loyalty programs are reported in contract assets (see Notes (3) and (14)).

The increase in government grants is due to the expansion of the broadband network in Austria.

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

The development of the allowance for financial assets as well as their age structure is disclosed in "credit risk" in Note (33).

### Contract costs

Provisions paid to third parties and to employees are recognized as deferrals if they are costs of obtaining a customer contract and if they are expected to be recovered. As contract costs are expected to be realized in A1 Telekom Austria Group's normal operating cycle, they are classified as current. A1 Telekom Austria Group applies the practical expedient not to capitalize incremental costs of obtaining a contract with an amortization period of one year or less.

in TEUR	2018
Contract costs - gross	41,111
Allowance contract costs	-917
<b>Contract costs, net</b>	<b>40,195</b>
Thereof remaining term of more than one year	14,652

At January 1, 2018, contract costs amounting to TEUR 42,316 were recognized (see Note (3)). Contract costs are expensed over the expected duration of the underlying contract using the straight-line method. In 2018, the amortization of TEUR 36,869 was recognized in selling expenses.

Impairment losses are recognized in selling expenses if the related customer receivable or contract asset has to be remeasured according to IFRS 9. The following table shows the development of the valuation allowance for contract costs:

in TEUR	2018
At January 1	931
Foreign currency adjustment	2
Reversed	-808
Charged to expenses	792
<b>At December 31</b>	<b>917</b>

#### (14) Contract Assets

A1 Telekom Austria Group recognizes contract assets for contractual rights to consideration for goods transferred or services performed. Contract assets include mainly deferrals for relevant multiple-element arrangements for mobile communication services and for performance obligations for fixed-line services as well as deferrals for customer loyalty programs, discounts granted for hardware and installation fees (see Note (5)).

As contract assets are expected to be realized as part of A1 Telekom Austria Group's normal operating cycle, they are classified as current. Contract assets are reclassified to receivables when the right to the consideration becomes unconditional. Contract liabilities for customer loyalty programs and discounts granted for hardware amounting to TEUR 65,800 are included in the multiple-element calculation and thus netted with contract assets.

The following table shows the development of gross contract assets as well as a reconciliation with net contract assets and its portion with a remaining term of more than one year:

in TEUR	2018
At January 1	148,983
Increases	218,896
Transfers to receivables	-223,293
Foreign currency adjustments	324
<b>At December 31</b>	<b>144,910</b>
Allowances	-3,796
<b>Contract assets, net</b>	<b>141,114</b>
Thereof remaining term of more than one year	50,248

The development of the allowance regarding contract assets is disclosed in "credit risk" in Note (33).

#### (15) Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes certain costs that are capitalized during the installation and expansion of the assets, for example material, payroll, direct overhead and interest costs as well as the present value of estimated decommissioning and restoration obligations (see Note (23)). Value-added tax (VAT), which is charged by suppliers and refunded by the tax authorities, is not included in cost.

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

## Consolidated Financial Statements 2018

in TEUR	Network in operation and equipment	Land and buildings	Other assets	Construction in progress and advances	Inventories for operation of the network	Total
<b>Cost</b>						
At January 1, 2017	9,971,254	876,137	475,633	232,261	141,061	11,696,346
Additions	245,001	10,541	29,989	229,625	97,515	612,670
Disposals	-305,532	-6,873	-61,729	-1,037	-7,764	-382,935
Transfers	319,405	4,745	21,521	-213,683	-104,153	27,835
Translation adjustment	-29,298	-3,455	-8,266	-3,991	273	-44,736
Changes in reporting entities	81,965	1,296	3,779	1,624	167	88,831
<b>At December 31, 2017</b>	<b>10,282,795</b>	<b>882,392</b>	<b>460,926</b>	<b>244,799</b>	<b>127,099</b>	<b>11,998,011</b>
Additions	181,302	32,024	34,676	251,932	115,244	615,179
Disposals	-398,563	-10,444	-39,330	-992	-6,805	-456,134
Transfers	293,446	26,067	10,775	-210,296	-122,540	-2,548
Translation adjustment	-686	-624	-2,061	-1,142	264	-4,248
Changes in reporting entities	5,647	391	114	61	85	6,297
<b>At December 31, 2018</b>	<b>10,363,942</b>	<b>929,806</b>	<b>465,100</b>	<b>284,361</b>	<b>113,348</b>	<b>12,156,558</b>
<b>Accumulated depreciation and impairment</b>						
At January 1, 2017	-8,093,974	-641,526	-369,598	0	-40,495	-9,145,592
Additions	-452,321	-25,977	-43,006	0	-11,051	-532,354
Disposals	295,367	4,828	60,606	0	2,929	363,730
Transfers	-22,026	-129	-251	0	0	-22,405
Translation adjustment	16,615	521	3,537	0	-92	20,580
Changes in reporting entities	-51,485	-54	-2,511	0	0	-54,051
<b>At December 31, 2017</b>	<b>-8,307,823</b>	<b>-662,338</b>	<b>-351,223</b>	<b>0</b>	<b>-48,708</b>	<b>-9,370,092</b>
Additions	-439,612	-22,186	-45,854	0	7,505	-500,146
Disposals	384,043	6,994	38,450	0	4,941	434,428
Transfers	-4,211	-14	3,409	0	0	-816
Translation adjustment	-2,086	-234	803	0	-114	-1,631
Changes in reporting entities	-2,170	-47	0	0	0	-2,217
<b>At December 31, 2018</b>	<b>-8,371,858</b>	<b>-677,825</b>	<b>-354,414</b>	<b>0</b>	<b>-36,377</b>	<b>-9,440,474</b>
<b>Carrying amount at</b>						
December 31, 2018	1,992,084	251,981	110,686	284,361	76,971	2,716,084
December 31, 2017	1,974,972	220,054	109,703	244,799	78,391	2,627,919

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

Depreciation on property, plant and equipment is calculated using the straight-line method. If an event or circumstance indicates that the assets may be impaired, they are tested for impairment (see impairment test in Note (16)). Property, plant and equipment under finance lease and leasehold improvements are amortized using the straight-line method over the lease term or the estimated useful life of the asset, whichever is shorter. The useful lives are:

	Years
Network in operation and equipment	3-20
Buildings and leasehold improvements	3-50
Other assets	2-14

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

As of December 31, 2018 and 2017, the carrying amount of land amounted to TEUR 59,791 and TEUR 59,347, respectively.

Government grants for assets totaling TEUR 33,603 and TEUR 10,727 were deducted from acquisition cost in 2018 and 2017, respectively. The increase in government grants is due to the expansion of the broadband network in Austria.

## Consolidated Financial Statements 2018

At December 31, 2018 and 2017, contractual commitments for the acquisition of property, plant and equipment amount to TEUR 145,836 and TEUR 153,005, respectively.

### *Sensitivity analysis*

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

in TEUR	2018	2017
Decrease due to extension by one year	205,818	243,924
Increase due to reduction by one year	316,325	356,251

Due to the amortization of local brands (see Note (16)), the reduction of useful life by one year resulted in a significant increase in 2017, as brands might have been completely amortized within a year.

### (16) Intangibles

in TEUR	Licenses and rights of use	Brand names and patents	Software	Customer base	Advances/ construction in progress	Total
<b>Cost</b>						
At January 1, 2017	2,148,093	658,150	1,280,135	1,131,356	61,633	5,279,367
Additions	26,216	2,234	44,549	0	84,573	157,572
Disposals	-1,943	-51,487	-50,614	-41,298	-63	-145,404
Transfers	-21,467	2,994	64,243	1,906	-75,510	-27,835
Translation adjustment	1,641	-8,606	-6,552	-34,760	-665	-48,943
Changes in reporting entities	5,768	3,907	7,232	23,830	0	40,737
<b>At December 31, 2017</b>	<b>2,158,307</b>	<b>607,192</b>	<b>1,338,995</b>	<b>1,081,033</b>	<b>69,968</b>	<b>5,255,494</b>
Additions	7,883	8,671	55,715	3,286	85,191	160,747
Disposals	-15,030	-14,562	-100,155	0	-181	-129,927
Transfers	18,474	-17,428	71,551	240	-70,291	2,548
Translation adjustment	-1,131	-2,504	-1,256	-9,911	-189	-14,991
Changes in reporting entities	0	287	132	685	0	1,105
<b>At December 31, 2018</b>	<b>2,168,505</b>	<b>581,656</b>	<b>1,364,982</b>	<b>1,075,333</b>	<b>84,499</b>	<b>5,274,976</b>
<b>Accumulated amortization and impairment</b>						
At January 1, 2017	-741,399	-141,148	-1,027,844	-1,047,581	0	-2,957,973
Additions	-127,404	-127,442	-142,452	-23,784	0	-421,082
Disposals	1,780	51,468	50,481	41,298	0	145,027
Transfers	21,960	756	-310	0	0	22,405
Translation adjustment	798	-153	5,358	34,148	0	40,151
Changes in reporting entities	-3,052	0	-5,094	0	0	-8,145
<b>At December 31, 2017</b>	<b>-847,317</b>	<b>-216,521</b>	<b>-1,119,860</b>	<b>-995,918</b>	<b>0</b>	<b>-3,179,616</b>
Additions	-119,692	-199,669	-122,238	-14,773	0	-456,371
Disposals	14,981	14,562	100,004	0	0	129,547
Transfers	-5,431	14,790	-8,543	0	0	816
Translation adjustment	1,104	1,086	975	10,165	0	13,330
Changes in reporting entities	0	0	0	0	0	0
<b>At December 31, 2018</b>	<b>-956,355</b>	<b>-385,752</b>	<b>-1,149,662</b>	<b>-1,000,526</b>	<b>0</b>	<b>-3,492,295</b>
<b>Carrying amount at</b>						
December 31, 2018	1,212,150	195,904	215,321	74,807	84,499	1,782,681
December 31, 2017	1,310,990	390,671	219,135	85,114	69,968	2,075,878

Licenses not yet put into operation are included in licenses and rights of use.

## Consolidated Financial Statements 2018

Intangible assets with finite useful lives are recognized at acquisition cost and amortized over their respective useful lives. If there is an indication of impairment, intangible assets are tested for impairment (see impairment test). Amortization using the straight-line method is based on the following useful lives:

	Years
Mobile communications and fixed net licenses	8-20
Rights of use	2-33
Patents	5-12
Software	2-14
Subscriber base	2-16

Rights of use with useful lives of more than 20 years relate to infeasible rights of use of cable fiber or wavelengths that are used over a fixed period of time. These rights of use are amortized over the term of the contract.

A1 Telekom Austria Group holds mobile telecommunication licenses (GSM, UMTS and LTE) provided by regulatory authorities in Austria, Croatia, Slovenia, Serbia, Bulgaria, Belarus and Macedonia. Licenses are recorded at cost and amortized on a straight-line basis. The total cost incurred for the major license agreements, which will expire between 2019 and 2033, amounts to TEUR 1,967.

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

in TEUR	
2019	269,950
2020	209,102
2021	183,979
2022	150,728
2023	125,495
Thereafter	683,095

The following table shows the changes in the carrying amounts of brand names by segment:

in TEUR	Austria	Bulgaria	Croatia	Belarus	Slovenia	Macedonia	Corporate & Other	Total
At January 1, 2017	158,351	243,704	25,301	76,184	1,391	5,276	0	510,207
Amortization	0	-99,697	-7,473	-12,983	-1,391	-1,664	0	-123,207
Translation adjustment	0	0	198	-9,089	0	-4	-35	-8,929
Changes in reporting entities	0	0	1,404	561	0	0	1,942	3,907
<b>At December 31, 2017</b>	<b>158,351</b>	<b>144,007</b>	<b>19,431</b>	<b>54,673</b>	<b>0</b>	<b>3,609</b>	<b>1,907</b>	<b>381,978</b>
Amortization	0	-144,007	-19,680	-31,377	0	-2,886	0	-197,950
Translation adjustment	0	-0	249	-1,751	0	-1	73	-1,429
Changes in reporting entities	0	0	0	287	0	0	0	287
<b>At December 31, 2018</b>	<b>158,351</b>	<b>0</b>	<b>-0</b>	<b>21,833</b>	<b>0</b>	<b>722</b>	<b>1,981</b>	<b>182,886</b>

Regarding the changes in business combinations, see Note (34).

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

If a brand name is intended for discontinuation in the foreseeable future, its carrying amount is amortized over its remaining estimated useful life. In September 2017, harmonization of the brands in the entire A1 Telekom Austria Group was resolved. Depending on the respective markets, the Austrian brand "A1" will be rolled out to all segments by the third quarter of 2019 at the latest, and the local brands are therefore

## Consolidated Financial Statements 2018

amortized accordingly in the relevant business segments (see amortization in the table on changes in the carrying values of brand names by segment).

