

# Group Management Report<sup>1)</sup>

## General economic environment<sup>2)</sup>

In 2018, economic growth in Europe continued but gradually decelerated. In a forecast published in November of the year under review, the European Commission estimated that economic growth in the European Union would be 2.1% in 2018 and thus decreased its spring forecast from 2.3%. In 2019, growth is expected to be 1.9%. The Austrian economy is expected to record 2.7% growth in 2018. In Bulgaria, the increase in GDP is estimated at 3.5% in 2018. In Croatia, the economy is set to have expanded by 2.8% in the same period. An increase in economic output of 4.0% is expected for Belarus in 2018. Based on European Commission estimates, Slovenia, the Republic of Serbia, and the Republic of Macedonia are expected to have seen an increase in economic output of 4.3%, 4.1%, and 2.1% respectively in 2018.

The European Central Bank (ECB) lowered again the volume of its bond buying program in the year under review. At the beginning of March 2015, the bond buying program amounted to EUR 80 bn per month, but was scaled back in 2017 for the first time. Starting from January, the amount was at EUR 30 bn per month, from October until December 2018 it was EUR 15 bn per month and then discontinued since the beginning of 2019. While the ECB kept its key interest rate unchanged at 0.00% during the year under review, the US Federal Reserve again raised its key interest rate from 1.25-1.50% to 2.25-2.50% in four stages in March, June, September and December 2018.

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

	2017	2018e	2019e
Austria	2.6	2.7	2.0
Bulgaria	3.8	3.5	3.7
Croatia	2.9	2.8	2.8
Belarus	2.4	4.0	3.1
Slovenia	4.9	4.3	3.3
Republic of Serbia	1.9	4.1	3.8
Republic of Macedonia	0.0	2.1	2.8

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

## Industry trends and competition

Positive economic development in recent years continued in 2018 in the markets relevant for the A1 Telekom Austria Group. Nevertheless, the market environment in both the fixed-line and the mobile communications markets proved to be highly competitive once again. This was visible in the no-frills segment, as there was sustained pressure on prices due to the aggressive pricing policy of mobile virtual network operators (MVNOs). Furthermore, regulatory provisions continued to negatively impact revenues and earnings. In particular, the abolition of retail roaming in the EU as of June 15, 2017 affected the Group's results. In addition, there was a further termination rate cut in the Republic of Serbia.

The A1 Telekom Austria Group counters these factors through the systematic implementation of its convergence strategy, a clear focus on high-value customers, innovative products and services, as well as strict cost management. As already decided in 2017, the A1 Telekom Austria Group continued to harmonize the brands within the Group which has already happened in Slovenia, Bulgaria, and Croatia.

In Austria, the A1 Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed-line and mobile communications solutions. The latest market report issued by the regulatory authority, which tracked the most recent market data in Austria up to the end of the second quarter of 2018, describes the following average trends across all operators<sup>3)</sup>:

- ▶ The number of SIM cards increased by 7.0% year-on-year from 14.6 million in the second quarter of 2017 to 15.7 million in the second quarter of 2018. As previously, strong stimulus for this trend came from smartphone users<sup>4)</sup>, where an increase of 13.6% to more than 5.5 million users was recorded. Total retail customer revenues also recorded growth of 0.9% in the same period of time.
- ▶ In the Austrian fixed-line market, the number of fixed access lines in the second quarter 2018 decreased by 1.2% year-on-year. The amount of voice minutes via the fixed-line network also decreased by 9.8% in the same period.

1) The following document is a translation from the original German version, which is solely valid.

2) Sources: GDP information for Belarus: IMF <https://www.imf.org/~/media/Files/Publications/WEO/2018/October/English/main-report/Text.ashx?la=en>, page 64; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Serbia, and Republic of Macedonia: [https://ec.europa.eu/info/sites/info/files/economy-finance/ip089\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ip089_en_0.pdf), dated November 2018, pages 89, 107, 125, 133, 145, 149, 199.

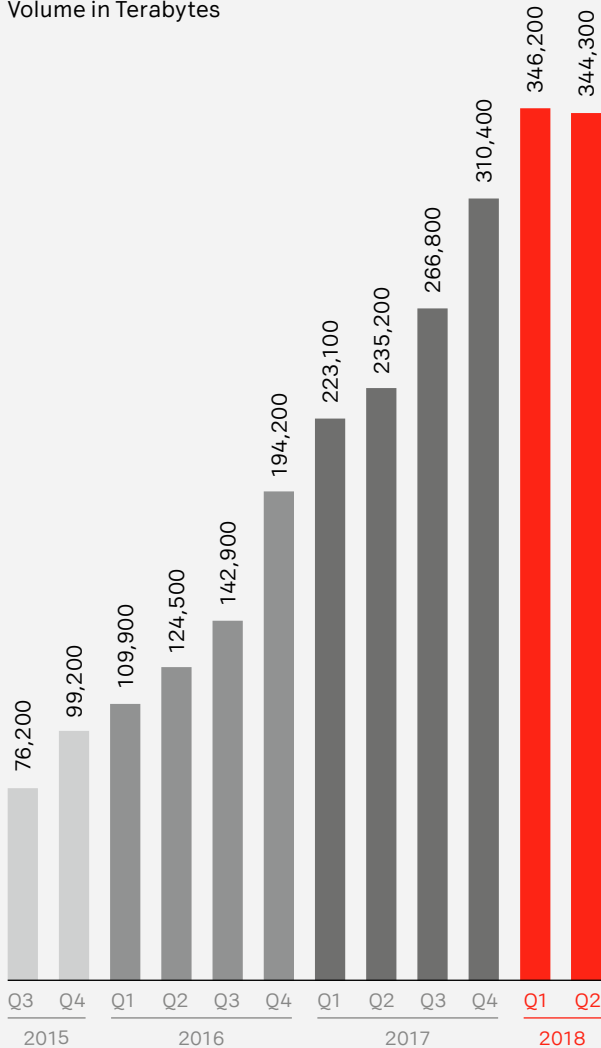
3) [https://www.rtr.at/de/inf/telekom-monitor-q22018/RTR\\_Telekom\\_Monitor\\_Q2\\_2018.pdf](https://www.rtr.at/de/inf/telekom-monitor-q22018/RTR_Telekom_Monitor_Q2_2018.pdf); A1 Telekom Austria Group calculations.

4) The significant decrease in mobile broadband as well as the increases in smartphone tariffs are due to changes in query definitions and allocations. (Source: RTR Telekom Monitor Q2 2018).

- ▶ At 90 %, NGA (next generation access) coverage in Austria is in the top third of the EU, while the number of accesses above 30 Mbps (27.2 %) is in the lowest third of the EU.<sup>5)</sup>
- ▶ In Q2 2018, the broadband market recorded 10.1 million mobile and fixed-line broadband connections, with somewhat weaker growth of 3.3 % year-on-year.

## Upload and download volumes in Austria

Volume in Terabytes



Source: RTR

- ▶ Rapid growth of data volume in overall mobile telecommunications, which consists of pure mobile broadband as well as smartphone users according to the definition of the regulatory authority, also continued in the second quarter of 2018 with an increase of 46.4 % year-on-year.

According to Statistics Austria, the share of Austrian households with broadband connections in 2018 remained constant at 88 %, while the share among companies rose from 98 % to 99 %.<sup>6)</sup>

In Bulgaria, the trend of the past years continued and the Internet penetration rate across all households increased to 72.1 % in 2018 compared with 67.3 % in 2017.<sup>7)</sup>

In Croatia, broadband penetration in the fixed-line business increased to 26.0 % in the third quarter of 2018 (Q3 2017: 25.3 %), while mobile broadband penetration increased slightly from 81.2 % to 83.6 % in the same period.<sup>8)</sup>

In Belarus, the ICT market has developed strongly in recent years, which has led to a steady increase in the number of Internet customers, while the number of mobile network users continued to stagnate in 2017. At the end of 2017, the proportion of households with Internet access was 67.2 % (2016: 62.5 %)<sup>9)</sup>

In Slovenia, the Internet penetration rate increased from 81.7 % in the previous year to 86.7 % in the year under review. 93.7 % of these users with Internet access also utilized a mobile device to access the web (2017: 85.1 %).<sup>10)</sup>

In the Republic of Serbia, the increase in the number of Internet connections continued, with 72.9 % of households having Internet access in 2018 (2017: 68.0 %). Meanwhile, 93.0 % of all Serbian households also own mobile telephones (2017: 90.5 %) and 72.1 % have a computer (2017: 68.1 %).<sup>11)</sup>

According to the Statistical Office of the Republic of Macedonia, 79.3 % of all Macedonian households had Internet access in the first quarter of 2018 (Q1 2017: 73.6 %), of which 81.0 % also used a mobile device to access the web (Q1 2017: 82.5 %).<sup>12)</sup>

5) [https://www.rtr.at/de/inf/GlasfaserOe2018/RTR\\_Glasfaser-Internetanschluesse\\_Oesterreich\\_10\\_2018.pdf](https://www.rtr.at/de/inf/GlasfaserOe2018/RTR_Glasfaser-Internetanschluesse_Oesterreich_10_2018.pdf).

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

7) [http://www.nsi.bg/sites/default/files/files/pressreleases/ICT\\_hh2018\\_en\\_KV45Z0R.pdf](http://www.nsi.bg/sites/default/files/files/pressreleases/ICT_hh2018_en_KV45Z0R.pdf)

8) [https://www.hakom.hr/UserDocslmages/2018/e\\_trziste/KVA%20ENG%20Q3%202018%20Fixed%20broadband%20penetration.pdf](https://www.hakom.hr/UserDocslmages/2018/e_trziste/KVA%20ENG%20Q3%202018%20Fixed%20broadband%20penetration.pdf);

[https://www.hakom.hr/UserDocslmages/2018/e\\_trziste/KVA%20ENG%20Q3%202018%20Mobile%20broadband%20penetration.pdf](https://www.hakom.hr/UserDocslmages/2018/e_trziste/KVA%20ENG%20Q3%202018%20Mobile%20broadband%20penetration.pdf).

9) <http://www.belstat.gov.by/en/ofitsialnaya-statistika/real-sector-of-the-economy/communication-and-ict/communication/annual-data/main-indicators-of-general-use-communications-development/>;

Statistical Yearbook of the Republic of Belarus, 2018: [http://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/statistical-publications-data-books-bulletins/public\\_compilation/index\\_12543/?sphrase\\_id=474137/](http://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/statistical-publications-data-books-bulletins/public_compilation/index_12543/?sphrase_id=474137/), page 342;

Note: Figures for Belarus are available for 2017 only.

10) [https://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre\\_Repozitorij/&lang=1](https://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=H087E&ti=&path=../Database/Hitre_Repozitorij/&lang=1) ; A1 Telekom Austria Group calculations.

11) <http://www.stat.gov.rs/en-us/oblasti/upotreba-ikt/upotreba-ikt-domacinstva/>;

<http://publikacije.stat.gov.rs/G2017/PdfE/G20176006.pdf>;

<http://data.stat.gov.rs/Home/Result/270101?languageCode=en-US>.

12) [http://www.stat.gov.mk/PrikaziSooopstenie\\_en.aspx?rbtxt=77](http://www.stat.gov.mk/PrikaziSooopstenie_en.aspx?rbtxt=77).

## Regulation

The A1 Telekom Austria Group is subject to different regulatory regimes in its markets. In Austria, it is classified as a provider with substantial market power and is therefore subject to the corresponding regulatory measures. These include extensive network access and price regulations. The international subsidiaries of the A1 Telekom Austria Group are also subject to far-reaching regulatory provisions in their respective national markets. Decisions on regulation are made not only at national level, but also increasingly at a European level in order to create harmonized conditions within the EU. This applies for example in the case of the roaming and net neutrality regulations of the European Commission<sup>13)</sup>, which apply equally to all EU member states.