The following table shows the recognized brand names:

in TEUR, at December 31	2018	2017
A1 Telekom Austria	144,910	144,910
Cable Runner	491	491
YESSS!	12,950	12,950
<b>Total Austria</b>	<b>158,351</b>	<b>158,351</b>
Mobiltel	0	144,007
<b>Total Bulgaria</b>	<b>0</b>	<b>144,007</b>
Vipnet	0	18,576
Metronet	0	855
<b>Total Croatia</b>	<b>0</b>	<b>19,431</b>
velcom	21,833	54,673
<b>Total Belarus</b>	<b>21,833</b>	<b>54,673</b>
one	722	3,609
<b>Total Macedonia</b>	<b>722</b>	<b>3,609</b>
Exoscale	1,981	1,907
<b>Total Corporate &amp; Other</b>	<b>1,981</b>	<b>1,907</b>
<b>Total Brand Names</b>	<b>182,886</b>	<b>381,978</b>
Thereof with indefinite useful lives	160,331	160,258
Thereof with definite useful lives	22,554	221,720

Certain direct and indirect development costs associated with internally developed software are capitalized once the project has reached the application development stage. The development costs are generally amortized using the straight-line method over a period not to exceed four years, beginning when the asset is essentially ready for use. Development costs requiring capitalization include direct costs of materials and purchased services as well as payroll costs. Costs incurred during the preliminary project stage, maintenance and training costs as well as research and development costs (with the exception of the above-mentioned capitalizable development costs) are expensed immediately in the year they arise.

The following table shows internally developed software included in the line item "Software":

in TEUR, at December 31	2018	2017
Total cost	125,093	120,965
Accumulated amortization	-105,069	-97,531
Carrying amount	20,025	23,435
Additions	2,595	1,922

In 2018 and 2017, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

At December 31, 2018 and 2017, contractual commitments for the acquisition of intangible assets amounted to TEUR 27,278 and TEUR 25,852, respectively.

## Consolidated Financial Statements 2018

In 2018, the estimated useful lives of certain software programs in the segments Austria and Bulgaria were reduced due to fast technological progress, which led to an increase in amortization of TEUR 8,255.

### *Impairment test*

Property, plant and equipment and intangible assets with finite useful lives are tested for impairment if facts or changes in circumstances indicate that the carrying amount of an asset could be above its fair value. The impairment test is performed for all property, plant and equipment and intangible assets, regardless of whether they are intended for sale or not. In accordance with IAS 36, an impairment loss is recognized when an asset's carrying amount exceeds the higher of its fair value less costs to sell or its value in use. Fair value is the amount obtainable from the sale of the asset in an arm's length transaction. Value in use is based on the discounted cash flows expected to arise from the continued use of the asset and from its disposal at the end of its useful life. Impairment charges are recorded separately in the Consolidated Statements of Comprehensive Income. If there is any indication that the impairment recognized in prior periods no longer exists, A1 Telekom Austria Group considers the need to reverse all or a portion of the impairment charge.

Brand names classified as intangible assets with indefinite useful lives are tested for impairment in the fourth quarter of each year in accordance with IAS 36, as described in Note (17). If an event or circumstance indicates that an asset may be impaired, impairment tests are carried out. Since brand names do not generate cash inflows that are largely independent of those from other assets, the value in use can be determined only for the asset's cash-generating unit. The second step according to IAS 36.107 is to determine whether an impairment loss should be recognized based on the total cash-generating unit.

### (17) Goodwill

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

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

in TEUR	Austria	Bulgaria	Croatia	Belarus	Slovenia	Macedonia	A1 Digital	Total
At January 1, 2017	708,211	242,691	102,203	11,018	147,632	30,068	0	1,241,823
Translation adjustment	0	0	515	-1,533	0	-8	-138	-1,164
Acquisitions	0	0	23,322	4,662	0	0	7,698	35,682
<b>At December 31, 2017</b>	<b>708,211</b>	<b>242,691</b>	<b>126,041</b>	<b>14,146</b>	<b>147,632</b>	<b>30,060</b>	<b>7,560</b>	<b>1,276,342</b>
Translation adjustment	0	0	1,721	-616	0	0	290	1,396
Acquisitions	0	0	0	173	0	0	0	173
<b>At December 31, 2018</b>	<b>708,212</b>	<b>242,691</b>	<b>127,762</b>	<b>13,703</b>	<b>147,632</b>	<b>30,060</b>	<b>7,851</b>	<b>1,277,910</b>

For details of acquisitions, see Note (34).

Acquisition cost of goodwill amounted to:

in TEUR, at December 31	2018	2017
Segment Austria	712,232	712,231
Segment Bulgaria	642,691	642,691
Segment Croatia	132,868	131,078
Segment Belarus	437,684	459,386
Segment Slovenia	175,556	175,556
Segment Macedonia	35,171	35,171
A1 Digital	7,851	7,560
<b>Total cost</b>	<b>2,144,052</b>	<b>2,163,673</b>



Cumulative impairment charges of goodwill amounted to:

in TEUR, at December 31	2018	2017
Segment Austria	4,020	4,020
Segment Bulgaria	400,000	400,000
Segment Croatia	5,106	5,037
Segment Belarus	423,981	445,240
Segment Slovenia	27,924	27,924
Segment Macedonia	5,111	5,111
<b>Accumulated impairment</b>	<b>866,141</b>	<b>887,332</b>

**Impairment test**

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

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

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

Assumptions in terms of revenue development are based on historical performance, industry forecasts, and external market data such as the development of gross domestic product (GDP), inflation rates, currency rates, population and other parameters.

Cost drivers and capital expenditure are based on past experience and internal expectations.

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

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

## Consolidated Financial Statements 2018

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

	Growth rates perpetual annuity		Pre-tax interest rates*	
	2018	2017	2018	2017
Segment Austria	1.5%	1.1%	7.2%	6.8%
Segment Bulgaria	3.0%	1.6%	8.4%	7.4%
Segment Croatia	2.5%	2.9%	10.7%	9.2%
Segment Belarus	8.5%	9.7%	18.4%	20.0%
Segment Slovenia	1.3%	1.2%	8.6%	8.2%
Segment Macedonia	1.4%	0.3%	11.0%	9.5%
A1 Digital	1.5%	1.1%	7.0%	6.5%

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

At December 31, 2018 and 2017, the value in use in the segment Austria amounts to TEUR 6,877,996 and TEUR 6,743,288, respectively, in the segment Bulgaria TEUR 1,294,350 and TEUR 1,182,835, respectively, in the segment Croatia TEUR 374,186 and TEUR 389,824, respectively, in the segment Belarus TEUR 1,001,662 and TEUR 1,110,626, respectively, in the segment Slovenia TEUR 379,349 and TEUR 411,851, respectively, in the segment Macedonia TEUR 224,553 and TEUR 202,172, respectively, and in the cash-generating unit A1 Digital the value in use amounts to TEUR 86,997 and TEUR 467,318, respectively.

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

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

### *Sensitivity analysis*

The use of the following pre-tax interest rates would lead to the carrying amount equaling the value in use at December 31, 2018 and 2017:

Pre-tax interest rates*	2018	2017
Segment Austria	14.0%	13.3%
Segment Bulgaria	14.4%	11.0%
Segment Croatia	13.0%	11.1%
Segment Belarus	38.1%	45.6%
Segment Slovenia	8.9%	9.2%
Segment Macedonia	15.6%	13.8%
A1 Digital	14.0%	26.5%

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

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

## Consolidated Financial Statements 2018

The following table lists the changes in revenues, cost drivers, and capital expenditure that would lead to the carrying amounts equaling the value in use at December 31, 2018 and 2017 with respect to the key markets:

2018	Revenues	Cost	Capital expenditures
Segment Austria	-10.8%	18.3%	51.3%
Segment Bulgaria	-10.4%	18.0%	48.2%
Segment Croatia	-3.4%	5.5%	15.8%
Segment Belarus	-21.4%	50.1%	99.9%
Segment Slovenia	-0.9%	1.3%	5.6%
Segment Macedonia	-7.7%	13.3%	43.9%
A1 Digital	-7.2%	8.8%	67.6%
2017	Revenues	Cost	Capital expenditures
Segment Austria	-10.3%	17.3%	48.1%
Segment Bulgaria	-8.3%	13.9%	43.7%
Segment Croatia	-3.2%	5.0%	15.6%
Segment Belarus	-25.7%	60.0%	141.1%
Segment Slovenia	-2.6%	3.9%	18.8%
Segment Macedonia	-7.9%	13.9%	39.6%
A1 Digital	-18.2%	25.7%	153.6%

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

### (18) Investments in Associates

At December 31, 2018 and 2017, investments in associates accounted for using the equity method relate to Telecom Liechtenstein AG only. The capital share as well as the allocation to the segments are disclosed in Note (34).

The following table shows the development of investments in associates:

in TEUR	2018	2017
<b>At January 1</b>	<b>33,971</b>	<b>40,820</b>
Dividends received	-771	0
Recognized income	-895	-529
Changes in reporting entities	0	-4,200
Translation adjustment	882	-2,120
<b>At December 31</b>	<b>33,188</b>	<b>33,971</b>

Dividends received are reported in the net cash flow from investing activities.

On July 18, 2017, A1 Telekom Austria Group sold its 25.3% stake in media.at for a consideration of TEUR 4,052, which was paid in cash. In 2017, the resulting loss of TEUR 148 was recognized in the line item "Equity interest in net income of associated companies". In 2018, a further payment of TEUR 127 was made and recognized in the line item "Equity interest in net income of associated companies".

The following table shows the difference between the investment in associates and their proportionate equity:

in TEUR, at December 31	2018	2017
Proportionate equity	14,963	14,661
Goodwill	10,882	10,882
Purchase price allocation	7,343	8,428
<b>Investments in associates</b>	<b>33,188</b>	<b>33,971</b>

**(19) Investments**

in TEUR, at December 31	2018	2017
Equity instruments at fair value through profit or loss - mandatory	3,705	0
Debt instruments at fair value through other comprehensive income - mandatory	2,826	0
Debt instruments at fair value through profit or loss - mandatory	1,614	0
Investments at amortized cost	3,330	0
Other investments carried at cost	0	1,546
Other long-term investments*	0	580
Marketable securities - available-for-sale, long-term	0	10,765
<b>Investments</b>	<b>11,475</b>	<b>12,891</b>

\* For the classification of financial instruments according to IFRS 9 and IAS 39, see Note (3).

All equity instruments held at December 31, 2018 are classified as "at fair value through profit or loss". "Equity instruments at fair value through profit or loss - mandatory" comprise both quoted and unquoted equity instruments.

"Debt instruments at fair value through other comprehensive income - mandatory" include quoted bonds with investment grade ratings, thus the result of the calculation of expected credit losses is immaterial and was not recognized. Interest income is recognized in profit or loss and calculated the same way as interest income on financial assets at amortized cost, i.e. the premium is recognized in profit or loss over the remaining term according to the effective interest method (see Note (7)). The remaining changes in fair value are recognized in other comprehensive income (OCI), net of income tax.

"Debt instruments at fair value through profit or loss - mandatory" include other long-term financial investments that do not meet the solely payment of principal and interest ("SPPI") criterium and serve partially as coverage for the provision for pensions in Austria.

Financial assets at amortized cost include fixed deposits and serve mainly as cash reserve for the subsidiary paybox Bank AG according to the requirements of the Capital Requirements Regulation, the "Internal Liquidity Adequacy Assessment Process" and contractual obligations to the licensor VISA.

Marketable securities available-for-sale at December 31, 2017 include quoted bonds and equity instruments as well as other financial investments. In accordance with IAS 39, A1 Telekom Austria Group carried these securities at fair value. Unrealized gains and losses resulting from the change in their fair value were recorded in other comprehensive income (OCI), net of income tax. Other long-term investments at December 31, 2017 include fixed deposits. Other investments carried at cost at December 31, 2017 include investments in unquoted equity instruments (investments).

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

in TEUR, at December 31	2018	2017
Installment sales	0	49,606
Other financial assets	9,191	1,555
<b>Financial assets</b>	<b>9,191</b>	<b>51,161</b>
<b>Other non-financial assets</b>	<b>8,618</b>	<b>8,557</b>
<b>Other non-current assets, gross</b>	<b>17,809</b>	<b>59,718</b>
Less allowance for financial assets	0	-1,771
<b>Other non-current assets</b>	<b>17,809</b>	<b>57,947</b>

For information on installment sales receivables, see Note (13). Starting 2018, installment sales receivables are reported in accounts receivable: subscribers, distributors and other, net (see Notes (3) and (10)).

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

Development of the allowance for non-current installment sales receivables and other non-current financial assets as well as their age structure is disclosed in "Credit risk" in Note (33).

**(21) Short-term Debt and Current Portion of Long-term Debt**

in TEUR, at December 31	2018	2017
Short-term debt	245,000	17
Current portion of lease obligations	256	549
<b>Short-term debt</b>	<b>245,257</b>	<b>566</b>

For further information regarding the current portion of lease obligations as well as of long-term financial debt, see Notes (25) and (30). Further funding sources are disclosed in Note (33).

**(22) Accounts Payable**

Accounts payable consist of the following items:

in TEUR, at December 31	2018	2017
Fiscal authorities	58,077	63,097
Social security	11,244	10,483
Employees	38,765	35,546
Long-term incentive program	2,627	2,823
Employees - transferred to government	303	1,249
Prepayments from customers	12,147	11,903
Government	153	142
Other non-financial liabilities	5,435	4,153
<b>Current non-financial liabilities</b>	<b>128,751</b>	<b>129,395</b>
Suppliers	745,377	592,032
Deferred consideration from business combinations	1,271	19
Accrued interest	29,990	29,990
Cash deposits received	10,635	9,921
Other current financial liabilities	21,874	22,886
<b>Current financial liabilities</b>	<b>809,147</b>	<b>654,848</b>
<b>Accounts payable</b>	<b>937,898</b>	<b>784,243</b>

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

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

Liabilities due to employees relate mainly to salaries payable (including overtime and travel allowances), unused vacation days as well as one-time termination benefits and service awards.

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

The liabilities regarding employees - transferred to government include compensation for reductions in salaries, lump sum payments for any shortfall in pension payments, as well as one-off payments to civil servants of A1 Telekom Austria Group (see Note (23)).

At December 31, 2018 and 2017, accounts payable amounting to TEUR 11,199 and TEUR 20,788, respectively, have a maturity of more than twelve months.

Purchase price liabilities from business combinations relate to the acquisition of Metronet in 2017 (see also Note (32)). Accrued interest includes interest on bonds (see Note (25)). In 2018 and 2017, other current financial liabilities include mainly customer deposits related to vouchers for parking and shopping.

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

in TEUR	Restructuring	Employees	Asset retirement obligation	Legal	Other	Total
At January 1, 2018	500,957	105,208	247,692	13,301	25,860	893,018
Additions	68,990	33,646	3,171	931	6,547	113,284
Changes in estimates	-464	0	-10,332	0	0	-10,796
Used	-91,656	-30,544	-3,577	-509	-5,130	-131,416
Released	-47,700	-13,382	-2,315	-6,223	-3,752	-73,373
Accretion expense	3,861	0	4,465	0	0	8,326
Reclassifications*	-206	10,597	0	0	5	10,397
Translation adjustment	0	12	-156	36	17	-91
Changes in reporting entities	0	0	0	0	344	344
At December 31, 2018	433,782	105,538	238,948	7,535	23,891	809,694
Thereof long-term						
December 31, 2018	337,008	0	238,948	0	0	575,956
December 31, 2017	399,159	0	247,692	0	0	646,852

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

The cumulative effect of the initial application of IFRS 15 was recognized in the opening balance at January 1, 2018 in accordance with the modified retrospective approach (see Note (3) – Impact at January 1, 2018).

In calculating provisions, the Management Board must assess if there are obligations to third parties that will probably lead to a payment outflow for A1 Telekom Austria Group and that can be estimated reliably. Provisions are recognized in the amount of the probable utilization.

Even if a payout of the provisions is not expected in the following financial year, provisions and accrued liabilities, with the exception of the asset retirement obligation and the provision for restructuring, are reported as short-term provisions since A1 Telekom Austria Group has no influence on the timing of the utilization.

**Restructuring**

In 2008, a comprehensive restructuring program was initiated in the segment Austria. The provision for restructuring includes future compensation of employees who will no longer provide services for A1 Telekom Austria Group but who cannot be laid off due to their status as civil servants. These employment contracts are onerous contracts under IAS 37, as the unavoidable cost related to the contractual obligation exceeds the future economic benefit. The restructuring program also includes social plans for employees whose employments will be terminated in a socially responsible way. In 2009 and every year from 2011 to 2018, new social plans were initiated that provide for early retirement, special severance packages and golden handshake options. Due to their nature as termination benefits, these social plans are accounted for according to IAS 19. At December 31, 2018 and 2017, the corresponding liability amounts to TEUR 420,987 and TEUR 482,858 and includes 1,863 and 1,879 employees, respectively.

Provisions for restructuring are recorded at their present value. In 2018 and 2017, the rates of compensation increase used to measure the provisions are the same as those used for employee benefit obligations (see Note (27)). The following table provides the discount rates used, which are determined based on the Mercer Yield Curve Approach taking into account the respective maturities:

	2018	2017
Employees permanently leaving the service process	1.50%	1.25%
Social plans	0.75%	0.75%
Civil servants transferred to the government	1.50%	1.25%

Changes in the provision are recognized in employee expense and reported in the line item “Selling, general and administrative expenses”, while the accretion expense is reported in the financial result in the line item “Interest expense on restructuring provision” (see Note (7)). The provision was reversed, mainly because a number of employees returned to regular operations, were transferred to the government or opted for plans such as golden handshakes, special severance packages and early retirement to an extent not foreseeable at the time of measurement in the previous year.

## Consolidated Financial Statements 2018

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

At December 31, 2018 and 2017, the provision for the transfer of civil servants to the government amounts to TEUR 12,796 and TEUR 18,099 and comprises 159 and 176 employees, respectively. For information on the liability for employees transferred to the government, see Note (22).

### *Weighted average duration*

The weighted average duration of the restructuring obligations is as follows:

	2018	2017
Employees permanently leaving the service process	7.2	7.6
Social plans	3.4	3.4
Civil servants transferred to the government	6.3	6.7

### *Sensitivity analysis*

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

in TEUR, at December 31, 2018	1 percentage point increase	1 percentage point decrease
Change in discount rate	-16,001	14,563
Change in rate of compensation	13,830	-13,151
<hr/>		
in TEUR, at December 31, 2017		
Change in discount rate	-20,334	19,268
Change in rate of compensation	17,998	-16,987

### **Employees**

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

In its judgement of November 11, 2014, the European Court of Justice (ECJ) ruled that the Austrian law determining the reference date for salary increments for Austrian civil servants (this date determines the length of service and thus the date for advancing to the next salary level) conflicted with European Union law. For this reason, A1 Telekom Austria Group recognized a provision in its consolidated financial statements of TEUR 45,734 and TEUR 50,487 at December 31, 2018 and 2017, respectively for imminent back payments of salaries to the civil servants assigned to it.

### **Asset retirement obligation**

Liabilities for asset retirement obligations are measured at their net present value in accordance with IAS 37, the increase in the liability that reflects the passage of time is recognized in profit or loss (see Note (7)). The effects of changes in the measurement from existing provisions are accounted for in accordance with IFRIC 1. Changes in the measurement of these liabilities resulting from changes in the estimated timing or amount of the outflow of resources or changes in the parameters shall be added to or deducted from the cost of the assets in the current period. The amount deducted from the asset shall not exceed its carrying amount. Any excess amount is reported in profit or loss. If the adjustment results in an addition to the asset, the company must review whether there is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset shall be tested for impairment and any impairment losses shall be recorded.

A1 Telekom Austria Group records asset retirement obligations for the retirement and decommissioning of wooden masts impregnated with tar or salt, base stations, payphones as well as land and buildings including rented premises.

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

## Consolidated Financial Statements 2018

A1 Telekom Austria Group operates base stations on land, rooftops and on other premises under various types of rental contracts. In estimating the fair value of the retirement obligation for its base stations, A1 Telekom Austria Group has made a range of assumptions such as retirement dates, timing and percentage of early cancellations, development of technology and the cost of removing network equipment and remediating the sites.

Additionally, A1 Telekom Austria Group records asset retirement obligations for buildings concerning obligations for the disposal of hazardous substances as well as the decontamination of land when decommissioning a building. A1 Telekom Austria Group records asset retirement obligations for buildings and rented premises under operating leases in accordance with the obligation to refurbish the sites at the expiration of the lease contracts.

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

	2018	2017
Discount rate	1.5% - 12.0%	1.5% - 10.9%
Inflation rate	2.0% - 5.5%	2.0% - 6.7%

The discount rate applied to the calculation of asset retirement obligations reflects current market expectations with regard to interest effects as well as specific risks of the obligation. The discount rate in the non-eurozone is based on the risk-free interest rate of German federal bonds with a maturity of 30 years, adapted for country-specific risk by the Damodaran Rating based default spread. For those countries whose currencies are not tied to the euro, the respective inflation differential according to the OECD is taken into account as well. In the eurozone, the discount rate is based on government bonds with matching maturities, as the specific risks were taken into account in the estimated cash flows.

The inflation rates are adapted quarterly to reflect the general development in the individual countries.

In essence, the change in these parameters as well as changes in the estimated outflow of resources resulted in an increase of the asset retirement obligation and an increase in the book value of the related item of property, plant and equipment (see change in estimates in the table of provisions). TEUR 2,413 were recognized in other operating income as the related tangible asset is already fully depreciated.

### *Sensitivity analysis*

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

	1 percentage point increase	1 percentage point decrease
in TEUR at December 31, 2018		
Change in discount rate	-24,272	26,089
Change in inflation rate	26,279	-24,073
in TEUR at December 31, 2017		
Change in discount rate	-23,603	29,810
Change in inflation rate	29,643	-23,994

### **Legal**

Provisions relate mainly to expenses for legal advice and litigation.

### **Other provisions**

Other provisions relate mainly to taxes (excluding income taxes), guarantees, rents and penalties.

## **(24) Contract Liabilities and Current Deferred Income**

A contract liability is recognized where a customer has paid an amount of consideration prior to goods or services being transferred by A1 Telekom Austria Group. Contract liabilities include prepaid fees, prepaid vouchers, fees for leased lines and site sharing, and discounts granted as well as one-time fees, activation fees and installation fees.



## Consolidated Financial Statements 2018

The following table shows the development of contract liabilities:

in TEUR	2018
<b>At January 1</b>	<b>161,595</b>
Increases due to cash received	980,378
Revenues recognized in the current period from:	
Amounts included in the contract liability at beginning of the period	-143,168
Increases due to cash received in current period	-838,720
Foreign currency adjustments	76
<b>At December 31</b>	<b>160,160</b>
Thereof remaining term of more than one year	19,490

At December 31, 2018, contract liabilities with remaining term of more than one year relate mainly to deferred rental income from base stations and data circuits as well as one-time fees, activation fees, and installation fees.

in TEUR, at December 31	2018	2017
Unearned income	0	122,142
Customer loyalty programs	0	34,428
<b>Deferred income, current portion</b>	<b>0</b>	<b>156,570</b>

Unearned income at December 31, 2017, relates mainly to prepaid access fees, monthly base fees, leased lines, prepaid mobile fees and rental income from site sharing. These fees are recognized over the period the service is provided. According to IFRIC 13 "Customer Loyalty Programs", the award credits granted were recognized as deferred income until redeemed or forfeited. For the changes according to IFRS 15, see Note (3).

### (25) Long-term Debt

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

Currency	Maturity	At December 31, 2018			At December 31, 2017			Carrying amount	
		Nominal interest rate	Face value	Carrying amount	Nominal interest rate	Face value	Carrying amount		
<b>Bonds</b>									
TEUR	2021	fixed	3,125%	750,000	746,954	fixed	3,125%	750,000	745,913
TEUR	2022	fixed	4,000%	750,000	746,232	fixed	4,000%	750,000	745,077
TEUR	2023	fixed	3,500%	300,000	298,855	fixed	3,500%	300,000	298,601
TEUR	2026	fixed	1,500%	750,000	744,375	fixed	1,500%	750,000	743,670
<b>Total Bonds</b>				<b>2,550,000</b>	<b>2,536,417</b>			<b>2,550,000</b>	<b>2,533,262</b>
<b>Leases (Note (30))</b>				<b>632</b>	<b>632</b>			<b>894</b>	<b>894</b>
<b>Financial debt</b>				<b>2,550,632</b>	<b>2,537,048</b>			<b>2,550,894</b>	<b>2,534,156</b>
Current portion of long-term debt				-256	-256			-549	-549
<b>Long-term debt</b>				<b>2,550,375</b>	<b>2,536,792</b>			<b>2,550,346</b>	<b>2,533,607</b>

#### Bonds

Bonds are recognized at the actual amount received. Discount and issue costs are amortized over the related term using the effective interest rate method.

In March 2012, A1 Telekom Austria Group initiated a Euro Medium Term Note (EMTN) program with a maximum volume of TEUR 2,500,000. On April 2, 2012, A1 Telekom Austria Group issued a bond under the EMTN program with a face value of TEUR 750,000, discount and the issue costs of TEUR 11,575, a maturity of ten years and a coupon of 4.0%.

On July 4, 2013, A1 Telekom Austria Group issued a bond under the EMTN program with a face value of TEUR 300,000, discount and issue costs of TEUR 2,574, a maturity of ten years and a coupon of 3.5%.

## Consolidated Financial Statements 2018

On December 3, 2013, A1 Telekom Austria Group issued a bond under the EMTN program with a face value of TEUR 750,000, discount and issue costs of TEUR 8,336, a maturity of eight years and a coupon of 3.125%.