## Fixed-line telecommunication markets

The fifth round of the statutory market review process originally initiated by the Austrian regulatory authority in the spring of 2015 was tentatively completed in mid-2018. The decisions on the key wholesale markets for central and local access in particular basically allowed A1 Telekom Austria AG to roll out vectoring technology in unbundled connection areas also in order to offer broadband connections with higher bandwidths. Virtual unbundling (VULA) was also confirmed as a direct replacement for the physical unbundling of customer lines. This has now quickly established itself as the new, central type of access for alternative operators and will replace traditional physical unbundling in the medium term. The relevant regulation in the fixed-line network now has only a limited impact at retail level.

The processes regarding mobile and fixed-line termination rates have been suspended due to a lack of foundations at the European level (reworking the recommendation on termination rates and developing a uniform cost accounting system). These two processes are still open and expected to continue in 2019. This results in a risk that mobile and fixed-line termination rates may fall further.

## Mobile communications markets

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

The new regulation on net neutrality and roaming has been in force in the European Union since 2016. In accordance with the regulation, Internet access service providers must treat all data traffic equally regardless of transmitter, receiver, application, or device. In addition to Internet access services, specialized services can also be offered, although this has certain limitations. However, the regulation on net neutrality establishes few details regarding implementation, which resulted in different interpretations in practice. A1 Telekom Austria AG is currently objecting to two decisions by the regulatory authority regarding net neutrality at the Austrian Federal Administrative Court. The proceedings are not yet complete.

### Glide paths for mobile termination rates

	January 2016	July 2016	January 2017	July 2017	Since January 2018
Austria (EUR)	0.008049	0.008049	0.008049	0.008049	0.008049
Bulgaria (BGN)	0.019	0.019	0.014	0.014	0.014
Croatia (HRK)	0.063 <sup>1)</sup>	0.063 <sup>1)</sup>	0.063 <sup>1)</sup>	0.047 <sup>1)</sup>	0.047 <sup>1)</sup>
Belarus (BYN)	MTS: 0.025/0.0125 BeST: 0.018/0.009 <sup>2)</sup>	MTS: 0.025/0.0125 BeST: 0.018/0.009 <sup>2)</sup>	MTS: 0.025/0.0125 BeST: 0.018/0.009 <sup>2)</sup>	MTS: 0.025/0.0125 BeST: 0.018/0.009 <sup>2)</sup>	MTS: 0.025/0.0125 BeST: 0.018/0.009 <sup>2)</sup>
Slovenia (EUR)	0.0114	0.0114	0.0114	0.0114	0.0114
Republic of Serbia (RSD)	3.43	2.75	2.07	2.07	1.43
Republic of Macedonia (MKD)	0.90	0.90	0.63	0.63	0.63

There are currently no further reductions expected.

1) National MTRs stated. International MTRs differ

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

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

The contents of the roaming regulation have already been fully implemented in all the companies of the A1 Telekom Austria Group that operate in the EU member countries Austria, Bulgaria, Croatia, and Slovenia and have a long-term negative impact on roaming revenues.

In 2016, the European Commission presented the first draft of a new directive revising the current framework, access, authorization, and universal service directives and introducing a range of new regulations (European Electronic Communications Code – EECC). This initial proposed legislation was negotiated in the European Parliament and at the level of the EU member states. An agreement on this was reached in mid-2018. The European Parliament has again brought forward a previous proposal for the reduction of surcharges for international calls within the EU. It is now included in a package of measures in a somewhat weaker form. The final directive was issued in December 2018. This will involve both legal-regulatory risks as well as financial risks in future. In particular, the reduction in surcharges for international calls to a maximum of 19 Euro cents per minute and a maximum of 6 Euro cents per SMS text message starting May 15, 2019 will have negative financial effects on the entire telecommunications industry.

The frequency allocation of the 3.4–3.8 GHz band is imminent in Austria. The bidding documents were published in September 2018, while the auction itself will take place in the first quarter of 2019. The multi-band auction for 700, 1500, and 2100 MHz is planned for the first quarter of 2020.

## Information on financial reporting

The A1 Telekom Austria Group reports on seven business segments: Austria, Bulgaria, Croatia, Belarus, Slovenia, the Republic of Serbia and the Republic of Macedonia. The “Corporate & other, eliminations” segment performs strategic and management functions for all segments in addition to financing agendas and since the first quarter of 2017 has also included A1 Digital International GmbH. A1 Digital International GmbH focuses on the B2B market and offers digital services to actively support companies in the digitalization process.

As of January 1, 2018, A1 Telekom Austria Group applied IFRS 15 for the first time, deciding in favor of the modified retrospective approach for the initial application in accordance with the transition guidance. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. The following presentation is based on IAS 18 (i.e. without adoption of IFRS 15). In the Selected Explanatory Notes to the Consolidated Financial Statements, a reconciliation from IFRS 15 to IAS 18 is provided. The new revenue recognition accounting standard under IFRS 15 requires accounting for the lifecycle value of contracts by allocating the total revenues from a contract to the different deliverables of the contract based on their relative fair values.

The presentation and analysis of financial information and key performance indicators up to page 69 may differ from the financial information presented in the Consolidated Financial Statements. This is due to the fact that the presentation and analysis are partially based on proforma figures.

### EU roaming glide path

Retail (in EUR)	July 2014	April 30, 2016	Since June 15, 2017
Data (per MB)	0.20	domestic tariff + 0.05 <sup>1)</sup>	domestic tariff
Voice-calls made (pro Minute)	domestic 0.19	domestic tariff + 0.05 <sup>1)</sup>	domestic tariff
Voice-calls received (pro Minute)	0.05	weighted average MTR <sup>1)</sup>	0
SMS (per SMS)	0.06	domestic tariff + 0.02 <sup>1)</sup>	domestic tariff

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

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

Alternative Performance Measures (APM) are used to describe operational performance. This also includes proforma figures. These present comparison figures for previous periods as if M&A transactions executed between the start of the comparison period and the end of the reporting period had already been fully consolidated in the relevant months of the comparison period. Please therefore also refer to the financial information presented in the Consolidated Financial Statements, which do not contain proforma figures, as well as the reconciliation tables provided on page 70.

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

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

## Revenue and earnings development (proforma, IAS 18)

Proforma view Key financials in EUR million	2018 reported	2017 proforma	Change in %
Total revenues	4,466.4	4,388.5	1.8
EBITDA	1,380.6	1,398.9	-1.3
% of total revenues	30.9%	31.9%	-
EBITDA excl. restructuring	1,402.7	1,380.7	1.6
% of total revenues	31.4%	31.5%	-
Operating income	424.1	444.5	-4.6
% of total revenues	9.5%	10.1%	-

Proforma view Key financials in EUR million	2018 reported	2017 proforma	Change in %
Cost of service	-1,395.6	-1,396.6	0.1
Cost of equipment	-626.9	-584.2	-7.3
Selling, general & administrative expenses	-1,049.3	-996.7	-5.3
Other expenses	-13.9	-12.1	-14.9
Total costs and expenses	-3,085.8	-2,989.6	-3.2
thereof employee costs	-850.6	-795.9	-6.9
thereof restructuring charges	-22.1	18.2	n. m.
Impairment charges	0.0	0.0	n. a.
Depreciation and amortization	-956.5	-954.4	-0.2

Reported view	2018 reported	2017 proforma	Change in %
Net result	242.7	345.5	-29.7
Net cash flow from operating activities	1,232.3	1,174.8	4.9
Earnings per share (in EUR)	0.36	0.48	-24.8
Free cash flow per share (in EUR)	0.58	0.58	-0.1
Capital expenditures <sup>1)</sup>	771.0	736.9	4.6
Net debt	2,718.4	2,331.8	16.6

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

## Revenue and earnings development

The following analysis is based on proforma figures if not stated otherwise<sup>14)</sup>.

In the 2018 financial year, the A1 Telekom Austria Group continued with the systematic implementation of its convergence strategy as well as maintaining a clear focus on high-value customers, innovative products and services as well as strict cost management. Demand for mobile WiFi routers increased further. Fixed-line business remained strong, with TV content being an increasingly important element in competition. With regard to retail customers, the dynamics in Austria and CEE markets remained largely the same. A1 in Austria is faced with new convergent providers.

In 2017, the A1 Telekom Austria Group decided to harmonize its brands throughout the Group and to roll out the "A1" brand in a gradual manner, depending on local circumstances, in all of its markets. This triggered the amortization of local brand values, which had reached a total of around EUR 350 mn by the end of 2016. The respective companies will amortize the brand values until the phase-out of the old brands. As of December 31, 2018, EUR 319.7 mn have already been amortized, as the rebranding is complete in the Bulgaria, Croatia and Slovenia segments.

The following factors should be considered in the analysis of A1 Telekom Austria Group's operating results:

- ▶ Negative effects stemming from the abolition of retail roaming in the EU as of June 15, 2017, derive mostly from Austria, with further impacts in Slovenia, Croatia and Bulgaria.
- ▶ The acquisition of the fixed-line operator Metronet in Croatia, consolidated as of February 1, 2017.
- ▶ The acquisitions of the fixed-line providers Garant (Gomel), consolidated as of August 1, 2017, and Vitebsk Garant, consolidated as of May 1, 2018, both in Belarus. As the financial impact of Vitebsk Garant on the Belarus segment is marginal, no proforma view is provided on this acquisition.

- ▶ Total one-off effects<sup>15)</sup> of positive EUR 30.4 mn in revenues and EUR 21.3 mn in EBITDA in 2017 and of positive EUR 5.0 mn in revenues and positive EUR 9.4 mn in EBITDA in 2018, with the following main effects:
  - ▶ There were positive EUR 10.6 mn in fixed-line service revenues stemming from the reversal of an accrual for wholesale services and EUR 3.6 mn in other operating income, stemming from the release of an asset retirement obligation in Austria in 2017.
  - ▶ In Bulgaria, other operating income was positively affected in 2017 by a one-off effect of EUR 5.8 mn resulting from a legal settlement.
  - ▶ A positive one-off effect in the Republic of Serbia in the amount of EUR 3.8 mn in 2017 in other operating income, resulting from changed parameters in the calculation of asset retirement obligations.
  - ▶ In Croatia, positive EUR 3.9 mn in 2018 in cost of service resulting from the reimbursement of frequency fees by the government as a result of the reduction of frequency fees in December 2017.
- ▶ Total negative FX effects amounted to EUR 30.7 mn in total revenues and EUR 14.9 mn in EBITDA in 2018, stemming entirely from Belarus.
- ▶ Restructuring expenses in Austria of EUR 22.1 mn compared to an income of EUR 18.2 mn in 2017. The latter resulted from a revaluation due to changed parameters.

In mobile communications, the number of A1 Telekom Austria Group subscribers increased by 1.7% to 21.0 million subscribers in the year under review. The number of contract customers in all markets rose, while prepaid customer numbers declined. The number of A1 Digital M2M customers also rose. Almost all markets saw strong demand for mobile WiFi routers. The number of revenue-generating units (RGUs) in the Group's fixed-line business increased by 3.7% year-on-year. The decline in RGUs in Austria, which was driven primarily by voice RGUs, was more than offset by increases in the other markets.

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

15) As of the beginning of 2018 all one-off effects are accounted for in the calculations. The main effects are explicitly explained. In the Group management report 2017 only the main effects were accounted for in the calculations.

## Key figures of the A1 Telekom Austria Group

In the 2018 financial year, the A1 Telekom Austria Group saw an increase in revenues of 1.8% (reported: +1.9%). Adjusted for the one-off and FX effects described above, total revenues rose by 3.1% compared to the previous year (reported: +3.2%). This operational revenue growth was driven by all markets apart from Slovenia. In total, Group service revenues increased by 1.3% (reported: +1.4%) and rose by 2.2% (reported: +2.3%) excluding the above-mentioned one-off effects.

Group total costs and expenses increased by 3.2% year-on-year in the year under review (reported: +3.4%). Investments in high-value customers led again to a rise in cost of equipment and higher sales area costs. The cost of service were

stable as higher content costs and costs for leased lines were outweighed by lower interconnection and network maintenance costs. Advertising costs rose following the rebranding while bad debt declined. Investments in A1 Digital also led to higher costs. Restructuring, originating entirely from the Austrian segment, resulted in expenses of EUR 22.1 mn in the year under review after an income of EUR 18.2 mn in the previous year.

EBITDA decreased by 1.3% in the 2018 financial year (reported: -1.2%). Adjusted for the one-off and FX effects described above as well as restructuring charges, EBITDA increased by 3.6% (reported: +3.7%) with growth in all segments except from Slovenia and Belarus. Furthermore, investments in A1 Digital, included in the position "Corporate & other, eliminations", had a negative impact on Group EBITDA. In total, the EBITDA margin decreased from 31.9% in the previous year to 30.9% in the year under review.

### Key figures of the A1 Telekom Austria Group (proforma, IAS 18)

(in Mio. EUR)

Proforma view

	2018 reported	2017 proforma	Change in %
<b>Total revenues</b>			
Austria	2,658.0	2,622.3	1.4
Bulgaria	446.2	431.2	3.5
Croatia	444.5	437.3	1.6
Belarus	389.3	394.1	-1.2
Slovenia	214.1	216.1	-0.9
Republic of Serbia	249.2	230.8	8.0
Republic of Macedonia	119.2	114.0	4.5
Corporate & other, eliminations	-53.9	-57.3	5.9
<b>Total</b>	<b>4,466.4</b>	<b>4,388.5</b>	<b>1.8</b>
<b>EBITDA</b>			
Austria	905.7	914.2	-0.9
Bulgaria	138.0	130.1	6.1
Croatia	114.1	109.1	4.6
Belarus	163.8	181.8	-9.9
Slovenia	38.1	40.6	-6.1
Republic of Serbia	47.0	38.4	22.5
Republic of Macedonia	35.4	30.1	17.7
Corporate & other, eliminations	-61.5	-45.3	-35.8
<b>Total</b>	<b>1,380.6</b>	<b>1,398.9</b>	<b>-1.3</b>
<b>Operating income</b>			
Austria	473.9	442.1	7.2
Bulgaria	-105.1	-85.6	-22.8
Croatia	7.6	13.0	-41.4
Belarus	87.6	123.0	-28.8
Slovenia	8.9	10.5	-15.2
Republic of Serbia	4.1	-6.8	n. m.
Republic of Macedonia	9.3	-6.0	n. m.
Corporate & other, eliminations	-62.3	-45.8	-36.0
<b>Total</b>	<b>424.1</b>	<b>444.5</b>	<b>-4.6</b>

In the year under review, depreciation and amortization was stable at EUR 956.5 mn (+0.2%; reported: +0.3%) in comparison with the previous year. The brand value amortization in Bulgaria, Belarus, Croatia and the Republic of Macedonia in connection with the group-wide rebranding amounted to EUR 197.9 mn in the year under review (2017: EUR 121.8 mn). As a result, operating income declined by 4.6% to EUR 424.1 mn compared to the previous year (reported: -4.5%). Excluding the D&A of the brand value amortizations, operating income increased by 9.8% (reported: +9.9%).

**The following analysis is presented solely on a reported basis.**

The A1 Telekom Austria Group recorded a financial result of negative EUR 81.7 mn in the year under review, which means an improvement of 14.4% compared to the previous year. This was due to the reduction in interest expense and FX differences. The lower interest expense resulted from deferred consideration paid for business combinations in 2017. FX differences amounted to positive EUR 5.1 mn in the reporting year compared to negative EUR 2.6 mn in 2017.

Tax expenses amounted to EUR 99.7 mn in the year under review. In the previous year, tax expenses amounted to EUR 3.0 mn due to the recognition of deferred tax assets on losses carried forward. Overall, the A1 Telekom Austria Group reported a 29.7% lower net result of EUR 242.7 mn in the 2018 reporting year.

## Net assets and financial position

**The following analysis is presented solely on a reported basis.**

As of December 31, 2018, the balance sheet total declined by 3.3% compared to December 31, 2017. Current assets remained approximately the same, as the decrease in cash and cash equivalents due to the redemption of the EUR 600 mn hybrid bond on February 1, 2018, was offset by higher receivables and increased installment sales as well as a short-term increase in inventories. Non-current assets decreased, due primarily to the reduction in intangible assets, which was attributable to the brand value amortizations in connection with the group-wide rebranding and to a lesser extent the

### Company Key Figures

Reported view

	2018 reported	2017 reported	Change in %
Earnings per share (in EUR)	0.36	0.48	-24.8
Dividend per share (in EUR)	0.21 <sup>1)</sup>	0.20	5.0
Free cash flow per share (in EUR)	0.58	0.58	-0.1
ROE <sup>2)</sup>	9.1 %	12.1 %	-
ROIC <sup>3)</sup>	6.7 %	6.9 %	-

- 1) Proposal to the 2019 Annual General Meeting, which will take place on May 29, 2019.
- 2) Ratio of net result to average equity employed; serves as an indicator to measure the yield on equity.
- 3) Total return on invested capital, calculated as net operating profit after tax (NOPAT) divided by the average capital invested.

### Net assets and financial position (reported, IAS 18)

Reported view

	Dec 31, 2018 reported	As % of the balance sheet total	Dec 31, 2017 reported	As % of the balance sheet total
<b>Balance sheet structure (in EUR million)</b>				
<b>Current assets</b>	<b>1,235.5</b>	<b>16.7</b>	<b>1,226.3</b>	<b>16.1</b>
Property, plant and equipment	2,716.1	36.8	2,627.9	34.4
Goodwill	1,277.9	17.3	1,276.3	16.7
Intangible assets	1,782.7	24.1	2,075.9	27.2
Other assets	376.3	5.1	431.9	5.7
<b>Total assets</b>	<b>7,388.5</b>	<b>100.0</b>	<b>7,638.3</b>	<b>100.0</b>
<b>Current liabilities</b>	<b>1,624.8</b>	<b>22.0</b>	<b>1,243.7</b>	<b>16.3</b>
Long-term debt	2,536.8	34.3	2,533.6	33.2
Employee benefit obligation	203.7	2.8	196.8	2.6
Non-current provisions	576.0	7.8	646.9	8.5
Other long-term liabilities	41.3	0.6	79.9	1.0
Stockholders' equity	2,406.0	32.6	2,937.4	38.5
<b>Liabilities and stockholders' equity</b>	<b>7,388.5</b>	<b>100.0</b>	<b>7,638.3</b>	<b>100.0</b>



amortization of frequencies. The increase in current liabilities was attributable to the drawings of short-term credit facilities as part of the refinancing of the above-mentioned hybrid bond and higher CAPEX especially in Q4 2018.

The equity ratio as of December 31, 2018, amounted to 32.6% after 38.5% as of December 31, 2017. The decrease in shareholder's equity was driven primarily by the redemption of the EUR 600 mn hybrid bond, which was classified as equity.

### Net debt (reported, IAS 18)

Reported view	Dec 31, 2018 reported	Dec 31, 2017 reported
Net debt (in EUR million)		
Long-term debt	2,536.3	2,533.6
Short-term borrowings	245.3	0.6
Cash and cash equivalents, short-term investments	-63.6	-202.4
<b>Net debt</b>	<b>2,718.4</b>	<b>2,331.8</b>
Net debt/EBITDA (last 12 months)	2.0	1.7

The redemption of the hybrid bond resulted in an increase in net debt and a higher net debt to EBITDA ratio.

## Cash flow

The changes in "Working capital and other financial positions" in the reporting period in the amount of EUR 180.8 mn (2017: EUR 204.4 mn) were driven by an increase in receivables, as well as payments of income taxes, an increase in installment sales and payments for restructuring, which were mitigated by an increase in liabilities. Net cash flow from operating activities increased year-on-year.

Cash flow from investing activities remained stable year-on-year as the cash outflow from the acquisition of Metronet

in the comparison period was offset by higher CAPEX paid in the reporting period. Regarding cash flow from financing activities the comparison period was characterized by the principal payments on a EUR 500 mn bond and the tap-issuance of an existing bond in the amount of EUR 250 mn. There was also an outflow of funds totaling EUR 120 mn in the comparison year due to exercising of the call option in connection with the acquisition of the Telekom Slovenije Group's 45% stake in Macedonian company one.Vip DOOEL. The financial year 2018 was characterized by the redemption of the EUR 600 mn hybrid bond on February 1, 2018. This cash outflow was partly mitigated by drawings of short-term credit facilities.

Free cash flow<sup>16)</sup> was stable year-on-year. This was due to the higher cash flow from operating activities and lower interest payments, which offset the higher CAPEX paid.

### Cash flow (reported, IAS 18)

Reported view	2018 reported	2017 reported	Change in %
Cash flow (in EUR million)			
Net cash flow from operating activities	1,232.3	1,174.8	4.9
Net cash flow from investing activities	-765.1	-770.4	0.7
Net cash flow from financing activities	-605.0	-659.3	8.2
Adjustment to cash flows due to exchange rate fluctuations, net	-1.0	-0.2	n. m.
Net change in cash and cash equivalents	-138.8	-255.1	45.6

## Capital expenditures<sup>17)</sup> (reported, IAS 18)

In the 2018 year under review, capital expenditures increased by 4.6% year-on-year to EUR 771.0 mn. Tangible capital expenditures increased by 5.3% to EUR 610.2 mn driven primarily by investments in the fiber rollout and in the data center in Austria. Intangible capital expenditures increased by 2.0% to EUR 160.7 mn. This was attributable to the

fact that the capitalization of a long-term IRU (Indefeasible Rights of Use) contract for fiber lines in Slovenia in the previous year was more than offset by higher intangible capital expenditures in Bulgaria, Austria, and Belarus in the reporting year.

16) Free cash flow is calculated as cash flow from operating activities less capital expenditures paid and interest paid plus proceeds from the sale of property, plant and equipment.

17) For detailed figures, please refer to the reconciliation tables and the notes to the consolidated financial statements.

## Segment analysis (proforma, IAS 18)

### Segment Austria

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

In Austria the dynamics compared to the previous year remained mostly unchanged despite the first time launch of convergent offerings by the competition in autumn 2018. In the mobile business A1 continued to follow its multi-brand strategy and aimed for high granularity in market segmentation. In the high-value segment A1 pursued differentiation with attractive services such as Free Stream and the A1 Xplore Music app. Competition in the no-frills segment and the youth segment remained consistently intense in the year under review, which A1 countered by means of targeted offers. In terms of regulation, official photo identification will have to be shown when purchasing a SIM card from January 1, 2019. Existing anonymous SIM cards must be registered by September 1, 2019.

Demand for broadband products with higher speeds and TV options remained strong, especially among existing customers. Next to the traditional fiber infrastructure, the hybrid modem as a combination of the fixed-line and mobile networks remains important to providing fixed-line products with higher bandwidths. Beyond that, the Austrian broadband market continued to be shaped by the ongoing high demand for mobile WiFi routers with unlimited data offerings.

Additionally, results profited from the price adjustments for the fixed-line products in the previous year as well as an indexation for existing customers in the mobile business and in the fixed-line business in the year under review.