On December 7, 2016, A1 Telekom Austria Group issued a bond with a face value of TEUR 500,000, a maturity of ten years and a coupon of 1.5%. On July 14, 2017, a tap issuance with a volume of TEUR 250,000 was settled. In August 2017, the outstanding bond and the tap were consolidated and have the same terms in all respects. Discount and issue costs amount to TEUR 6,990.

### (26) Deferred Revenues and Other Non-current Liabilities

in TEUR, at December 31	2018	2017
Cash deposits received	756	745
Deferred consideration	3,329	5,532
Miscellaneous other non-current financial liabilities	13,516	13,665
<b>Other non-current financial liabilities</b>	<b>17,600</b>	<b>19,942</b>
Long-term incentive program	854	2,561
Miscellaneous other non-current non-financial liabilities	4,125	5,970
Deferred revenues, other	0	9,796
<b>Other non-current non-financial liabilities</b>	<b>4,979</b>	<b>18,328</b>
<b>Deferred revenues and other non-current liabilities</b>	<b>22,580</b>	<b>38,270</b>

Deferred considerations from business combinations relate to the acquisition of Metronet and Akenes in 2017 (see Note (34)). Other non-current non-financial liabilities include liabilities for pension contributions. See Note (31) regarding the long-term incentive program. Other deferred revenues at December 31, 2017, relate mainly to rental revenue. For the changes according to IFRS 15, see Note (3).

### (27) Employee Benefits

A1 Telekom Austria Group records employee benefit obligations under defined contribution and defined benefit plans.

In the case of defined contribution plans, A1 Telekom Austria Group pays contributions to publicly or privately administered pension or severance insurance plans on a mandatory or contractual basis. Once the contributions have been paid, which are recognized in employee expenses in the respective functional area, A1 Telekom Austria Group has no further payment obligations.

All other employee benefit obligations are unfunded defined benefit plans for which A1 Telekom Austria Group records provisions that are calculated using the projected unit credit method in accordance with IAS 19.

in TEUR, at December 31	2018	2017
Service awards	62,394	62,477
Severance	136,069	129,277
Pensions	5,153	5,088
Other	39	0
<b>Long-term employee benefit obligations</b>	<b>203,654</b>	<b>196,842</b>

According to IAS 19.133, A1 Telekom Austria Group chooses to distinguish between current and non-current liabilities arising from employee benefit obligations (see also Note (23)).

For severance and pensions, A1 Telekom Austria Group recognizes actuarial gains and losses in other comprehensive income (OCI), whereas re-measurement gains and losses for service awards are immediately recognized in profit or loss. The re-measurement of defined benefit plans relates to actuarial gains and losses only, as A1 Telekom Austria Group holds no plan assets. Interest expense related to employee benefit obligations is reported in the financial result, while service cost is reported in employee expenses in the respective functional area.

**Actuarial assumptions**

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

	2018	2017
Discount rate service awards	1.25%	1.00%
Discount rate severance	2.00%	2.00%
Discount rate pensions	1.75%	1.50%
Rate of compensation increase - civil servants	4.40%	4.40%
Rate of compensation increase - other employees	3.00%	3.00%
Rate of compensation increase - civil servants released from work	3.50%	3.50%
Rate of increase of pensions	1.60%	1.60%
Employee turnover rate*	0.0% - 1.51%	0.0% - 1.72%

\* Depending on years of service.

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

Life expectancy in Austria is based on "AVÖ 2018-P - Rechnungsgrundlagen für die Pensionsversicherung - Pagler & Pagler" (2017: "AVÖ 2008-P - Rechnungsgrundlagen für die Pensionsversicherung - Pagler & Pagler"). The effect of this change in estimate is presented in the actuarial gain/loss from changes in demographic assumptions in the following tables. The obligation related to the international subsidiaries was measured on the same actuarial basis due to their insignificant amount.

**Weighted average duration**

The weighted average duration of the obligations is as follows:

	2018	2017
Service awards	5.6	5.9
Severance	14.5	15.0
Pensions	11.2	11.7

**Service awards**

Civil servants and certain employees (together "employees") are eligible to receive service awards. Under these plans, eligible employees receive a cash bonus of two months' salary after 25 years of service and four months' salary after 40 years of service. Employees with at least 35 years of service when retiring (at the age of 65) or who are retiring based on specific legal regulations are also eligible to receive the service award of four monthly salaries. The provision is formed over the period of service, taking into account the employee turnover rate of employees who leave service early. The main risk that A1 Telekom Austria Group is exposed to is the risk of development of salary increases and changes of interest rates.

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

in TEUR	2018	2017
<b>At January 1</b>	<b>68,456</b>	<b>72,816</b>
Service cost	2,024	2,193
Interest cost	661	707
Actuarial gain/loss based on experience adjustment	-318	-1,645
Actuarial gain/loss from changes in demographic assumptions	5,927	-4
Actuarial gain/loss from changes in financial assumptions	-1,096	-201
<b>Recognized in profit or loss</b>	<b>7,199</b>	<b>1,050</b>
Benefits paid	-5,843	-5,410
<b>Obligation at December 31</b>	<b>69,811</b>	<b>68,456</b>
Less short-term portion	-7,418	-5,979
<b>Non-current obligation</b>	<b>62,394</b>	<b>62,477</b>

## Consolidated Financial Statements 2018

Of the defined benefit obligations for service awards, less than 1% relate to foreign subsidiaries as of December 31, 2018 and 2017, respectively.

### Severance

#### *Defined contribution plans*

Employees starting to work for A1 Telekom Austria Group in Austria on or after January 1, 2003 are covered by a defined contribution plan. A1 Telekom Austria Group paid TEUR 2,367 and TEUR 2,157 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2018 and 2017, respectively.

#### *Defined benefit plans*

Severance benefit obligations for employees hired before January 1, 2003, excluding civil servants, are covered by defined benefit plans. Upon termination by A1 Telekom Austria Group or retirement, eligible employees receive severance payments. Depending on the time in service, severance is equal to a multiple of the eligible monthly compensation that comprises fixed compensation plus variable element such as overtime or bonuses, with a maximum of twelve monthly salaries. In case of death, the heirs of eligible employees receive 50% of the severance benefits. A1 Telekom Austria Group is exposed to the risk of development of salary increases and changes of interest rates.

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

in TEUR	2018	2017
<b>At January 1</b>	<b>130,555</b>	<b>134,433</b>
Service cost	4,517	5,230
Interest cost	2,577	2,316
<b>Recognized in profit or loss</b>	<b>7,094</b>	<b>7,546</b>
Actuarial gain/loss based on experience adjustment	1,830	-4,295
Actuarial gain/loss from changes in demographic assumptions	547	-1,034
Actuarial gain/loss from changes in financial assumptions	0	-4,795
<b>Recognized in other comprehensive income</b>	<b>2,378</b>	<b>-10,125</b>
Benefits paid	-1,974	-1,321
Foreign currency adjustments	1	22
<b>Other</b>	<b>-1,972</b>	<b>-1,299</b>
<b>Obligation at December 31</b>	<b>138,054</b>	<b>130,555</b>
Less short-term portion	-1,986	-1,279
<b>Non-current obligation</b>	<b>136,069</b>	<b>129,277</b>

Approximately 3% of the defined benefit obligations for severance relate to foreign subsidiaries as of December 31, 2018 and 2017.

### Pensions

#### *Defined contribution pension plans*

In Austria, pension benefits are generally provided by the social security system, for employees, and by the government, for civil servants. The contributions of 12.55% that A1 Telekom Austria Group made in 2018 and 2017 to the social security system and the government in Austria, amount to TEUR 62,547 and TEUR 61,276, respectively. Contributions of the foreign subsidiaries into the respective systems range between 7% and 29% and amount to TEUR 22,836 and TEUR 21,233 in 2018 and 2017, respectively.

Additionally, A1 Telekom Austria Group sponsors a defined contribution plan for employees of some of its Austrian subsidiaries. A1 Telekom Austria Group's contributions to this plan are based on a percentage of the compensation not exceeding 5%. The annual expenses for this plan amounted to TEUR 11,997 and TEUR 12,006 in 2018 and 2017, respectively.

#### *Defined benefit pension plans*

A1 Telekom Austria Group provides defined benefits for certain former employees in Austria. All such employees are retired and were employed prior to January 1, 1975. This unfunded plan provides benefits based on a percentage of salary and years employed, not exceeding 80% of the salary before retirement, and taking into consideration the pension provided by the social security system. A1 Telekom Austria Group is exposed to the risk of development of life expectancy and inflation because the benefits from pension plans are lifetime benefits. Furthermore, approximately 7% of the pension benefit obligations at December 31, 2018 relate to the employees of the company Akenes in Lausanne, acquired in 2017.

## Consolidated Financial Statements 2018

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

in TEUR	2018	2017
<b>At January 1</b>	<b>5,562</b>	<b>6,595</b>
Service cost	150	0
Interest cost	78	94
<b>Recognized in profit or loss</b>	<b>228</b>	<b>94</b>
Actuarial gain/loss based on experience adjustment	226	-720
Actuarial gain/loss from changes in demographic assumptions	287	0
Actuarial gain/loss from changes in financial assumptions	-118	0
<b>Recognized in other comprehensive income</b>	<b>394</b>	<b>-720</b>
Benefits paid	-571	-501
Change in reporting entities	0	97
Foreign currency adjustments	11	-5
<b>Other</b>	<b>-560</b>	<b>-408</b>
<b>Obligation at December 31</b>	<b>5,624</b>	<b>5,562</b>
Less short-term portion	-471	-474
<b>Non-current obligation</b>	<b>5,153</b>	<b>5,088</b>

### *Sensitivity analysis*

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

in TEUR, at December 31	2018	2017
Service awards	69,811	68,456
Severance	138,054	130,555
Pensions	5,624	5,562

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

in TEUR, at December 31, 2018	0.5 percentage point decrease	0.5 percentage point increase
Service awards	1,950	-1,867
Severance	10,336	-9,442
Pensions	288	-262
<hr/>		
in TEUR, at December 31, 2017		
Service awards	2,033	-1,943
Severance	9,855	-8,992
Pensions	332	-296

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

in TEUR, at December 31, 2018	1 percentage point decrease	1 percentage point increase
Service awards	-3,553	3,790
Severance	-18,068	21,200
Pensions	-465	541
<hr/>		
in TEUR, at December 31, 2017		
Service awards	-3,690	3,953
Severance	-17,193	20,216
Pensions	-445	588

## Consolidated Financial Statements 2018

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

in TEUR, at December 31, 2018	0.5 percentage point decrease	0.5 percentage point increase
Service awards	17	-1,915
Severance	4,557	-5,225
<hr/>		
in TEUR, at December 31, 2017		
Service awards	47	-2,016
Severance	3,927	-5,028

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

### (28) Stockholders' Equity

#### Capital management

The capital structure of A1 Telekom Austria Group consists of financial liabilities and equity attributable to the equity holders of the parent company, comprising common stock, treasury shares, additional paid-in capital, retained earnings, remeasurement of defined benefit plans, measurement of debt instruments, hedging reserve and translation reserve as well as hybrid capital in 2017.

A1 Telekom Austria Group manages its capital structure to safeguard its solid capital base in order to maintain investor, creditor and market confidence as well as to provide sustainable support to the future operational development of A1 Telekom Austria Group.

Maintaining a solid investment grade rating is the number one priority of A1 Telekom Austria Group's finance strategy. This will allow A1 Telekom Austria Group to obtain the financial flexibility required for strategically important projects. A transparent dividend policy ensures the balance between shareholder remuneration and the utilization of cash to redeem outstanding debt.

#### Share capital

As of December 31, 2018 and 2017, the common stock of Telekom Austria AG amounts to TEUR 1,449,275, and is divided into 664.5 million bearer shares. As of December 31, 2018 and 2017, América Móvil indirectly holds a stake of 51.00% through its 100% subsidiary América Móvil B.V., Netherlands (América Móvil B.V., formerly Carso Telecom B.V.), ÖBIB holds a stake of 28.42% and free floated shares including treasury shares amount to 20.58%. The shares have no par value.

According to the Austrian Banking Act and the Capital Requirements Regulation, a regulation for banks by the European Union, the subsidiary paybox Bank AG must fulfil regulatory minimum equity requirements regarding bank-related risks, notably credit risk and operational risks as well as liquidity coverage requirements. On December 31, 2018 and 2017, these requirements were fulfilled.

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

At December 31	2018	2017
Shares authorized	664,500,000	664,500,000
Shares issued	664,500,000	664,500,000
Shares in treasury	-415,159	-415,159
Shares outstanding	664,084,841	664,084,841

The shares issued are fully paid.