The total number of mobile subscribers increased in 2018, as the ongoing strong demand for mobile WiFi routers in the contract segment and higher-value tariffs more than outweighed the decline in the prepaid segment.

In the fixed-line business, total revenue generating units (RGUs) decreased in 2018 due mainly to losses of voice RGUs. While demand for fiber upgrades remained continuously strong and TV RGUs also continued to exhibit solid growth, the number of fixed-line broadband RGUs declined slightly year-on-year. This was attributable mainly to substitution by mobile WiFi routers. Overall, this resulted in an increase in the Internet@Home business (pure fixed-line broadband, hybrid modem, and mobile WiFi router) of 3.0%.

In the Austria segment, total revenues increased by 1.4% year-on-year despite positive one-off effects in the previous year. As mentioned above, these one-off effects in 2017 amounted to positive EUR 10.6 mn in fixed-line service revenues and EUR 3.6 mn in other operating income. Excluding the one-off effects in 2017, total revenues rose by 2.1% and service revenues increased by 1.7%. Fixed-line service revenues increased on the back of the price increases and indexation measures mentioned above. Solid demand for higher bandwidths and TV options likewise drove the fixed-line service revenue increase while fixed-line interconnection revenues declined due to lower volumes. Solutions and connectivity revenues increased due to the completion of several large projects among other reasons. In the mobile business, the negative effects of the stepwise abolition of retail roaming in the EU were outweighed by high demand for mobile WiFi routers and higher-value tariffs as well as the above mentioned indexation measure. Equipment revenues increased due to a higher-value hand-set portfolio.

Costs and expenses in the Austrian segment rose by 2.6% year-on-year. In 2018, restructuring expenses amounted to EUR 22.1 mn whereas an income in the amount of EUR 18.2 mn was posted in the comparative period. Excluding restructuring expenses, costs and expenses were stable (+0.2%). Content and leased lines costs, both driven by more Solutions & Connectivity projects rose. Advertising costs increased due to more campaigns and the brand refreshment compared to previous year. Costs of equipment were higher than in the previous year due to higher average handset costs due to a higher-value portfolio. Inter-connection costs decreased due to lower volumes, and roaming costs declined due mainly to lower inter-operator tariffs while higher own work capitalized due to the subsidized broadband rollout had a positive effect on the costs.

EBITDA excluding one-off effects and restructuring expenses thus increased by 5.4% (reported: -0.9%) amid higher service revenues, a better equipment margin, and stable total costs and expenses. Depreciation and amortization decreased by 8.6% in the period under review compared to the same period last year. This decline resulted from the end of amortization of software investments and the YESSSI customer base in 2017. All in all, operating income in Austria increased by 7.2% year-on-year.

## Key performance indicators Austria

Proforma view (= Reported view)

Key financials in EUR million	2018 reported	2017 reported	Change in %
Total revenues	2,658.0	2,622.3	1.4
Service revenues	2,394.8	2,365.5	1.2
thereof mobile service revenues	1,022.4	1,006.2	1.6
thereof fixed-line service revenues	1,372.4	1,359.4	1.0
Equipment revenues	209.4	198.5	5.5
Other operating income	53.8	58.3	-7.7
EBITDA	905.7	914.2	-0.9
% of total revenues	34.1 %	34.9 %	-
EBITDA excl. restructuring	927.8	896.0	3.5
% of total revenues	34.9 %	34.2 %	-
Operating income	473.9	442.1	7.2
% of total revenues	17.8 %	16.9 %	-

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	3,825.1	3,779.4	1.2
Prepaid subscribers (in '000)	1,538.6	1,555.8	-1.1
Wireless subscribers (in '000)	5,363.7	5,335.2	0.5
thereof mobile broadband subscribers (in '000)	964.3	947.4	1.8
ARPU (in EUR)	16.1	15.6	2.9
Churn (%)	1.6 %	1.7 %	-
Market share	37.8 %	38.8 %	-
Mobile penetration	160.5 %	156.2 %	-

Wireline indicators	2018 reported	2017 proforma	Change in %
RGUs (in '000)	3,327.7	3,390.4	-1.9
thereof fixed broadband RGUs	1,434.8	1,447.3	-0.9
ARPL (in EUR)	30.7	29.1	5.3
Total access lines (in '000)	2,048.3	2,117.5	-3.3
Unbundled lines (in '000)	190.8	220.3	-13.4
Fixed line voice traffic (in million minutes)	1,168.1	1,225.6	-4.7
Mobile and fixed broadband penetration in % of households	141.3 %	139.1 %	-

## Costs and expenses

Proforma view (= Reported view)

(in EUR million)	2018 reported	2017 proforma	Change in %
Cost of service	-868.5	-875.2	0.8
Cost of equipment	-261.9	-257.3	-1.8
Selling, general & administrative expenses	-614.6	-568.1	-8.2
Other expenses	-7.3	-7.4	1.5
Total costs and expenses	-1,752.3	-1,708.1	-2.6
thereof employee costs	-622.3	-583.2	-6.7

## Segment Bulgaria

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

In the year under review, the Bulgarian market was characterized by positive trends, due mainly to growth in the fixed-line business and an improved subsidy level. The positive development in the fixed-line business resulted from corporate solutions as well as successful up- and cross selling residential customers. In addition, the sports channels with exclusive TV content are still making a significant contribution to the positive development of the RGU and ARPL trends. The mobile business continued to improve and grew slightly year-on-year, with active customer retention measures in the mobile residential segment helping to reduce churn. During May 2018, Mobilitel was successfully rebranded into A1 Bulgaria.

The mobile contract segment remained stable in 2018. The total number of mobile subscribers was, however, down year-on-year, which was attributable to the prepaid segment. Total fixed-line revenue generating units (RGUs) increased as the positive trends in TV and broadband were able to offset the decline in fixed-line voice services.

In the Bulgaria segment, total revenues rose by 3.5% and by 4.8% excluding one-off effects. Other operating income in 2017 was positively affected by a one-off effect of EUR 5.8 mn. Revenue growth was attributable to the increase in fixed-line service revenues and equipment revenues. Fixed-line service revenues rose, supported by strong demand for the exclusive sports content and higher speeds as well as by customized fixed-line corporate solutions. Equipment revenues grew due to lower subsidies per handset and higher-value devices. Mobile service revenues increased as growth in the business segment more than outweighed the decline in the prepaid segment.

### Key performance indicators Bulgaria

Proforma view (= Reported view)

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	446.2	431.2	3.5
Service revenues	372.0	359.0	3.6
thereof mobile service revenues	268.8	267.0	0.7
thereof fixed-line service revenues	103.1	92.0	12.1
Equipment revenues	66.5	59.4	12.1
Other operating income	7.6	12.8	-40.5
EBITDA	138.0	130.1	6.1
% of total revenues	30.9%	30.2%	-
Operating income	-105.1	-85.6	-22.8
% of total revenues	-23.6%	-19.8%	-

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	3,505.2	3,500.4	0.1
Prepaid subscribers (in '000)	429.1	476.8	-10.0
Wireless subscribers (in '000)	3,934.3	3,977.1	-1.1
thereof mobile broadband subscribers (in '000)	430.0	422.3	1.8
ARPU (in EUR)	5.6	5.5	3.1
Churn (%)	1.6%	2.2%	-
Market share	39.4%	38.7%	-
Mobile penetration	142.8%	145.6%	-

Wireline indicators	2018 reported	2017 proforma	Change in %
RGUs (in '000)	1,029.0	1,005.0	2.4
thereof fixed broadband RGUs	448.3	434.8	3.1
ARPL (in EUR)	12.6	11.6	8.9
Total access lines (in '000)	536.0	531.2	0.9

Costs and expenses rose, amongst other factors, due to higher cost of equipment as a result of the continuous demand for higher-value devices. Interconnection costs also rose due to higher outgoing traffic to other networks. Content costs rose in line with more TV customers and sport content production. Personnel costs also rose due to increased salaries in customer-facing areas while administration, commissions and network maintenance costs were lower.

In the Bulgarian segment, rising total revenues more than offset higher costs and expenses, which led to EBITDA growth of 6.1% (excluding one-off effects: +8.6%). Depreciation and amortization increased by 12.7% due to the brand value amortization in the amount of EUR 144.0 mn (2017: EUR 99.7 mn) in connection with the group-wide rebranding. This again resulted in negative operating income in 2018 in the amount of EUR 105.1 mn (2017: EUR -85.6 mn). Excluding the D&A of the brand value amortization, operating income increased by 175.3% year-on-year.

## Segment Croatia

The following analysis is based on proforma figures if not stated otherwise.<sup>18)</sup>

In 2018, competition in the Croatia segment focused on convergent solutions and heavily discounted offers in order to acquire customers. In addition to upselling measures, the growing demand for mobile WiFi routers developed into a driving factor in the mobile business. As bundles and convergent products with content became increasingly important, Vipnet launched a new sports TV package in June 2018. From October 1, 2018, Vipnet was successfully rebranded into A1 Hrvatska.

### Key performance indicators Croatia

Proforma view

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	444.5	437.3	1.6
Service revenues	386.4	381.9	1.2
thereof mobile service revenues	261.7	258.8	1.1
thereof fixed-line service revenues	124.7	123.1	1.3
Equipment revenues	52.0	49.0	6.2
Other operating income	6.0	6.3	-5.5
EBITDA	114.1	109.1	4.6
% of total revenues	25.7%	24.9%	-
Operating income	7.6	13.0	-41.4
% of total revenues	1.7%	3.0%	-
<b>Wireless indicators</b>	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	1,043.9	965.2	8.2
Prepaid subscribers (in '000)	789.4	807.5	-2.2
Wireless subscribers (in '000)	1,833.3	1,772.7	3.4
thereof mobile broadband subscribers (in '000)	204.6	173.2	18.2
ARPU (in EUR)	12.0	12.2	-1.3
Churn (%)	2.3%	2.6%	-
Market share	36.5%	36.5%	-
Mobile penetration	121.5%	117.5%	-
<b>Wireline indicators (proforma)</b>	2018 reported	2017 proforma	Change in %
RGUs (in '000)	681.8	654.1	4.2
thereof fixed broadband RGUs	254.0	250.0	1.6
<b>Wireline indicators (reported)</b>	2018 reported	2017 reported	Change in %
ARPL (in EUR)	30.2	29.3	2.9
Total access lines (in '000)	296.9	296.6	0.1

<sup>18)</sup> Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period. In the Croatia segment, this applies to the acquisition of fixed-line operator Metronet in Croatia, consolidated as of February 1, 2017.

With regards to regulation, frequency usage fees were cut for the first time in December 2017, and a further reduction was announced in November 2018. In connection with this, the government announced in the third quarter of 2018 that it would reimburse the excess frequency usage fees of EUR 3.9 mn paid.

The higher number of mobile subscribers is attributable to growth in the contract subscriber base. This was due to the solid growth in mobile WiFi routers, the ongoing shift from prepaid to postpaid subscribers and cross selling. Despite the shift toward mobile WiFi routers, the revenue generating units (RGUs) in the fixed-line business increased, which was driven mainly by the strong demand for TV solutions.

In the Croatia segment, total revenues increased by 1.6% year-on-year (reported: +2.2%), as the lower revenues from visitor roaming and lower interconnection revenues were compensated by the strong demand for mobile WiFi routers and higher equipment revenues. Revenues from visitor roaming declined as a result of prices within the A1 Group and with other companies were lowered which could not be compensated for with higher data usage. Interconnection revenues fell due to the termination rate cut in July 2017. Equipment revenues rose as a result of higher quantities on the basis of measures to prevent customer churn. Fixed-line service revenues also increased as the shift toward mobile WiFi routers was more than offset by higher solutions and connectivity revenues.

The rise in total costs and expenses in the year under review was attributable to higher costs for equipment driven by higher quantities resulting from churn-prevention activities. Content costs rose due to UEFA Champions League rights. Rebranding costs and commissions as well as higher roaming costs also contributed to the increase, while bad debt expenses and frequency costs decreased. The latter were also influenced by a positive one-off effect of EUR 3.9 mn, which resulted from the reimbursement of frequency fees mentioned above.

The higher costs and expenses were more than offset by revenue growth, which excluding the above mentioned one-off effect led to an EBITDA increase of 0.4% (reported: +5.7%). As a result of the higher depreciation and amortization, due primarily to the brand value amortization in the amount of EUR 19.7 mn (2017: EUR 6.9 mn) in conjunction with the group-wide rebranding, this led to 41.4% lower operating income (reported: -38.6%). Excluding the D&A of the above mentioned brand value amortization, operating income increased by 36.9% year-on-year (reported: +41.1%).

## Segment Belarus

**The following analysis is based on proforma figures if not stated otherwise.<sup>19)</sup>**

Macroeconomic improvements in Belarus continued in the year under review, and GDP is expected to have grown by 4.0% (IMF estimate) in 2018 (2017: +2.4%). The Belarusian Rouble devalued sharply in April, but the devaluation then slowed and amounted to 9.3% over the course of the year (period average). In addition, the government continued to be restrictive on price increases in order to stabilize inflation, which came in at 5.6% year-on-year.

Despite its lack of a 4G license, velcom maintained its superior standard in terms of the coverage and quality of its mobile network. Competition in the mobile business was intense with regard to tariffs based on unlimited data offers. These offers had a negative impact on the sale of data packages. In light of this, velcom deployed unlimited data and voice offers with speed restrictions depending on the chosen tariff. The shift from prepaid offers towards contract offers continued. Meanwhile, demand for expensive devices remained high and the margin on handsets positive. The position in the fixed-line business was strengthened by the acquisition of Vitbesk Garant, consolidated from May 1, 2018. As the financial impact of Vitbesk Garant on the Belarus segment is marginal, no proforma view is provided.

Inflation-linked price increases of 2.9% and 2.4% were implemented in the mobile business as of April 1 and September 1, 2018, respectively. In March and October 2018, velcom increased the fixed-line tariffs for existing customers by 9.0% and 5.0% respectively.

Total revenues in the Belarus segment decreased by 1.2% (reported: -0.3%). Excluding minor positive one-off effects in the reporting and comparison period as well as a negative FX effect of EUR 40.0 mn, they rose by 8.4% year-on-year (reported: +9.5%). This increase in local currency resulted from higher equipment revenues. These were due to more expensive devices and higher quantities, which were supported by an attractive smartphone portfolio, advertising campaigns, and installment sales. Service revenues fell as the higher fixed-line service revenues did not compensate for the lower mobile service revenues as a result of the above mentioned decreased data monetization.

<sup>19)</sup> Proforma figures are not audited and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period. In the Belarus segment, this applies to the acquisition of fixed-line operator Garant (Gomel) in Belarus, consolidated as of August 1, 2017.

Total costs and expenses rose on a local currency basis, driven by higher costs of equipment due to more expensive handsets and higher quantities, as well as other costs settled in hard currency and personnel costs. Content costs were also higher. Interconnection expenses increased due to the rise in outgoing traffic.

Excluding FX effects and one-off effects, EBITDA fell by 1.9% (reported: -1.6%), mainly as the lower mobile service revenues could not be offset by the higher fixed-line service revenues. Together with higher depreciation in comparison with the previous year as a result of the brand value amortization in the amount of EUR 31.3 mn (2017: EUR 13.0 mn), operating income fell by 28.8%. Excluding the D&A of the brand value amortization, operating income increased by 12.6% year-on-year.

## Segment Slovenia

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

In the year under review, the Slovenian telecommunications market was still characterized by fierce competition in the mobile market, with a focus on convergent tariffs with high discounts and competitive mobile tariffs including high data allowances. In order to meet these challenges, A1 Slovenija introduced simplified price plans in the mobile segment and included the use of certain services such as music and chat apps, which can be used without consuming data. However, price increases were also implemented in the mobile and fixed-line business, some of which also applied to existing customers. The price increases were partly due to the higher content costs.

### Key performance indicators Belarus

Proforma view

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	389.3	394.1	-1.2
Service revenues	286.9	307.1	-6.6
thereof mobile service revenues	247.0	273.1	-9.5
thereof fixed-line service revenues	39.9	34.0	17.3
Equipment revenues	84.3	71.5	17.8
Other operating income	18.1	15.5	16.5
EBITDA	163.8	181.8	-9.9
% of total revenues	42.1%	46.1%	-
Operating income	87.6	123.0	-28.8
% of total revenues	22.5%	31.2%	-

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	4,041.1	3,964.5	1.9
Prepaid subscribers (in '000)	832.0	899.7	-7.5
Wireless subscribers (in '000)	4,873.0	4,864.2	0.2
thereof mobile broadband subscribers (in '000)	280.1	303.2	-7.6
ARPU (in EUR)	4.2	4.7	-9.5
Churn (%)	1.5%	1.7%	-
Market share	42.0%	42.5%	-
Mobile penetration	122.4%	120.5%	-

Wireline indicators (proforma)	2018 reported	2017 proforma	Change in %
RGUs (in '000)	657.3	463.4	41.8
thereof fixed broadband RGUs	246.7	212.0	16.4

Wireline indicators (reported)	2018 reported	2017 reported	Change in %
ARPL (in EUR)	5.6	7.3	-22.6
Total access lines (in '000)	451.8	306.4	47.5

## Key performance indicators Slovenia

Proforma view (= Reported view)

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	214.1	216.1	-0.9
Service revenues	161.0	167.9	-4.1
thereof mobile service revenues	125.8	132.9	-5.3
thereof fixed-line service revenues	35.1	35.0	0.3
Equipment revenues	47.4	43.8	8.0
Other operating income	5.7	4.3	32.9
EBITDA	38.1	40.6	-6.1
% of total revenues	17.8%	18.8%	-
Operating income	8.9	10.5	-15.2
% of total revenues	4.2%	4.8%	-

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	611.7	605.8	1.0
Prepaid subscribers (in '000)	85.4	97.5	-12.5
Wireless subscribers (in '000)	697.1	703.3	-0.9
thereof mobile broadband subscribers (in '000)	47.7	46.8	1.9
ARPU (in EUR)	15.1	15.6	-3.2
Churn (%)	1.4%	1.7%	-
Market share	28.1%	29.1%	-
Mobile penetration	119.6%	116.0%	-

Wireline indicators	2018 reported	2017 proforma	Change in %
RGUs (in '000)	182.1	183.0	-0.5
thereof fixed broadband RGUs	73.7	70.4	4.8
ARPL (in EUR)	35.7	35.4	1.1
Total access lines (in '000)	73.8	70.5	4.8

In the Slovenia segment, total revenues fell as a result of lower mobile service revenues, while equipment revenues increased. The latter were attributable to more expensive devices and higher quantities. Total costs and expenses increased slightly, driven by higher equipment and interconnection costs while advertising costs and roaming costs decreased. The lower mobile service revenues and higher costs and expenses resulted in an overall decline in EBITDA of 6.1%. Despite the lower depreciation and amortization, operating income declined by 15.2% year-on-year.

## Segment Republic of Serbia

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

In the segment Republic of Serbia, vip mobile faces a highly competitive mobile market. The company successfully introduced flat tariffs in 2017, and the resulting increase in postpaid subscribers continued in the year under review. Trends were also supported by the high demand for mobile WiFi routers. Since the first half of the year, the competition has also launched flat tariffs, and one competitor introduced a premium price-plan with an unlimited data proposition. Another factor on the competitive landscape is the shift toward more attractive devices with higher subsidies. Termination rates were cut in January 2018.



Total revenue growth in the Serbia segment was attributable to the higher mobile service revenues resulting from the increasing proportion of mobile subscribers in the new tariff portfolio and growth in mobile WiFi routers. In addition, other operating income included a positive one-off effect of EUR 3.8 mn in 2017.

Total costs and expenses rose, driven mainly by higher costs for equipment and higher salesforce costs. The increase in costs for equipment was due to higher quantities as a result of intensive advertising campaigns.

Excluding one-off effects, EBITDA rose by 24.1% year-on-year (reported: +22.5%), as the rise in mobile service revenues more than compensated for the lower equipment margins and the higher salesforce costs. Together with somewhat lower depreciation and amortization than in the previous year, this resulted in positive operating income of EUR 4.1 mn (2017: EUR -6.8 mn) in the year under review.

## Key performance indicators Republic of Serbia

Proforma view (= Reported view)

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	249.2	230.8	8.0
Service revenues	166.4	145.8	14.1
thereof mobile service revenues	159.7	139.6	14.4
thereof fixed-line service revenues	6.7	6.2	7.8
Equipment revenues	79.9	76.4	4.5
Other operating income	3.0	8.5	-65.1
EBITDA	47.0	38.4	22.5
% of total revenues	18.9%	16.6%	-
Operating income	4.1	-6.8	n. m.
% of total revenues	1.6%	-2.9%	-
<b>Wireless indicators</b>	<b>2018 reported</b>	<b>2017 proforma</b>	<b>Change in %</b>
Postpaid subscribers (in '000)	1,481.8	1,367.8	8.3
Prepaid subscribers (in '000)	713.4	814.9	-12.5
Wireless subscribers (in '000)	2,195.2	2,182.8	0.6
thereof mobile broadband subscribers (in '000)	174.1	140.2	24.2
ARPU (in EUR)	6.1	5.4	13.4
Churn (%)	3.2%	3.2%	-
Market share	23.8%	24.1%	-
Mobile penetration	132.3%	128.6%	-

## Segment Republic of Macedonia

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

In the 2018 financial year, market players in the Macedonia segment focused mainly on customer retention and upselling existing customers. In the mobile as well as the fixed-line markets, customers are still leaning toward multiple-play offers rather than maintaining multiple single-play subscriptions. The number of revenue generating units (RGU) showed a strong increase. In the mobile business, the shift from prepaid to postpaid subscribers continued. As of the end of March 2018, one.Vip increased the data volume in its mobile tariffs to meet customer demands.

Total revenue growth in the Macedonia segment was driven mainly by higher mobile service revenues, which continued to be supported by upselling measures to higher tariffs. Although the synergy effects from the merger into one.Vip are diminishing, the costs and expenses fell slightly year-on-year. This was due mainly to lower bad debts. Altogether, this led to EBITDA growth of 14.1% (excluding minor one-off effects). Depreciation and amortization declined year-on-year due to the end of amortization of licenses in 2017 despite brand value amortization in the amount of EUR 2.9 mn (2017: EUR 1.7 mn). Overall, operating income improved from negative EUR 6.0 mn in 2017 to positive EUR 9.3 mn in 2018.