### Dividend payment

The following dividends were approved by the shareholders at the Annual General Meeting and paid by Telekom Austria AG (regarding the coupon payments on the hybrid capital, see "Hybrid capital"):

	2018	2017
Date of Annual General Meeting	May 30, 2018	June 9, 2017
Dividend per share in euro	0.20	0.20
Total dividend paid in TEUR	132,817	132,817
Date of payment	June 8, 2018	June 20, 2017

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

in TEUR	2018	2017
Net income	381,546	1,060,490
Allocation to reserves reported in retained earnings	-350,523	-995,373
Profit carried forward from prior year	212,683	280,383
Unappropriated retained earnings	243,706	345,500

The unappropriated retained earnings of Telekom Austria AG according to Austrian GAAP are not subject to a dividend limitation as the restrictions of Section 235 UGB do not apply. The Management Board plans to propose to the shareholders at the Annual General Meeting to distribute a dividend of EUR 0.21 per share from unappropriated retained earnings.

### Treasury shares

At the Annual General Meeting of Telekom Austria AG held on May 29, 2013, the Management Board was empowered to:

- (a) use these treasury shares to settle obligations under the share-based compensation plans disclosed in Note (31) and/or to transfer them for or without a consideration to employees, managers and members of the Management Board/management of Telekom Austria AG and of its affiliated companies;
- (b) use them as consideration for acquisitions, or
- (c) sell treasury shares at any time via the stock exchange or by public offer.

	2018	2017
Shares held in treasury as of December 31		
Number of treasury shares	415,159	415,159
Average price per share in euro	18.80	18.80
Deduction in equity in TEUR	7,803	7,803

### Additional paid-in capital

The additional paid-in capital results from the incorporation of A1 Telekom Austria Group as well as subsequent reorganization of the group. Furthermore, effects related to the employee participation plan and the retirement of treasury shares are reported in additional paid-in capital.

### Hybrid capital

On February 1, 2018, the hybrid bond, issued on January 24, 2013, with a volume of TEUR 600,000 was repaid according to Section 5 (3) of the terms and conditions of the bond. The hybrid bond was a subordinated bond with indefinite maturity which, based on its conditions, was classified as stockholders' equity according to IFRS. Accordingly, related discount and issue cost in the amount of TEUR 11,752 were recorded net of a tax benefit of TEUR 2,938 in stockholders' equity. Therefore, stockholders' equity was increased by TEUR 591,186 in 2013.

Coupon payments of TEUR 33,750 each made in February 2018 and 2017 were recognized as distribution of dividends in stockholders' equity.

In the local financial statements, coupon payments are recognized as interest expense in profit or loss according to Austrian GAAP. While the tax benefit resulting from the accrued interest is recognized in profit or loss according to local GAAP, it is recognized in stockholders' equity as "distribution of dividend" in the Consolidated Financial Statements according to IAS 12. The net result attributable to hybrid capital holders is presented in the Consolidated Statements of Comprehensive Income in the allocation of the net result and equals interest recognized in profit or loss in 2018 and 2017 according to local GAAP amounting to TEUR 2,959 and TEUR 33,750, respectively, net of the related tax benefit of TEUR 740 and TEUR 8,438, respectively, which are recognized in stockholders' equity in 2018 and 2017.

**Other comprehensive income (loss) items (OCI)**

The other comprehensive income (loss) contains the remeasurement of severance and pension obligations (see Note (27)), measurement of debt instruments at fair value through other comprehensive income (2017: the available-for-sale reserve, see Note (19)), the hedging reserve (see Note (33)) as well as the translation reserve (see Note (3)). Their development is presented in the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Stockholders' Equity. The foreign currency translation adjustment relates mainly to the consolidation of velcom in Belarus and Vip mobile in the Republic of Serbia.

**(29) Income Taxes**

Income taxes are calculated for each taxable entity based on the expected actual income tax rate applicable. For the purpose of calculating deferred tax assets and liabilities, A1 Telekom Austria Group uses the tax rates that have been enacted or substantively enacted at the reporting date. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period the tax rate is effectively enacted. The distribution of dividends by Telekom Austria AG has no effect on the tax rate. Investment tax credits are recognized as a reduction in income taxes in the period in which these credits are granted.

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

in TEUR	2018	2017
Current income tax	54,974	61,098
Deferred income tax	43,818	-58,092
<b>Income tax</b>	<b>98,793</b>	<b>3,006</b>

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

in TEUR	2018	2017
Continuing operations	98,793	3,006
Income tax on realized result on hedging activities*	1,460	1,460
Income tax on result of debt instruments (2017: securities available-for-sale)*	9	47
Income tax on remeasurement of defined benefit obligations*	-597	2,664
Tax benefit related to hybrid capital**	-740	-8,438
Effect of initial application of IFRS 15 and IFRS 9***	11,108	0
<b>Total income tax</b>	<b>110,024</b>	<b>-1,260</b>

\* Recognized in other comprehensive income (OCI).

\*\*See Note (28).

\*\*\*See Note (3).

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

in TEUR	2018	2017
Income tax expense at statutory rate	85,625	87,119
Foreign tax rate differential	5,442	5,610
Tax-non-deductible expenses	10,400	10,288
Tax incentives and tax-exempted income	-5,077	-6,281
Tax-free income (loss) from investments	141	216
Tax benefit/expense previous years	-5,315	-3,352
Changes in deferred tax assets not recognized	12,062	-185,221
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	-3,250	94,500
Other	-1,234	128
<b>Income tax</b>	<b>98,793</b>	<b>3,006</b>
Effective income tax rate	28.84%	0.86%

In 2018 and 2017, non-deductible expenses consist mainly of withholding taxes on dividends and representation expenses as well as various non-deductible expenses in the individual countries.



## Consolidated Financial Statements 2018

Tax incentives and tax-exempted income relate mainly to investment and other tax incentives in the individual countries. Furthermore, it includes the tax-free income on the fictitious amortization of tax goodwill related to the Austrian tax group. Amortizations of tax goodwill according to Section 9 (7) KStG are treated as a temporary differences on investments in subsidiaries for tax purposes. According to IAS 12.39, no deferred tax liabilities are recorded in that case, thus there are no differences in deferred tax liabilities in 2018 and 2017.

In 2018, the tax benefit for prior periods results mainly from the finalization of the tax audit in Bulgaria covering the years 2008 to 2009. A1 Bulgaria received the tax assessments for the tax audit covering the years 2010 to 2013, which do not include brand name and customer base including interest to be tax deductible. An appeal was filed against these tax assessments as the Supreme Administrative Court decided in favor of A1 Bulgaria regarding the amortization of customer base including interest for the years 2007 to 2009. Tax and interest of TEUR 15,844 related to the brand name for the years 2010 to 2013 is provided for and bank guarantees of TEUR 48,193 were issued to secure these and further possible tax claims and interest.

The tax effect of impairments (reversals of impairments) of investments relates to taxable write-downs and reversals of write-downs of investments in affiliated companies in Austria. In 2017, these reversals of impairments as well as improved earnings prospects led to a tax gain due to the reduction in deferred tax assets, which were not recognized.

In accordance with IAS 12, deferred tax assets and liabilities are recognized for all temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and their tax bases, for current-year tax losses and tax losses carried forward as well as certain impairment losses on investments for which recognition for tax purposes is deferred over a specified period. The tax effects of temporary differences that give rise to deferred tax assets and liabilities are set out below:

in TEUR, at December 31	2018	2017
<b>Deferred tax assets</b>		
Deferred deduction for impairments of investments in subsidiaries	39,074	62,946
Loss carry-forwards	223,073	270,839
Accounts receivable: Subscribers, distributors and other	8,058	8,423
Accrued liabilities and accounts payable suppliers	9,936	6,006
Provisions, long-term	48,001	58,730
Employee benefit obligations	27,224	25,737
Property, plant and equipment	5,387	5,903
Other	3,461	8,195
<b>Deferred tax assets</b>	<b>364,214</b>	<b>446,778</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	-37,305	-39,040
Other intangible assets	-85,244	-118,256
Contract cost	-6,979	0
Other	-4,167	-4,024
<b>Deferred tax liabilities</b>	<b>-133,695</b>	<b>-161,320</b>
in TEUR, at December 31	2018	2017
Deferred tax assets	245,513	327,077
Deferred tax liabilities	-14,992	-41,619
<b>Deferred taxes, net</b>	<b>230,519</b>	<b>285,458</b>

Impairments of investments in subsidiaries relate to impairments for which the recognition of expense is deferred over seven years according to Austrian tax law and for which deferred tax is calculated (according to the respective guidance in "Effects of tax write-downs according to Section 12 (3) No 2 of the Austrian Corporate Tax Act on the accounting of income taxes according to IAS 12 in consolidated or single IFRS financial statements" issued by the Austrian Financial Reporting and Auditing Committee).

Deferred tax assets on long-term provisions relate mostly to the provision for the asset retirement obligation, which is only partly recognized for tax purposes, as well as to differences in the IFRS and tax value of the restructuring provision in Austria (see Note (23)).

## Consolidated Financial Statements 2018

Deferred tax assets on employee benefit obligations result from the difference between the amount recognized in accordance with Section 14 of the Austrian Income Tax Act (EStG) and the amount of the projected unit credit method in accordance with IAS 19 (see Note (27)).

Deferred tax liabilities on property, plant and equipment are due mostly to differences in the carrying value of assets with retirement obligations as well as to increases in carrying values in Belarus from 2011 to 2014 due to hyperinflation accounting according to IAS 29, which are not recognized for tax purposes.

Deferred tax liabilities on other intangible assets are due mainly to purchase price allocations according to IFRS in the course of acquisitions.

Contract costs must not be recognized for tax purposes in Austria, resulting in deferred tax liabilities.

In Austria, A1 Telekom Austria Group established a tax group according to Section 9 of the Austrian Corporate Tax Act (KStG), with Telekom Austria AG as the head of the tax group. Deferred tax assets and liabilities for the members of the tax group (currently all significant Austrian subsidiaries) are reported on a net basis since the tax group is treated as one taxable entity.

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

in TEUR, at December 31	2018	2017
Net operating loss carry-forwards	356,587	329,875
Temporary differences related to impairments of investments in consolidated subsidiaries	54,428	87,157
<b>Deferred tax assets not recognized</b>	<b>411,015</b>	<b>417,032</b>

In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all deferred tax assets will be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. These are based on business plans with a detailed planning period of five years. Management considers the scheduled release of deferred tax liabilities and projected future taxable income when making this assessment.

At December 31, 2018, the loss carry-forwards and the years these will expire are the following:

Year	in TEUR
2019	121,056
2021	9,340
2022	142
2023	1,271
2024	1,290
2026	420
Carry forward indefinitely	2,303,941
<b>Total</b>	<b>2,437,460</b>

The loss carry-forwards expiring in the years listed above relate mainly to the Republic of Serbia. Due to tax relief according to Article 50a of the Serbian Corporate Tax Act, the tax rate applicable at December 31, 2018 amounts to 1.6%.

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

No deferred taxes are recognized on the following temporary differences related to shares in subsidiaries, since it is not probable that these temporary deferred taxes will be reversed in the foreseeable future:

in TEUR, at December 31	2018	2017
Temporary differences	59,902	52,218

**(30) Leases**

**Lessee**

Lease agreements in which A1 Telekom Austria Group assumes substantially all the risks and rewards of ownership as a lessee are classified as finance leases; otherwise, they are classified as operating leases.

Plant and equipment acquired by way of finance leasing is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

The non-cancellable operating lease contracts will expire on various dates through 2028 and comprise mainly leases of base stations, property and vehicles.

Future minimum lease payments for non-cancellable operating lease contracts as well as finance lease contracts as of December 31, 2018 are:

in TEUR	Other finance leases	Operating leases
2019	256	77,744
2020	181	60,691
2021	124	49,155
2022	65	42,118
2023	6	35,803
after 2023		108,335
<b>Total minimum lease payments</b>	<b>632</b>	<b>373,846</b>
Less amount representing interest	-1	
Present value of lease payments	632	
Less current portion	-256	
<b>Non-current lease obligations</b>	<b>375</b>	

In 2018 and 2017, the rental and leasing expenses recognized in the Statement of Comprehensive Income amount to TEUR 165,580 and TEUR 162,026, respectively. Assets under finance leases relate to automobiles.

**Lessor**

If, substantially, all risks and rewards are attributable to A1 Telekom Austria Group as a lessor, the leased asset is recognized by A1 Telekom Austria Group. Measurement of the leased asset is then based on the accounting policies applicable to that asset in accordance with IAS 16. A1 Telekom Austria Group receives minimum lease payments for non-cancellable operating lease contracts that relate mainly to indefeasible right of use contracts, private automatic branch exchange equipment (PABX) as well as set-top boxes.

These payments are recognized as revenue on a straight-line basis over the terms of the contracts and, at December 31, 2018, they amount to:

In TEUR	Operating leases
2019	12,642
2020	6,765
2021	4,027
2022	3,446
2023	2,819
after 2023	4,255
<b>Total minimum lease payments</b>	<b>33,953</b>

**(31) Share-based Compensation**

**Long-term incentive (LTI) program**

A1 Telekom Austria Group introduced a long-term incentive program (LTI) in 2010. In accordance with IFRS 2, share-based payments are measured at fair value at the grant date. The expense is recognized over the vesting period. Due to the Management Board's decision to settle bonus shares granted in the course of the long-term incentive program in cash (subsequently called fictitious bonus shares), the share-based payments are recorded as a liability.