### Key performance indicators Republic of Macedonia

Proforma view (= Reported view)

Key financials (in EUR million)	2018 reported	2017 proforma	Change in %
Total revenues	119.2	114.0	4.5
Service revenues	110.5	106.6	3.7
thereof mobile service revenues	84.3	80.6	4.6
thereof fixed-line service revenues	26.2	26.0	0.9
Equipment revenues	7.2	6.7	8.1
Other operating income	1.4	0.7	97.8
EBITDA	35.4	30.1	17.7
% of total revenues	29.7%	26.4%	-
Operating income	9.3	-6.0	n. m.
% of total revenues	7.8%	-5.2%	-

Wireless indicators	2018 reported	2017 proforma	Change in %
Postpaid subscribers (in '000)	660.5	647.4	2.0
Prepaid subscribers (in '000)	396.0	424.9	-6.8
Wireless subscribers (in '000)	1,056.5	1,072.3	-1.5
thereof mobile broadband subscribers (in '000)	2.7	2.6	2.9
ARPU (in EUR)	6.6	6.1	7.5
Churn (%)	1.8%	2.1%	-
Market share	48.9%	47.8%	-
Mobile penetration	104.1%	108.1%	-

Wireline indicators	2018 reported	2017 proforma	Change in %
RGUs (in '000)	383.1	340.7	12.5
thereof fixed broadband RGUs	131.6	114.6	14.8
ARPL (in EUR)	11.6	12.3	-5.4
Total access lines (in '000)	164.4	149.3	10.1

## Reconciliation tables – IAS 18 and IFRS 15 reconciliation

As of January 1, 2018, A1 Telekom Austria Group applied IFRS 15 for the first time, deciding in favor of the modified retrospective approach for the initial application in accordance with the transition guidance. Accordingly, the information presented for 2017 has not been restated – i. e.

it is presented, as previously reported, under IAS 18 and related interpretations. The following tables provide a reconciliation from IFRS 15 to IAS 18. The new revenue recognition accounting standard under IFRS 15 re-quires accounting for the life cycle value of contracts by allocating the total revenues from a contract to the different deliverables of the contract based on their relative fair values.

### Income statement: Full Year 2018 (reported)

in Mio. EUR	1-12 M 2018	1-12 M 2017	% change	1-12 M 2018
	IAS 18	IAS 18		IFRS 15
Service revenues	3,828.2	3,775.3	1.4	3,680.8
Equipment revenues	546.2	504.4	8.3	662.6
Other operating income	91.9	102.8	-10.5	91.9
<b>Total revenues</b>	<b>4,466.4</b>	<b>4,382.5</b>	<b>1.9</b>	<b>4,435.4</b>
Cost of service	-1,395.6	-1,394.2	-0.1	-1,395.6
Cost of equipment	-626.9	-584.2	-7.3	-627.9
Selling, general & administrative expenses	-1,049.3	-994.9	-5.5	-1,007.0
Other expenses	-13.9	-11.8	-18.2	-13.9
<b>Total costs and expenses</b>	<b>-3,085.8</b>	<b>-2,985.1</b>	<b>-3.4</b>	<b>-3,044.5</b>
<b>EBITDA</b>	<b>1,380.6</b>	<b>1,397.3</b>	<b>-1.2</b>	<b>1,390.9</b>
% of total revenues	30.9%	31.9%		31.4%
Depreciation and amortization	-956.5	-953.4	-0.3	-956.5
<b>EBIT</b>	<b>424.1</b>	<b>443.9</b>	<b>-4.5</b>	<b>434.4</b>
% of total revenues	9.5%	10.1%		9.8%
Interest income	15.5	14.3	8.3	5.4
Interest expense	-86.9	-95.3	8.8	-86.9
Other financial expense	-14.8	-11.2	-31.5	-14.8
Foreign currency exchange differences	5.1	-2.6	n.m.	5.1
Equity interest in net income of affiliates	-0.8	-0.7	-13.3	-0.8
<b>Earnings before income tax (EBT)</b>	<b>342.4</b>	<b>348.5</b>	<b>-1.8</b>	<b>342.5</b>
Income tax	-99.7	-3.0	n.m.	-98.8
<b>Net result<sup>1)</sup></b>	<b>242.7</b>	<b>345.5</b>	<b>-29.7</b>	<b>243.7</b>

1) Attributable to equity holders of the parent, non-controlling interests and hybrid capital owners

### ARPU: Full Year 2018 (reported)

in EUR million	1-12 M 2018	1-12 M 2017	% change	1-12 M 2018	Absolute change
	IAS 18	IAS 18		IFRS 15	
Austria	16.1	15.6	2.9	14.5	-1.6
Bulgaria	5.6	5.5	3.1	5.2	-0.5
Croatia	12.0	12.2	-1.3	10.8	-1.2
Belarus	4.2	4.7	-9.5	4.2	0.0
Slovenia	15.1	15.6	-3.2	14.5	-0.6
Republic of Serbia	6.1	5.4	13.4	6.8	0.7
Republic of Macedonia	6.6	6.1	7.5	5.6	-1.0
<b>Group ARPU</b>	<b>8.6</b>	<b>8.6</b>	<b>0.0</b>	<b>8.0</b>	<b>-0.6</b>

**ARPL: Full Year 2018 (reported)**

in EUR million	1-12 M 2018 IAS 18	1-12 M 2017 IAS 18	% change	1-12 M 2018 IFRS 15	Absolute change
Austria	30.7	29.1	5.3	30.7	0.0
Bulgaria	12.6	11.6	8.9	12.5	-0.1
Croatia	30.2	29.3	2.9	30.2	0.0
Belarus <sup>1)</sup>	5.6	7.3	-22.6	5.6	0.0
Slovenia	35.7	35.4	1.1	35.7	0.0
Republic of Serbia	n. a.	n. a.	n. a.	n. a.	n. a.
Republic of Macedonia	11.6	12.3	-5.4	11.4	-0.2

1) ARPL in Belarus is affected by the acquisitions of the fixed-line providers Garant (Gomel), consolidated as of August 1, 2017, and Vitebsk Garant, consolidated as of May 1, 2018, which have a comparably low ARPL.

**EBITDA per segment**

adjusted for FX- and one-off effects  
as well as restructuring charges

in EUR million	1-12 M 2018 reported	1-12 M 2017 proforma	% change
Austria	927.8	880.5	5.4
Bulgaria	136.3	125.5	8.6
Croatia	109.5	109.1	0.4
Belarus	177.4	180.7	-1.9
Slovenia	38.1	41.5	-8.1
Republic of Serbia	45.8	36.9	24.1
Republic of Macedonia	34.8	30.5	14.1
Corporate & other, eliminations	-61.5	-45.3	-35.8
Total adjusted EBITDA	1,408.2	1,359.4	3.6

**Group EBITDA**

adjustments for FX- and one-off effects  
as well as restructuring charges

in EUR million	1-12 M 2018	1-12 M 2017	% change
EBITDA (reported)	1,380.6	1,397.3	-1.2
FX translation effect	14.9	-	-
One-off effects	-9.4	-21.3	-
Restructuring charges	22.1	-18.2	-
Adjusted EBITDA (reported)	1,408.2	1,357.8	3.7
M&A effect	-	1.6	-
Adjusted EBITDA (proforma)	1,408.2	1,359.4	3.6

**Information on alternative performance measures**

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

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

**Austria EBITDA**

adjustments for one-off effects and  
restructuring charges

in EUR million	1-12 M 2018	1-12 M 2017	% change
EBITDA (reported)	905.7	914.2	-0.9
One-off effects	-	-15.5	-
Restructuring charges	22.1	-18.2	-
Adjusted EBITDA (reported)	927.8	880.5	5.4

## ARPL (reported)

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

### ARPL-relevant revenues

in EUR million	2018 reported	2017 reported	% change
Austria	767.8	754.7	1.7
Bulgaria	80.4	74.2	8.4
Croatia	106.8	106.0	0.7
Belarus	25.8	19.3	33.9
Slovenia	30.7	29.9	2.5
Republic of Serbia	n. a.	n. a.	n. a.
Republic of Macedonia	21.6	21.2	2.3

### Total access lines

in '000	2018 reported	2017 reported	% change
Austria	2,048.3	2,117.5	-3.3
Bulgaria	536.0	531.2	0.9
Croatia	296.9	296.6	0.1
Belarus	451.8	306.4	47.5
Slovenia	73.8	70.5	4.8
Republic of Serbia	n. a.	n. a.	n. a.
Republic of Macedonia	164.4	149.3	10.1

## Belarus Key Financials in EUR and BYN

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

### Belarus Key Financials

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	389.3	390.5	-0.3	394.1	-1.2	3.7
Total costs and expenses	-225.5	-209.2	-7.8	-212.4	-6.2	-3.2
EBITDA	163.8	181.3	-9.6	181.8	-9.9	0.5

in BYN million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute Abweichung (proforma - reported)
Total revenues	936.4	851.8	9.9	859.9	8.9	8.0
Total costs and expenses	-542.4	-456.4	-18.8	-463.3	-17.1	-6.9
EBITDA	394.0	395.5	-0.4	396.6	-0.7	1.1

## ARPU (reported)

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

## Presentation of proforma reconciliation

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

- The acquisition of the fixed-line operator Metronet in Croatia, consolidated as of February 1, 2017.
- The acquisitions of the fixed-line providers Garant (Gomel), consolidated as of August 1, 2017, and Vitebsk Garant, consolidated as of May 1, 2018, both in Belarus. As the financial impact of Vitebsk Garant on the Belarus segment is marginal, no proforma view is provided on this acquisition.

For further details on purchasing prices and cash outflow, see Note (34).

### Free cash flow (reported)

in EUR million	2018 reported	2017 reported	% change
Net cash flow from operating activities	1,232.3	1,174.8	4.9
Capital expenditures paid	-771.5	-705.4	-9.4
Proceeds from sale of plant, property and equipment	7.5	15.1	-50.3
Interest paid	-84.2	-99.8	15.6
Free cash flow	384.2	384.7	-0.1

## Group summary

Key financials in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
Total revenues	4,466.4	4,382.5	1.9	4,388.5	1.8	6.1
EBITDA	1,380.6	1,397.3	-1.2	1,398.9	-1.3	1.6
% of total revenues	30.9%	31.9%	-	31.9%	-	-
EBITDA excl. restructuring	1,402.7	1,379.1	1.7	1,380.7	1.6	1.6
% of total revenues	31.4%	31.5%	-	31.5	-	-
Operating income	424.1	443.9	-4.5	444.5	-4.6	0.6
% of total revenues	9.5%	10.1%	-	10.1%	-	-
<b>Total costs and expenses</b> in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
Cost of service	-1,395.6	-1,394.2	-0.1	-1,396.6	0.1	-2.4
Cost of equipment	-626.9	-584.2	-7.3	-584.2	-7.3	0.0
Selling, general & administrative expenses	-1,049.3	-994.9	-5.5	-996.7	-5.3	-1.8
Other expenses	-13.9	-11.8	-18.2	-12.1	-14.9	-0.3
Total costs and expenses	-3,085.8	-2,985.1	-3.4	-2,989.6	-3.2	-4.5
thereof employee costs	-850.6	-793.9	-7.2	-795.9	-6.9	-2.1
thereof restructuring charges	-22.1	18.2	n.m.	18.2	n.m.	0.0
Impairment charges	0.0	0.0	n.a.	0.0	n.a.	0.0
Depreciation and amortization	-956.5	-953.4	-0.3	-954.4	-0.2	-1.0

## Segment Croatia

Key financials in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
Total revenues	444.5	434.9	2.2	437.3	1.6	2.4
Service revenues	386.4	379.7	1.8	381.9	1.2	2.2
thereof mobile service revenues	261.7	258.8	1.1	258.8	1.1	0.0
thereof fixed-line service revenues	124.7	120.9	3.2	123.1	1.3	2.3
Equipment revenues	52.0	49.0	6.1	49.0	6.2	0.0
Other operating income	6.0	6.2	-3.4	6.3	-5.5	0.1
EBITDA	114.1	108.0	5.7	109.1	4.6	1.1
% of total revenues	25.7%	24.8%		24.9%		
Operating income	7.6	12.4	-38.6	13.0	-41.4	0.6
% of total revenues	1.7%	2.9%		3.0%		
<b>Wireline indicators</b> in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma-reported)
RGUs (in '000)	681.8	654.1	4.2	654.1	4.2	0.0
thereof fixed broadband RGUs	254.0	250.0	1.6	250.0	1.6	0.0

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

## Segment Belarus

Key financials in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	389.3	390.5	-0.3	394.1	-1.2	3.7
Service revenues	286.9	303.7	-5.5	307.1	-6.6	3.3
thereof mobile service revenues	247.0	273.1	-9.5	273.1	-9.5	0.0
thereof fixed-line service revenues	39.9	30.6	30.2	34.0	17.3	3.3
Equipment revenues	84.3	71.5	17.8	71.5	17.8	0.0
Other operating income	18.1	15.2	19.0	15.5	16.5	0.3
EBITDA	163.8	181.3	-9.6	181.8	-9.9	0.5
% of total revenues	42.1 %	46.4 %	-	46.1 %	-	-
Operating income	87.6	123.1	-28.8	123.0	-28.8	0.0
% of total revenues	22.5 %	31.5 %	-	31.2 %	-	-

Wireline indicators in EUR million	2018 reported	2017 reported	Veränderung in %	2017 proforma	%-Veränderung proforma	Absolute change (proforma - reported)
RGUs (in '000)	657.3	463.4	41.8	463.4	41.8	0.0
thereof fixed broadband RGUs	246.7	212.0	16.4	212.0	16.4	0.0

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

## Revenues

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma - reported)
Austria	2,658.0	2,622.3	1.4	2,622.3	1.4	0.0
Bulgaria	446.2	431.2	3.5	431.2	3.5	0.0
Croatia	444.5	434.9	2.2	437.3	1.6	2.4
Belarus	389.3	390.5	-0.3	394.1	-1.2	3.7
Slovenia	214.1	216.1	-0.9	216.1	-0.9	0.0
Republic of Serbia	249.2	230.8	8.0	230.8	8.0	0.0
Republic of Macedonia	119.2	114.0	4.5	114.0	4.5	0.0
Corporate & other, eliminations	-53.9	-57.3	5.9	-57.3	5.9	0.0
<b>Total revenues</b>	<b>4,466.4</b>	<b>4,382.5</b>	<b>1.9</b>	<b>4,388.5</b>	<b>1.8</b>	<b>6.1</b>

## EBITDA

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma - reported)
Austria	905.7	914.2	-0.9	914.2	-0.9	0.0
Bulgaria	138.0	130.1	6.1	130.1	6.1	0.0
Croatia	114.1	108.0	5.7	109.1	4.6	1.1
Belarus	163.8	181.3	-9.6	181.8	-9.9	0.5
Slovenia	38.1	40.6	-6.1	40.6	-6.1	0.0
Republic of Serbia	47.0	38.4	22.5	38.4	22.5	0.0
Republic of Macedonia	35.4	30.1	17.7	30.1	17.7	0.0
Corporate & other, eliminations	-61.5	-45.3	-35.8	-45.3	-35.8	0.0
<b>Total EBITDA</b>	<b>1,380.6</b>	<b>1,397.3</b>	<b>-1.2</b>	<b>1,398.9</b>	<b>-1.3</b>	<b>1.6</b>

## Depreciation & amortization

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma - reported)
Austria	-431.8	-472.2	8.6	-472.2	8.6	0.0
Bulgaria	-243.1	-215.7	-12.7	-215.7	-12.7	0.0
Croatia	-106.5	-95.6	-11.4	-96.0	-10.9	-0.5
Belarus	-76.2	-58.2	-30.9	-58.8	-29.6	-0.5
Slovenia	-29.2	-30.1	2.9	-30.1	2.9	0.0
Republic of Serbia	-42.9	-45.1	4.9	-45.1	4.9	0.0
Republic of Macedonia	-26.0	-36.0	27.7	-36.0	27.7	0.0
Corporate & other, eliminations	-0.8	-0.5	-55.4	-0.5	-55.4	0.0
<b>Total depreciation &amp; amortization</b>	<b>-956.5</b>	<b>-953.4</b>	<b>-0.3</b>	<b>-954.4</b>	<b>-0.2</b>	<b>-1.0</b>

## EBIT

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma - reported)
Austria	473.9	442.1	7.2	442.1	7.2	0.0
Bulgaria	-105.1	-85.6	-22.8	-85.6	-22.8	0.0
Croatia	7.6	12.4	-38.6	13.0	-41.4	0.6
Belarus	87.6	123.1	-28.8	123.0	-28.8	0.0
Slovenia	8.9	10.5	-15.2	10.5	-15.2	0.0
Republic of Serbia	4.1	-6.8	n.m.	-6.8	n.m.	0.0
Republic of Macedonia	9.3	-6.0	n.m.	-6.0	n.m.	0.0
Corporate & other, eliminations	-62.3	-45.8	-36.0	-45.8	-36.0	0.0
<b>Total EBIT</b>	<b>424.1</b>	<b>443.9</b>	<b>-4.5</b>	<b>444.5</b>	<b>-4.6</b>	<b>0.6</b>

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

in EUR million	2018 reported	2017 reported	% change	2017 proforma	% change proforma	Absolute change (proforma - reported)
Austria	469.3	435.5	7.8	435.5	7.8	0.0
Bulgaria	86.5	81.3	6.5	81.3	6.5	0.0
Croatia	87.8	84.7	3.6	85.2	3.1	0.4
Belarus	49.7	47.1	5.6	47.8	4.0	0.7
Slovenia	27.5	41.8	-34.3	41.8	-34.3	0.0
Republic of Serbia	34.1	35.1	-2.9	35.1	-2.9	0.0
Republic of Macedonia	19.2	21.3	-9.9	21.3	-9.9	0.0
Corporate & other, eliminations	-3.1	-10.0	68.5	-10.0	68.5	0.0
<b>Total capital expenditures</b>	<b>771.0</b>	<b>736.9</b>	<b>4.6</b>	<b>738.0</b>	<b>4.5</b>	<b>1.1</b>

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

## Capital expenditures - tangible

in EUR million	2018 reported	2017 reported	% change
Austria	389.5	361.2	7.8
Bulgaria	52.4	53.8	-2.6
Croatia	70.7	69.3	2.0
Belarus	36.7	37.9	-3.4
Slovenia	17.9	19.3	-6.9
Republic of Serbia	25.3	26.0	-2.6
Republic of Macedonia	17.0	17.9	-4.9
Corporate & other, eliminations	0.8	-6.0	n.m.
<b>Total capital expenditures - tangible</b>	<b>610.2</b>	<b>579.3</b>	<b>5.3</b>



## Capital expenditures – intangible

in EUR million	2018 reported	2017 reported	% change
Austria	79.9	74.3	7.4
Bulgaria	34.1	27.5	24.3
Croatia	17.1	15.4	10.7
Belarus	13.0	9.1	42.8
Slovenia	9.5	22.5	-57.7
Republic of Serbia	8.8	9.1	-3.6
Republic of Macedonia	2.2	3.5	-35.9
Corporate & other, eliminations	-3.9	-3.9	-0.6
<b>Total capital expenditures – intangible</b>	<b>160.7</b>	<b>157.6</b>	<b>2.0</b>

## Consolidated non-financial statement

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

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

### Shareholder structure and capital disclosures

At the end of 2018, a total of 51.00% or 338,895,000 shares of Telekom Austria Aktiengesellschaft were held by América Móvil B.V., Netherlands (“América Móvil B.V.”; formerly Carso Telecom B.V.), a wholly owned subsidiary of América Móvil, S.A.B. de C.V. (“América Móvil”). The Republic of Austria holds 28.42% via Österreichische Bundes- und Industriebeteiligungen GmbH (“ÖBIB”) <sup>20)</sup>, while the remaining 20.58% of the shares are in free float. 0.1% or 0.4 million shares of the latter were held by the company itself. Employee shares that are being held in a collective custody account are also part of the free float. The associated voting rights are exercised by a custodian (notary). The total number of no-par value shares remains at 664,500,000.

	2018	2017	Change in %
Treasury Shares	415,159	415,159	0.0

Further details on treasury shares are provided in Section 28 of the Notes.

Standard change-of-control clauses that could ultimately lead to the termination of contracts affect the majority of financing agreements. None of these clauses came into effect in the 2018 financial year or up until the date of this report.

The following information concerning the shareholders’ agreement is based solely on publicly available information. <sup>21)</sup> The company has no additional information. The shareholders’

agreement between ÖBIB, América Móvil and América Móvil B.V., Netherlands (“América Móvil B.V.”; formerly “Carso Telecom B.V.”), came into force on June 27, 2014 (see Note (28)). Under the terms of the shareholders’ agreement, the parties have undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria Aktiengesellschaft by exercising their voting rights on a concerted basis. The shareholders’ agreement also contains provisions on the joint exercise of voting rights in the committees of the company for the election of Supervisory Board and Management Board members and restrictions on the sale of shares. The Supervisory Board of the company consists of ten shareholder representatives, of which eight members are nominated by América Móvil B.V. and two by ÖBIB. ÖBIB has the right to nominate the chairman of the Supervisory Board. América Móvil B.V. has the right to nominate the deputy chairman. The Management Board of the company consists of three members. Two members are nominated by América Móvil B.V., while one member of the Management Board, namely the Chief Executive Officer (CEO), is nominated by ÖBIB. The Extraordinary General Meeting on August 14, 2014 also amended the Articles of Association to state that, as long as the Republic of Austria directly or indirectly holds at least 25% plus one share of the share capital of the company, resolutions on capital increases and the issue of instruments containing a conversion right or a conversion obligation for shares of the company and amendments to the provisions of the Articles of Association relating to capital increases and such instruments shall require a majority of at least three quarters of the share capital represented at the vote on the resolution.

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

20) ÖBIB will be transformed into a stock company due to the change of the, ‘ÖIAG Gesetz 2000’ according to Sec 245ff AktG. The company will be transformed into Österreichische Beteiligungs AG.

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

B.V. undertakes to sell shares within the next 24 months and (ii) América Móvil undertakes to ensure that neither it nor its subsidiaries purchase any additional shares until the minimum free float requirement is restored.

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

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

## Changes to the Management Board and the Supervisory Board

At the Annual General Meeting on May 30, 2018, the Supervisory Board mandates of Carlos García Moreno Elizondo, Carlos M. Jarque and Oscar Von Hauske Solís were extended. Edith Hlawati was elected as Chairperson of the Supervisory Board, while Bettina Glatz-Kremsner and Daniela Lecuona Torras were elected as members after Wolfgang Ruttenstorfer, Stefan Pinter, and Reinhard Kraxner left the Supervisory Board.

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

Name (year of birth)	Date of first appointment	End of current term of office/leaving date
Alejandro Cantú Jiménez (1972)	14.08.2014	2019 <sup>1)</sup>
Karin Exner-Wöhrer (1971)	27.05.2015	2020 <sup>2)</sup>
Carlos García Moreno Elizondo, first Deputy Chairman (1957)	14.08.2014	2023 <sup>5)</sup>
Bettina Glatz-Kremsner (1962)	30.05.2018	2023 <sup>5)</sup>
Peter Hagen (1959)	25.05.2016	2019 <sup>1)</sup>
Edith Hlawati (1957), Chair <sup>6)</sup>	28.06.2001 to 29.05.2013, reappointed on 30.05.2018	2023 <sup>5)</sup>
Carlos M. Jarque (1954)	14.08.2014	2022 <sup>4)</sup>
Peter F. Kollmann (1962)	20.09.2017	2021 <sup>3)</sup>
Reinhard Kraxner (1970)	14.08.2014	30.05.2018
Daniela Lecuona Torras (1982)	30.05.2018	2022 <sup>4)</sup>
Stefan Pinter (1978)	14.08.2014	30.05.2018
Wolfgang Ruttenstorfer, Chairman (1950) <sup>7)</sup>	27.05.2010 to 14.08.2014, reappointed on 27.05.2015	30.05.2018
Oscar Von Hauske Solís (1957)	23.10.2012	2023 <sup>5)</sup>
<b>Members of the Supervisory Board delegated by the Staff Council</b>		
Silvia Bauer (1968)	30.01.2009 to 03.11.2010, 26.07.2012 to 12.10.2018	
Walter Hotz (1959)	Re-delegated on 06.05.2011	
Werner Luksch (1967)	03.08.2007 to 20.10.2010, re-delegated on 11.01.2011	
Renate Richter (1972)	12.10.2018	
Alexander Sollak (1978)	03.11.2010	
Gottfried Kehrer (1962)	27.10.2010	

1) The term of office ends at the Annual General Meeting for the 2018 financial year (May 29, 2019).