Participants of this program are required to invest an amount depending on the annual gross basic salaries and the management level of the entitled employee in Telekom Austria shares and to hold these shares until the end of the holding period (at least three years). For each tranche, the number of fictitious bonus shares granted is calculated based on the average Telekom Austria stock price for a defined period. The performance period for meeting the performance targets was determined to be three years. The target values for these key indicators were determined by the Supervisory Board. At the vesting date (at the earliest three years after the grant date), fictitious bonus shares will be allocated to the participants and will be settled in cash. If the targets are fully met, fictitious bonus shares equal to the double personal investment will be allocated to the participants. If the targets are exceeded, proportionally additional fictitious bonus shares will be allocated up to a maximum of 350% of the shares on a pro rata basis. This maximum amount of fictitious bonus shares is allocated if the targets are overachieved by 175% or more. In case of a significant underperformance, no bonus shares will be allocated.

On September 1, 2015, the sixth tranche (LTI 2015) was granted. EBITDA comparable, free cash flow and a revenue-based key figure were defined as key performance indicators. The actual performance and the bonus shares allocated are summarized in the subsequent table, settlement was effected in cash.

On September 1, 2016, the seventh tranche (LTI 2016) was granted. Return on Invested Capital (ROIC) and the market revenue share of A1 Telekom Austria Group (weighted with 50% each) were defined as key performance indicators.

On June 1, 2017, the eighth tranche (LTI 2017) was granted. Return on Invested Capital (ROIC) and the market revenue share of A1 Telekom Austria Group (weighted with 50% each) were defined as key performance indicators. The LTI 2017 was granted only to the members of the Management Board of Telekom Austria AG in 2017, Alejandro Plater and Siegfried Mayrhofer.

On September 1, 2018, the ninth tranche (LTI 2018) was granted. Return on Invested Capital (ROIC) and the market revenue share of A1 Telekom Austria Group (weighted with 50% each) were defined as key performance indicators. The LTI 2018 was granted only to the members of the Management Board of Telekom Austria AG, Thomas Arnoldner, Alejandro Plater and Siegfried Mayrhofer.

The following table summarizes the significant terms and conditions for the tranche settled this year and for each tranche not yet settled:

	LTI 2018	LTI 2017	LTI 2016	LTI 2015
Start of the program	January 1, 2018	January 1, 2017	January 1, 2016	January 1, 2015
Grant date	September 1, 2018	June 1, 2017	September 1, 2016	September 1, 2015
End of vesting period	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
Vesting date	September 1, 2021	June 1, 2020	September 1, 2019	September 1, 2018
Personal investment at grant date	58,719	54,271	204,334	240,835
Personal investment at reporting date*	58,719	54,271	175,231	168,945
Expected performance**	128.70%	115.60%	113.00%	87.40%
Expected bonus shares***	151,143	125,473	396,022	0
Maximum bonus shares***	205,517	189,947	613,308	0
Fair value of program in TEUR	945	809	2,610	0
Allocated bonus shares	0	0	0	274,527
Average stock price at end of vesting period in euro	0	0	0	7.88
Share-based compensation in TEUR	0	0	0	2,164

\* For LTI 2015, personal investment at the end of the vesting period.

\*\* For LTI 2015, actual performance at the end of the vesting period.

\*\*\* Taking into account the allocation of fictitious bonus shares equal to the double personal investment.

As of the reporting date, a liability measured at fair value for the portion of the expected future expense of the LTI program that has already vested, has been recognized. The fair value of the liability is measured based on the expected target achievement and the expected share

## Consolidated Financial Statements 2018

price, as determined by applying a binomial calculation model generally used for share price analysis, taking into account expected dividends. The liability is recognized over the vesting period (see Notes (22) and (26)). The following personnel expense is recognized in the Consolidated Statements of Comprehensive Income (negative values indicate income):

in TEUR	2018	2017
Personnel expense LTI	609	2,803

### *Sensitivity analysis*

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

in TEUR, at December 31	1 euro increase	1 euro decrease
Fair value of LTI 2018	151	-152
Fair value of LTI 2017	126	-125

## (32) Cash Flow Statement

The following table provides a reconciliation of capital expenditures paid to total capital expenditures:

in TEUR	2018	2017
<b>Capital expenditures paid</b>	<b>771,459</b>	<b>705,422</b>
Reconciliation of additions in accounts payable	22,218	39,707
Reconciliation of government grants	-22,698	-8,264
<b>Total capital expenditures</b>	<b>770,979</b>	<b>736,866</b>

The reconciliation of additions in accounts payable includes the adjustment of capital expenditures of the current period not yet paid as well as capital expenditures of prior periods paid in the current period in accordance with IAS 7.43. The reconciliation of government grants contains grants not yet paid, which have already been deducted from capital expenditures (see Notes (13) and (15)).

Total capital expenditures include interest capitalized (see Note (7)), but do not include additions related to asset retirement obligations. At December 31, 2018 and 2017, TEUR 171,885 and TEUR 161,275, respectively, of the additions to intangible assets and property, plant and equipment of the current year are unpaid (see Notes (15) and (16)).

In the Consolidated Statements of Cash Flows in 2018 and 2017, other adjustments in the items not requiring the use of cash and other reconciliation relate to non-cash effects of the asset retirement obligation, which are recognized in other operating income (see Note (23)).

The dividends received in 2018 and 2017 and recognized in the financial result (see Note (7)) had already been settled in cash as of December 31 and are reported in cash flow from operating activities. In 2018 and 2017, dividends paid include dividends paid to the non-controlling interests of subsidiaries in the amount of TEUR 774 and TEUR 318, respectively (see Note (34)).

In 2018 and 2017, cash and cash equivalents acquired totaled TEUR 485 and TEUR 624, respectively (see Note (34)).

## Consolidated Financial Statements 2018

The following table provides a reconciliation of the development of debt (see Notes (21) and (25)):

in TEUR	2018	2017
Change in short-term debt	244,691	-499,499
Change in long-term debt	3,184	230,112
<b>Change in debt</b>	<b>247,875</b>	<b>-269,388</b>
Thereof:		
Issuance of bonds	0	248,762
Repayments of bonds	0	-500,000
Repayments of long-term debt	0	-22,000
Change in short-term debt	7,877	1,857
Issuance of short-term debt	240,000	0
<b>Total cash flows</b>	<b>247,877</b>	<b>-271,381</b>
Acquisitions	0	1,993
Foreign exchange differences	-2	0
<b>Non-cash changes</b>	<b>-2</b>	<b>1,993</b>

The following table provides a reconciliation of deferred consideration from business combinations (see Notes (7), (22), (26) and (34)):

in TEUR	2018	2017
<b>Change in deferred consideration</b>	<b>-951</b>	<b>-106,116</b>
Thereof:		
Deferred Consideration one.vip at January 1, 2017	0	-111,667
Interest expense on deferred considerations	0	-8,333
Deferred consideration paid for Metronet	-1,200	0
<b>Deferred consideration paid for business combinations</b>	<b>-1,200</b>	<b>-120,000</b>
Interest expense on deferred considerations	88	0
Acquisitions	0	5,565
Foreign exchange differences	161	-14
<b>Non-cash changes</b>	<b>248</b>	<b>5,551</b>

### (33) Financial Instruments

#### Concentration of risks

At the reporting dates, A1 Telekom Austria Group does not have any significant concentration of business transacted with a particular supplier or creditor or customer. Furthermore, A1 Telekom Austria Group does not have any concentration of risk with respect to contractors, other services, franchises or other rights which could, if suddenly eliminated, severely impact operations. A1 Telekom Austria Group invests its cash with various institutions with appropriate credit standings.

A1 Telekom Austria Group operates in markets in the Central Eastern European (CEE) region. Operations in the CEE region involve uncertainties, including transfer, currency and tax uncertainties that may affect business activities. The accompanying Consolidated Financial Statements reflect the Management Board's assessment of the impact of the CEE business environment on the operations and the financial position of A1 Telekom Austria Group. The actual development of the future business environment may differ from Management's assessment.

#### Financial risk management

##### Overview

A1 Telekom Austria Group is exposed to various financial risks with respect to its financial assets, liabilities and anticipated transactions, including liquidity risk, interest rate and foreign currency exchange rate risk and credit risk.

The financial risk management is centrally organized. The guideline establishing policies, responsibilities and competences is valid for both the Group Treasury and the financial departments of the subsidiaries. The existing risks are regularly monitored and, if necessary, A1 Telekom

Austria Group responds to changes in market conditions. A1 Telekom Austria Group neither holds nor issues derivative financial instruments for trading, hedging or speculative purposes.

#### Liquidity risk

Liquidity risk is the risk that A1 Telekom Austria Group will not be able to meet its financial obligations as they fall due. A1 Telekom Austria Group's approach to managing liquidity is to ensure that A1 Telekom Austria Group will always have sufficient liquidity to meet liabilities when due, under both normal and stressed conditions. A monthly rolling consolidated liquidity planning is drawn up for this purpose and serves as the basis for determining the liquidity requirement. Furthermore, there is a liquidity reserve in the form of committed credit lines.

#### Funding sources

A1 Telekom Austria Group's treasury department acts as an internal financial services provider, realizing potential synergies in financing the operations of A1 Telekom Austria Group's subsidiaries. Its primary goal is to assure liquidity in a cost-effective manner by applying the pooling of cash flows and the clearing of A1 Telekom Austria Group's accounts to enable the management of short-term investments and borrowings at optimal interest rates with minimal administrative effort.

Cash flow from operations is the basis for securing sufficient liquidity of A1 Telekom Austria Group. Principal sources of external funding are bank loans and capital markets. For details of outstanding long-term debt and a description of the different classes of the debt as of the reporting date, see Note (25).

In order to diversify its short-term funding sources, A1 Telekom Austria Group implemented a multi-currency short-term treasury notes program (multi-currency notes) with a maximum volume of TEUR 300,000 in 2007. The program was entered into for an indefinite period. At December 31, 2018 and 2017, no multi-currency notes were issued.

At December 31, 2018 and 2017, A1 Telekom Austria Group had total credit lines of TEUR 1,015,000 and TEUR 1,265,000, respectively. These credit lines were not utilized. The credit line commitment of TEUR 15,000 has a term until June 2019, the remaining credit lines commitments have a maximum term until November 2019.

#### Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of financial liabilities. At December 31, 2018 and 2017, no variable interest-rate liabilities existed. Foreign currencies were translated at the rates valid on the reporting date.

in TEUR	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 years
At December 31, 2018						
Bonds	2,882,813	30,000	45,188	75,188	1,948,688	783,750
Bank debt	245,000	245,000	0	0	0	0
Accounts payable - trade	745,377	714,657	19,465	9,861	551	844
Lease obligations	632	122	135	181	195	0
Other financial liabilities	51,380	33,770	0	0	7,829	9,782
At December 31, 2017						
Bonds	2,958,000	30,000	45,188	75,188	1,702,125	1,105,500
Bank debt	17	17	0	0	0	0
Accounts payable - trade	592,032	562,527	8,718	6,997	13,403	388
Lease obligations	933	532	17	144	240	0
Other financial liabilities	71,453	50,294	2,971	2,749	5,668	9,772

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

#### Market risks

Market risk is the risk of changes in market prices. A1 Telekom Austria Group faces the risk of market price changes in interest rates and foreign exchange rates.

**Interest rate risk**

Since A1 Telekom Austria Group's long-term and short-term debt has fixed interest rates, no cash flow exposure due to fluctuating interest rates exists (see Note (25)). However, the fair value of fixed rate debt increases when market rates are below the rates fixed on these loans.

**Exposure to interest rate risk**

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

**Fair value sensitivity analysis for financial instruments**

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

in TEUR, at December 31	Capital amounts	Change in financial portfolio	
		Increase	Decrease
<b>2018</b>			
Fixed rate financial liabilities	2,795,000		
Sensitivity at a modified duration of 4.053%		-113,281	113,281
<b>2017</b>			
Fixed rate financial liabilities	2,550,000		
Sensitivity at a modified duration of 4.344%		-110,761	110,761

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

Since A1 Telekom Austria Group's debts have fixed interest rates at December 31, 2018 and 2017, no sensitivity analysis is provided.

**Information with respect to hedging reserve**

The hedging reserve results from the three forward-starting interest rate swap contracts (pre-hedges) entered into in 2011 with a face value of TEUR 100,000 each. The related hedging reserve is released in profit or loss in accordance with the recognition of interest expense on the bond, which was issued on July 4, 2013, as the interest rate risk on that bond was hedged. In 2018 and 2017, the release of the hedging reserve through other comprehensive income resulted in interest expense amounting to TEUR 5,840 and a tax benefit amounting to TEUR 1,460.

**Exchange rate risk**

At December 31, 2018 and 2017, of all accounts receivable: subscribers, distributors and other, net as well as accounts payable trade, only the following are denominated in a currency other than the functional currency of the reporting entities (for foreign exchange rates, see Note (3)):

in TEUR, at December 31	2018			2017		
denominated in	EUR	USD	Other	EUR	USD	Other
Accounts receivable: Subscribers, distributors and other	14,051	12,573	9,543	2,095	9,587	37,647
Accounts payable - trade	90,474	23,736	2,970	70,486	15,832	4,878

At December 31, 2018 and 2017, a change of 10% in the exchange rate for the monetary items listed above (see Note (3)) would increase/decrease foreign exchange rate differences as follows:

in TEUR	2018	2017
Croatian Kuna (HRK)	2,394	2,282
Serbian Dinar (CSD)	2,938	1,792
Belarusian Rouble (BYN)	736	400

No sensitivity analysis was performed for other accounts receivable or for accounts payable denominated in foreign currencies, as there is no significant risk.



**Credit risk**

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from accounts receivable trade and investment activities. Due to internal guidelines and counterparty limits there is neither significant credit risk nor concentration.

**Financial investments and cash and cash equivalents**

A1 Telekom Austria Group's investments are generally of a short-term nature and entered into only with those counterparties holding investment grade ratings. If no such external rating is available, an internal rating based on quantitative ratios is carried out. Therefore, no exposure to any significant credit risk was identified for financial investments and cash and cash equivalents.

The carrying amount of financial assets and cash and cash equivalents represents the maximum credit risk exposure (see Notes (9) and (19)):

in TEUR, at December 31	2018	2017
Investments	11,475	12,891
Cash and cash equivalents	63,631	202,390
<b>Carrying amount</b>	<b>75,106</b>	<b>215,281</b>

**Accounts receivable: Subscribers, distributors, contract assets and other assets**

A1 Telekom Austria Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or group of customers. The demographics of A1 Telekom Austria Group's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk.

Within the framework of the applicable legal regulations, each new customer is analyzed individually for creditworthiness. Credit risk or the risk of default in payment by contractual partners is monitored via credit checks, credit limits and verification routines. Due to the large number of customers and the high level of diversification of the portfolios, the default of any single debtor would not entail grave consequences (low concentration risk) in respect of the Consolidated Financial Statements. Within A1 Telekom Austria Group, operative credit risk management functions are performed at the operating company level.

The following table sets forth the maximum exposure to credit risk for contract assets, other financial assets and accounts receivable: subscribers, distributors and other, net, which equals the carrying amount (see Notes (10), (13), (14) and (20)):

in TEUR, at December 31	2018	2017
Accounts receivable: Subscribers, distributors and other	830,375	679,292
Financial assets	15,962	161,022
Contract assets	141,114	0
<b>Carrying amount</b>	<b>987,451</b>	<b>840,314</b>

Accounts receivable from related parties are not included as they are immaterial.

As a result of the low concentration of credit risk described above, A1 Telekom Austria Group has no insurance for its accounts receivable. However, based on the credit assessment of retail and wholesale customers, A1 Telekom Austria Group requires bank guarantees, comfort letters and cash deposits (see Notes (22) and (26)).

in TEUR, at December 31	2018	2017
Cash deposits	11,391	10,666
Guarantees	17,012	9,165

A1 Telekom Austria Group uses a provision matrix to calculate expected lifetime credit losses for accounts receivable: subscribers, distributors and other as well as contract assets. The following table sets forth total gross book values at default in payment ("Gross") and the expected average credit loss ("ECL") in 2018, calculated with the provision matrix, as well as gross and valuation allowance ("VA") in 2017 for accounts receivable: subscribers, distributors and other as well as other financial assets:

## Consolidated Financial Statements 2018

in TEUR, at December 31	Gross 2018	ECL 2018	Gross 2017	VA 2017
unbilled & not yet due	744,324	16,446	733,633	21,137
Past due 0-30 days	54,434	5,112	52,166	5,249
Past due 31-60 days	26,980	5,803	26,504	6,537
Past due 61-90 days	10,465	4,992	16,798	5,700
More than 90 days	252,060	209,573	247,321	197,485
<b>Total</b>	<b>1,088,264</b>	<b>241,927</b>	<b>1,076,422</b>	<b>236,108</b>

The cumulated effect of the initial application of IFRS 15 and IFRS 9 was recognized in the opening balance at January 1, 2018 in accordance with the modified retrospective approach (see Note (3) – Impact at January 1, 2018).

In 2018, financial assets amount to TEUR 16,686 gross and TEUR 724 ECL (see Notes (13) and (20)).

A1 Telekom Austria Group has grouped accounts receivable according to loss patterns observed in the past (accounts receivable: subscribers, installments, distributors, interconnection and roaming) and the provision rates are based on days past due. The provision matrix is based on A1 Telekom Austria's historically observed default rates, which are updated on a yearly basis. Due to the large number of customers and the high degree of diversification of the portfolios, forward-looking information, such as forecasts of changes in unemployment rates or gross domestic product, has no substantial impact on default rates.

The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit losses is a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions. A1 Telekom Austria Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Impairment losses of contract assets and accounts receivable: subscribers, distributors and other are measured at the expected full lifetime credit loss (see Note (6)).

The following table shows the development of the allowance for other financial assets and accounts receivable: subscribers, distributors and other, net:

in TEUR	2018	2017
<b>At January 1</b>	<b>234,110</b>	<b>225,654</b>
Foreign currency adjustment	563	-763
Change in reporting entities	27	1,035
Reversed	-5,389	-6,353
Charged to expenses	50,518	60,419
Amounts written-off	-37,901	-43,883
<b>At December 31</b>	<b>241,927</b>	<b>236,108</b>

The cumulated effect of the initial application of IFRS 15 and IFRS 9 amounting to TEUR 1,998 was recognized in the opening balance at January 1, 2018 in accordance with the modified retrospective approach (see Note (3) – Impact at January 1, 2018).

In 2018, the charge to expenses includes the valuation allowance of TEUR 154 for a financial asset (see Note (13)).

The following table shows the development of the valuation allowance of contract assets:

in TEUR	2018
<b>At January 1</b>	<b>3,344</b>
Foreign currency adjustment	12
Reversed	-5,524
Charged to expenses	5,964
<b>At December 31</b>	<b>3,796</b>

The cumulated effect of the initial application of IFRS 15 and IFRS 9 was recognized in the opening balance at January 1, 2018 in accordance with the modified retrospective approach (see Note (3) – Impact at January 1, 2018).

Upon recognition of contract assets, the related impairment loss is recognized at the credit default rate of the receivables "not yet billed as well as billed and not yet due". Upon reclassification to receivables, the impairment of contract assets is derecognized.

## Consolidated Financial Statements 2018

The maximum credit risk of accounts receivable: subscribers, distributors and other, net broken down by geographic region as well as the breakdown of the allowance are:

in TEUR, at December 31	2018	2017
Domestic	961,342	818,399
Foreign	110,236	80,000
Allowances	-241,204	-219,106
<b>Accounts receivable: Subscribers, distributors and other</b>	<b>830,375</b>	<b>679,292</b>
Thereof		
Specific allowance	7,360	6,799
General allowance	233,843	212,307

The increase in accounts receivable is due to the change in recognition of installment sales receivables (see Note (3) – Impact at January 1, 2018).

If there is objective evidence that A1 Telekom Austria Group will not be able to collect all amounts due according to the original terms, a default in payment is expected and an impairment is recorded (specific allowance). Serious financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered to be indicators that the receivable is impaired. Furthermore, a default in payment of a financial asset is expected if contractual payments are more than 90 days overdue. A financial asset is impaired if the collection of contractual cash flows cannot be reasonably expected. In 2018 and 2017, income from impaired receivables that are still in the process of debt collection amounted to TEUR 6,958 and TEUR 10,701, respectively, and was recognized in other operating income (see Note (5)).

Accounts receivable: subscribers, distributors and other from A1 Telekom Austria Group's customer with the highest turnover amount to TEUR 17,225 and TEUR 1,749 at December 31, 2018 and 2017, respectively. Thus, no major concentration of credit risk exists.

### Classification of financial instruments

Financial assets and financial instruments are classified at initial recognition.

Financial assets and financial liabilities are recognized when A1 Telekom Austria Group becomes a party to a financial instrument. A1 Telekom Austria Group uses the settlement date for recording regular purchases and sales of financial assets. Derivative financial instruments are recognized at the trade date and derecognized when settled. Financial assets and financial liabilities are initially recognized at the fair value of the consideration given or received. Transaction costs are included in the initial measurement, except for financial instruments, which are recognized at their fair value through profit or loss.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The business models of A1 Telekom Austria Group are "hold to collect" and "hold to collect and sell", respectively, and no derivative financial instruments are held. The contractual cash flows of non-derivative financial instruments consist mainly of principal and interest.

Financial assets include in particular cash and cash equivalents, accounts receivable: subscribers, distributors and other, net as well as contract assets, other receivables and receivables due from related parties, which are measured at the lower of cost or net realizable value. Furthermore, financial instruments are included that are measured at fair value (see Note (19)).

Financial liabilities include, in particular, accounts payable trade, issued bonds, other financial liabilities and payables due to related parties and are recognized initially in the amount corresponding to the financial inflow. Differences between the amount received and the amount to be repaid are recognized over the term of the liability in the financial result (amortized cost) using the effective interest rate method. For financial liabilities carried at amortized cost, gains or losses are recognized in profit or loss when the financial liability is derecognized.

Financial assets and financial liabilities are offset and the net amount is presented in the Statements of Financial Position only when A1 Telekom Austria Group has a contractual right to offset the recognized amounts and intends to settle on a net basis.

### Fair value of financial instruments

According to IFRS 13, the fair value is the price that would be received to sell an asset or paid to transfer a liability. A three-level hierarchy is to be applied. Level 1 contains financial assets and liabilities based on quoted prices in active markets for identical assets or liabilities. Level 2 contains financial assets and liabilities based on inputs other than quoted market prices included within Level 1 that are observable for the

## Consolidated Financial Statements 2018

asset or liability, either directly or indirectly. Level 3 contains financial assets and liabilities based on inputs that are unobservable. When determining the fair value, the risk of non-fulfilment is taken into account as well.

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

in TEUR, at December 31	Carrying amount 2018	Fair value	Carrying amount 2017	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	63,631	63,631	202,390	202,390
Accounts receivable: Subscribers, distributors and other	830,375	830,375	679,292	679,292
Receivables due from related parties	1,382	1,382	944	944
Other current financial assets	6,771	6,771	111,631	111,631
Other non-current financial assets	9,191	9,191	49,390	49,390
Investments at amortized cost	3,330	3,330	0	0
<b>Financial assets at amortized cost</b>	<b>914,680</b>	<b>914,680</b>	<b>1,043,648</b>	<b>1,043,648</b>
Equity instruments at fair value through profit or loss - mandatory	3,705	3,705	0	0
Debt instruments at fair value through other comprehensive income - mandatory	2,826	2,826	0	0
Debt instruments at fair value through profit or loss - mandatory	1,614	1,614	0	0
<b>Financial assets at fair value</b>	<b>8,145</b>	<b>8,145</b>	<b>0</b>	<b>0</b>
<b>Available-for-sale investments</b>	<b>0</b>	<b>0</b>	<b>11,345</b>	<b>11,345</b>

At December 31, 2017, other current and non-current financial assets comprised installment sales receivables that are reported in accounts receivable: subscribers, distributors and other, net as of 2018 (see Note (3) - Impact of IFRS 15).

At December 31, 2017, financial assets at amortized cost were classified into cash and cash equivalents and loans and receivables. For details on the classification of financial assets and investments in the course of the implementation of IFRS 9 see Note (3) - Impact of IFRS 9.

Cash and cash equivalents, accounts receivable: subscribers, distributors and other as well as receivables due from related parties are generally not discounted. As their carrying amounts reported approximate their fair values, no further information on the classification in the fair value hierarchy is provided.

At December 31, 2017, other financial assets essentially comprised installment sales receivables (see Notes (13) and (20)), the fair values corresponded to the present values of the payments related to the assets. At December 31, 2018, TEUR 199,952 of the carrying amount of accounts receivable: subscribers, distributors and other relate to installment sales in all segments and have a fair value of TEUR 194,036. The calculation of the fair values takes into account the current interest rates that reflect market and partner-based changes to terms, conditions and expectations and are thus classified as Level 2 of the fair value hierarchy.

### Fair value hierarchy of financial investments

The following table shows the fair value hierarchy of financial investments measured at fair value that reflects the market proximity of the inputs in such fair value measurements:

in TEUR	Level 1	Level 2	Level 3	Total
<b>At December 31, 2018</b>				
Financial assets measured at fair value	7,136	1,009	0	8,145
<b>At December 31, 2017</b>				
Available-for-sale investments	10,765	580	0	11,345

## Consolidated Financial Statements 2018

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

	Carrying amount 2018	Fair value	Carrying amount 2017	Fair value
<b>Financial liabilities</b>				
Liabilities to financial institutions	245,000	245,051	17	17
Bonds	2,536,417	2,743,779	2,533,262	2,818,434
Other current financial liabilities	33,780	33,780	51,309	51,309
Lease obligations	632	632	894	894
Other non-current liabilities	17,600	17,600	19,942	19,942
Accounts payable - trade	745,377	745,377	592,032	592,032
Payables due to related parties	528	528	554	554
Accrued interest	29,990	29,990	29,990	29,990
<b>Financial liabilities at amortized cost</b>	<b>3,609,324</b>	<b>3,816,737</b>	<b>3,228,000</b>	<b>3,513,172</b>

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

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

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

### (34) Companies and Business Combinations

Name and company domicile	Capital share at December 31, 2018 in %	Method of consolidation*	Capital share at December 31, 2017 in %	Method of consolidation*
<b>Segment Austria</b>				
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00	FC	100.00	FC
Telekom Austria Personalmanagement GmbH, Vienna	100.00	FC	100.00	FC
Telekom Austria Beteiligungen GmbH, Vienna	100.00	FC	100.00	FC
CableRunner GmbH, Vienna	76.00	FC	76.00	FC
CableRunner Austria GmbH & Co. KG, Vienna	76.00	FC	76.00	FC
World-Direct eBusiness solutions Gesellschaft m.b.H., Vienna	100.00	FC	100.00	FC
paybox Bank AG, Vienna	100.00	FC	100.00	FC
paybox Service GmbH, Vienna	100.00	FC	100.00	FC
wedify GmbH, Vienna (2017: 3G Mobile Telecommunications GmbH)	100.00	FC	100.00	FC
mk Logistik GmbH, Vienna	100.00	FC	100.00	FC
JetStream Hungary Kft., Budapest	100.00	FC	100.00	FC
JetStream Slovakia s.r.o., Bratislava	100.00	FC	100.00	FC
JetStream RO s.r.l., Bucharest	100.00	FC	100.00	FC
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00	FC	100.00	FC
JetStream Switzerland GmbH, Zurich	100.00	FC	100.00	FC
JetStream Poland Spolka Z Ograniczona Odpowiedzialnoscia, Warsaw	100.00	FC	100.00	FC
JetStream Germany GmbH, Frankfurt on the Main	100.00	FC	100.00	FC
JetStream Italy S.r.l., Milan	100.00	FC	100.00	FC
TA CZ sitě s.r.o., Prague	100.00	FC	100.00	FC
JetStream BH d.o.o. drustvo za telekomunikacije, Sarajevo	100.00	FC	100.00	FC
JetStream England Limited, London	100.00	FC	100.00	FC
<b>Segment Bulgaria</b>				
A1 Bulgaria EAD, Sofia (2017: Mobiltel EAD)	100.00	FC	100.00	FC
Cabletel-Prima AD, Nessebar	51.00	FC	51.00	FC
Citynet TV OOD, Aytos	ME	-	51.00	FC
Cable Information System AD, Russe	LIQ	-	87.55	NC

## Consolidated Financial Statements 2018

Name and company domicile	Capital share at December 31, 2018 in %	Method of consolidation*	Capital share at December 31, 2017 in %	Method of consolidation*
<b>Segment Croatia</b>				
A1 Hrvatska d.o.o., Zagreb (2017: Vipnet d.o.o.)	100.00	FC	100.00	FC
Vipnet usluge d.o.o., Zagreb	ME	-	100.00	FC
Metronet Telekomunikacije d.d., Zagreb	ME	-	100.00	FC
<b>Segment Belarus</b>				
Unitary enterprise velcom, Minsk	100.00	FC	100.00	FC
Unitary enterprise TA-Engineering, Minsk	100.00	FC	100.00	FC
Adelfina Ltd. i.Liqu., Minsk	100.00	FC	100.00	FC
Unitary enterprise Solar Invest, Bragin town	100.00	FC	100.00	FC
Vitebskiy oblastnoy technotorgovyi tsentr Garant i.Liqu, Vitebsk	100.00	FC	-	-
A1 Content, Minsk	100.00	NC	-	-
Gomel Regional Technological Trade Center "Garant" Open Joint-Stock Company, Gomel	LIQ	-	98.70	FC
<b>Segment Macedonia</b>				
one.Vip DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
Telemedia DOOEL, Skopje (2017: Vip operator usluzi DOOEL)	100.00	FC	100.00	FC
Astra Plus DOOEL, Kocani	ME	-	100.00	FC
Digi plus Multimedia DOOEL, Skopje	ME	-	100.00	FC
<b>Segment Serbia</b>				
Vip mobile d.o.o., Belgrade	100.00	FC	100.00	FC
Amis Telekomunikacije d.o.o., Belgrade	LIQ	-	100.00	FC
<b>Segment Slovenia</b>				
A1 Slovenija d.d., Ljubljana	100.00	FC	100.00	FC
Telekomunikacijski sistem Radvanje Pekre Limuš d.d., Maribor	50.02	FC	11.52	NC
<b>Corporate &amp; Other</b>				
Telekom Projektentwicklungs GmbH, Vienna	ME	-	100.00	FC
Telekom Finanzmanagement GmbH, Vienna	100.00	FC	100.00	FC
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00	FC	100.00	FC
mobilkom Bulgarien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
SB Telecom Ltd., Limassol	100.00	FC	100.00	FC
A1 Digital International GmbH, Vienna	100.00	FC	100.00	FC
A1 Digital Deutschland GmbH, Munich	100.00	FC	100.00	FC
Akenes S.A., Lausanne	88.83	FC	88.83	FC
Akenes GmbH, Berlin	100.00	NC	100.00	NC
Telecom Liechtenstein AG, Vaduz	24.90	EQ	24.90	EQ

\* FC - full consolidation, EQ - equity method, LIQ - liquidation, ME - merged, NC - not consolidated because not material, SO - sold  
All affiliated companies have December 31 as their reporting date.

According to IFRS 3, business combinations are accounted for using the acquisition method at the acquisition date, which is the date when the acquirer obtains control over the acquiree. Goodwill is measured as the difference between the aggregate of the fair value of the consideration transferred as of the acquisition date, the amount of any non-controlling interest, and, in a business combination achieved in stages, the fair value of the acquirer's previously-held equity interest in the acquiree less the fair value of the identifiable assets acquired and the liabilities assumed. Non-controlling interests are not measured at fair value but at their share of the fair value of identified net assets of the acquiree. In accordance with IFRS 3.45, goodwill may be adjusted for subsequent changes in the estimated purchase price. If the fair value of the assets acquired exceeds the consideration transferred, the gain resulting from bargain purchase is immediately recognized in other operating income in profit or loss. Transaction costs are expensed as incurred. In case of an acquisition achieved in stages, the previously held interest is restated at fair value and any resulting difference is recognized in profit or loss. All transactions with non-controlling interest holders are directly recognized in stockholder's equity. In the course of purchase price allocations, fair values of assets and liabilities acquired are determined based on state-of-the-art discounted cash flow methods. The input factors used are categorized as Level 3 of the fair value hierarchy defined by IFRS 13.

## Consolidated Financial Statements 2018

On April 24, 2018, A1 Telekom Austria Group acquired 97.07% of Vitebskiy oblastnoy technotorgovyi tseñtr Garant ("Vitebsk Garant") via its Belarusian subsidiary velcom. In the second quarter, the remaining shares were acquired, the fair value of shares outstanding was already included in the total purchase consideration and no non-controlling interest was recognized at initial consolidation. Vitebsk Garant is a broadband-, cable- and IP-TV-operator in Belarus providing services mainly for residential customers in both, Vitebsk and other small cities in the region. The fair values of the assets acquired and liabilities assumed at the acquisition date are reported in the segment Belarus:

Acquisition of Vitebsk Garant in TEUR	Fair values on acquisition date
Property, plant and equipment	3,636
Intangible assets	973
Other assets and receivables	388
Cash and cash equivalents	145
Deferred tax liabilities	-390
Accounts payable	-851
<b>Net assets acquired</b>	<b>3,900</b>
Goodwill	173
<b>Total purchase consideration</b>	<b>4,073</b>
Cash and cash equivalents acquired	-145
Net cash outflow	3,928

The factors contributing to goodwill are expectations of positive returns due to regional synergies, upselling of cable TV customers and further cost synergies.

In the second quarter 2018, A1 Telekom Austria Group acquired the non-controlling interest of 49.0% in "City TV OOD" in Bulgaria with a carrying value of TEUR 75 for a consideration of TEUR 100 as well as the non-controlling interest of 1.3% in "Gomel Garant" in Belarus with a carrying value of TEUR 6 for a consideration of TEUR 5. The excess of the purchase price over the carrying value of the non-controlling interest, amounting to TEUR 24, is recorded in retained earnings.

On November 2, 2018, A1 Telekom Austria Group acquired the remaining non-controlling interest of 31.69% of Telekomunikacijski sistem Radvanje Pekre Limuř d.d („TS RPL Slovenia“) via its Slovenian subsidiary A1 Slovenija. The fair value of the previously held share of 18.34% was remeasured and the resulting loss of TEUR 44 was recognized in the financial result. TS RPL Slovenia is a provider of Internet and cable TV in Slovenia. The fair values of the assets acquired and liabilities assumed at the acquisition date are reported in the segment Slovenia:

Acquisition of TS RPL Slovenia in TEUR	Fair values on acquisition date
Property, plant and equipment	445
Other assets and receivables	46
Cash and cash equivalents	340
Accounts payable	-120
<b>Net assets acquired</b>	<b>711</b>
Non-controlling interests	-355
Gain resulting from bargain purchase	-138
<b>Consideration transferred</b>	<b>218</b>
Shares already held	-79
Cash and cash equivalents acquired	-340
<b>Net cash outflow</b>	<b>-201</b>

Since the effect of the acquired entities on the Consolidated Financial Statements of A1 Telekom Austria Group is not considered significant, no pro-forma information is presented.

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

In the normal course of business, A1 Telekom Austria Group is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to network access. Such matters are subject to many uncertainties, and the outcomes are not predictable with certainty. Consequently, Management is unable to ascertain the ultimate aggregate amount of the monetary liability or the impact on the financial position of A1 Telekom Austria Group with respect to these matters at December 31, 2018. These matters could affect the operating results or cash flows of any quarter when resolved in future periods. However, Management believes that, after final settlement, any monetary liability or financial impact on A1 Telekom Austria Group, beyond such provided for at year-end, would not be material to its Consolidated Financial Statements.

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

At December 31, 2018, the Management Board of Telekom Austria AG consists of three members: Thomas Arnoldner as Chief Executive Officer (CEO), Alejandro Plater as Chief Operating Officer (COO) and Siegfried Mayrhofer as Chief Financial Officer (CFO). On April 19, 2018, Thomas Arnoldner was nominated as new CEO of Telekom Austria AG by the two main shareholders, América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB). The appointment of Thomas Arnoldner was resolved by the Supervisory Board. He took office on September 1, 2018.

At December 31, 2017, the Management Board of Telekom Austria AG was composed of Alejandro Plater as CEO and at the same time as COO, as well as Siegfried Mayrhofer as CFO. Since March 6, 2015, Alejandro Plater has been a member of the Management Board and, since August 1, 2015, CEO. Since June 1, 2014, Siegfried Mayrhofer has been a member of the Management Board.

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

in TEUR	2018	2017
Basic remuneration (fixed salary incl. remuneration in kind)	1,224	1,026
Variable remuneration	1,370	1,087
Share-based compensation (Long Term Incentive Program)*	534	110
Total	3,129	2,224
Compensation Supervisory Board	357	358

\* See Note (31)

Hannes Ametsreiter resigned from his function as CEO as per July 31, 2015 and his employment relationship was amicably terminated at the same date. Günther Ottendorfer's CTO contract with a term until August 31, 2016 was prematurely terminated as per March 5, 2015. Hans Tschuden's CFO contract with a term until March 31, 2015 was prematurely terminated as per March 31, 2014. The share-based compensation for LTI 2015 amounting to TEUR 290 and paid in 2018 as well as the share-based compensation for LTI 2014 of TEUR 222 and paid in 2017 to former Management Board members is not included in the table of management remuneration.

### (37) Employees

The average number of employees during the years 2018 and 2017 was 18,847 and 18,659, respectively. At December 31, 2018 and 2017, A1 Telekom Austria Group employed 18,705 and 18,957 employees (full-time equivalents), respectively.

### (38) Subsequent Events

On January 15, 2019, A1 Telekom Austria Group entered into a committed credit line with a total volume of TEUR 150,000 and a term until January 15, 2020. A further committed credit line with a total volume of TEUR 50,000 and a term until year-end 2019 was entered into on January 28, 2019.



**(39) Release for Publication**

On February 11, 2019, the Management Board approved the Consolidated Financial Statements for submission to the Supervisory Board. The Supervisory Board will review the Consolidated Financial Statements and report its decision on approval.

Vienna, February 11, 2019

CEO Thomas Arnoldner

COO Alejandro Plater

CFO Siegfried Mayrhofer