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

3) The term of office ends at the Annual General Meeting for the 2020 financial year (provisionally May 2021).

4) The term of office ends at the Annual General Meeting for the 2021 financial year (provisionally May 2022).

5) The term of office ends at the Annual General Meeting for the 2022 financial year (provisionally May 2023).

6) Chairperson since May 30, 2018.

7) Chairperson until May 30, 2018.

Thomas Arnoldner was elected Chief Executive Officer (CEO) of Telekom Austria Aktiengesellschaft as of September 1, 2018 for a term of three years with an extension option of two additional years. The contracts of Alejandro Plater, Chief Operating

Officer (COO), and Siegfried Mayrhofer, Chief Financial Officer (CFO), were renewed and run as long as Thomas Arnoldner's contract until August 31, 2021 with an extension option of two additional years to August 31, 2023.

## Cash use policy

The A1 Telekom Austria Group pursues a conservative finance strategy, with a solid investment grade rating of Baa2 by Moody's and BBB by Standard & Poor's at its core. This orientation ensures a solid balance sheet structure with moderate leverage (net debt to EBITDA) as well as financial flexibility for investments and unrestricted access to debt capital markets. In the 2018 year under review, the company rating of the A1 Telekom Austria Group was confirmed by Standard and Poor's (BBB) with the outlook "positive" and increased from Baa2 to Baa1 with the outlook "stable" from Moody's.

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

In this context, the Management Board plans to propose a dividend of EUR 0.21 per share to the Annual General Meetings 2019 and 2020 for the financial years 2018 and 2019.

## Risk management

### Principles and methods

As one of the leading telecommunications companies in Austria as well as Central and Eastern Europe, the A1 Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. The A1 Telekom Austria Group's risk management system analyses risk areas systematically, assesses the potential impact, improves existing risk avoidance and risk elimination measures, and reports on the status and developments in the Supervisory Board. In this process, the A1 Telekom Austria Group relies on close cooperation between Group officers and the local risk officers. The risk management system is made up of seven risk categories.

Risk management is performed by analyzing risks and opportunities in connection with the short-term and medium-term planning and ongoing business operations. One key element of risk management is to develop effective measures for reducing and perceiving risks. These are continuously updated by way of monthly performance calls (MPC) and leadership team meetings (LTM) and by analyzing critical deviations and initiated measures. The overall risk situation of this risk category is derived from the sum of the individual risks. In addition to the fixed-line and mobile communications market in Austria, the A1 Telekom Austria Group holds leading positions in six other telecommunications markets abroad. This ensures diversification in terms of both sectors and geographical regions. The risk sets of the respective markets vary, which is why risk management is the responsibility of the local operational units. Risk management is controlled by the holding company. In addition to the regular operating meetings (MPC) and

strategic meetings (LTM), a multi-year plan is also created. This close integration of business planning and risk management ensures appropriate risk control.

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

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

## Risks

### 1. Market and strategic risks

High competitive intensity in the A1 Telekom Austria Group's markets is leading to price reductions in both mobile communications and data traffic. There is a risk that competition will increase amidst the infrastructure by Open Access Network providers (OAN). Additional competition is arising from innovative over-the-top players (OTTs), who are able to offer their services without owning a network. There is a risk that traffic volume growth cannot offset these price declines. In addition, the monitoring of key macroeconomic indicators in order to assess any changes in consumer behavior is an important aspect of risk management as well as strategic pricing and product design.

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

### 2. Compliance risks

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

**Data protection** risks are a relevant section of compliance risks. The products and services of the A1 Telekom Austria Group are subject to data protection and data security risks, particularly with regard to unauthorized access to customer, partner or employee data. Violations of the EU General Data Protection Regulation (GDPR), which has been in force since May 25, 2018, may result in considerable legal and financial risks. To minimize

potential risk, the EU General Data Protection Regulation has been implemented in interdisciplinary projects within the A1 Telekom Austria Group since early 2016. Technical and organizational measures have also been implemented on the basis of risk assessments. All companies of the A1 Telekom Austria Group undertake to comply with the most stringent data protection and data security standards. In 2018, there was a particular focus on data privacy during the compliance risk assessment in order to check the implementation of GDPR.

### 3. Physical risks

#### Technical and topographical risks

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

#### Environmental risks

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

### 4. Cyber risks

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

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

### 5. Operational risks

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

The A1 Telekom Austria Group counters personnel-related risks in various ways. For example, young talent is recruited as part of the "1A Career" program, which focuses on graduates, students and apprentices and ensures diversity in the company. The risk of losing key employees is counteracted by means of forward-looking skill management, succession planning, and Group-wide talent management. The in-house A1 Learning Hub development platform supports employees in the development of their skills and abilities and serves as a platform for the Group-wide transfer of expertise. A central e-learning platform provides training at any time and in any place throughout the Group. In addition to business-plan-oriented cost planning, human resources planning includes measures aimed at encouraging employee mobility.

In 2018, management of personnel risks added the challenge of developing digital competencies in all departments to its focus. These digital competencies are an essential pillar of a future-oriented company and allow an optimization of human resources by means of a digital shift of sales, service, and monitoring processes. They are also essential to do more than just survive in new markets and with digitalized business models. This is being initiated via the integration of start-ups, broad-based development measures, and the digital development of key employees of the A1 Telekom Austria Group and will be focused on in the coming years.

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

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

Around 45% of employees in the Austria segment have civil servant status. This corresponds to around 19% at Group level. To address the structure of employee costs, the Austria segment has developed not only several social plans in cooperation with employee representatives, but also models that enable employees with civil servant status to transfer to government ministries. Civil servants are also encouraged to take part in internal mobility initiatives within the context of integrated skill management.

## 6. Financial risks

The A1 Telekom Austria Group is exposed to liquidity, credit, foreign currency exchange rate, transfer and interest rate risks (see Note (33)).

## Investment risks

In general, the A1 Telekom Austria Group counters investment risks through measures such as the active management of equity investments by means of target requirements, coordination processes and, where acquisitions of equity interests are concerned, thorough due diligence and enterprise valuation (see Notes (17) and (18)).

## 7. Political, legal, and regulatory risks

Telecommunications services offered by a provider with significant market power are subject to extensive network access and price regulations. In Austria, the A1 Telekom Austria Group is classified as this kind of provider in several sub-markets. Regulation at the wholesale level restricts operational flexibility with regard to products. There is also an obligation to provide access to infrastructure and fixed-line services to alternative providers. The foreign subsidiaries are also subject to regulatory frameworks. Additional regulatory decisions, such as further reductions in mobile and fixed-line termination rates as a result of the European Commission's new legal framework (European Electronic Communications Code) as well as the reduction of surcharges for international calls within the EU, could negatively affect the A1 Telekom Austria Group's earnings development.

As described in the "Regulation" section, a new regulation on net neutrality and roaming came into force in 2016 that has far-reaching effects on subsidiaries within the EU. Although the Body of European Regulators has issued guiding principles on net neutrality in order to specify how the regulation should be applied in more detail, the topic of net neutrality is still open to interpretation and legal uncertainty so that harmonized, uniform implementation within the EU is not guaranteed. Therefore the extent of their effects cannot be fully predicted and may vary between member states. In turn, this gives rise to legal-regulatory and financial uncertainty.

The European Electronic Communications Code described in the "Regulation" section includes policy objectives for a "gigabit society" and a 5G plan of action. In addition, the above-mentioned cap on surcharges for international calls within the EU that applies starting May 2019 will have significant effects on the revenues of telecommunications operators in Europe. This will involve both legal-regulatory risks as well as financial risks in the future.

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

## Internal control system for financial reporting

Telekom Austria Aktiengesellschaft has an internal control system (ICS) for the financial reporting process, as required by law. The ICS is intended to provide reasonable assurance regarding the reliability, completeness, and accuracy of external financial reporting in compliance with international and national accounting standards. Regular internal reporting to Management and the review of the internal control system by Internal Audit also ensure that weaknesses are identified promptly or at an early stage as well as reported and eliminated accordingly. The most important content and principles apply to all A1 Telekom Austria Group subsidiaries. The effectiveness of this system is reviewed, analyzed and assessed at regular intervals. At the end of each year, the Group's Management carries out an assessment of the ICS for relevant companies with the involvement of the respective business units. Based on the findings of this assessment and the defined criteria, the Management has determined that the internal control system regarding financial reporting as of December 31, 2018 is effective.

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

## Outlook

### A1 Telekom Austria Group outlook for 2019

In 2018, A1 Telekom Austria Group again achieved growth in its revenues and its EBITDA adjusted for one-off and FX effects as well as restructuring charges. This was achieved thanks to a clear focus on high-value customers in the mobile business and an ongoing strong fixed-line business with increasing significance of TV content and a growing solutions & connectivity business. Demand for mobile WiFi routers also increased. In Austria, the competition launched convergent offerings for the first time in autumn 2018. In the mobile market, the dynamics in Austria and most CEE markets were relatively unchanged year-on-year. At the same time, the economic situation remained positive in all of the Group's markets. The Belarusian Rouble depreciated by 9.3% against the Euro (based on the period average). Ongoing cost efficiency increases enabled the translation of the solid revenue growth into solid growth of operational EBITDA.

For the full year 2019, most of the market dynamics mentioned above are expected to remain. In Austria, development with regard to the new convergent providers is yet to be seen, while the competitive environment in the mobile markets of the CEE are expected to show similar trends as in 2018. However, demand for fixed-line services is expected to serve as a positive driver across all markets. As in 2018, TV content and solutions & connectivity will be an important element here.

In this business environment, the Management of A1 Telekom Austria Group remains committed to its growth strategy, which is focused on three strategic elements: excelling in the core business, expanding the portfolio, and targeted M&A. As in previous years, results are expected to gain support from ongoing efforts to continuously increase operating efficiency.

For 2019, the Management of A1 Telekom Austria Group expects to achieve growth in total revenues on a reported basis.

The negative effect of the reduction of surcharges for international calls within the EU is anticipated to amount to 1% of Group EBITDA.

The development in Belarus is again expected to be negatively affected by the devaluation of the Belarusian Rouble in 2019. The Management of A1 Telekom Austria Group expects the currency to depreciate by 5–10% versus the euro (period average), whereas it must be noted that the predictability of the Belarusian Rouble is generally limited.

The harmonization of the brands under the "A1" brand will be continued. The respective companies will amortize the brand values until the phase-out of the old brands. More than 90% of these amortizations have already materialized as of year-end 2018.

A1 Telekom Austria Group will remain committed to the fiber rollout in Austria and the further development of its mobile infrastructure, especially with regards to the preparation of 5G, in its markets in 2019. Capital expenditures before spectrum investments and acquisitions are expected to remain approximately stable in 2019.

The frequency allocation of the 3.4–3.8 GHz band is imminent in Austria. The bidding documents were published in September 2018, while the auction itself will take place in the first quarter of 2019.

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

In this context, the Management Board plans to propose a dividend of EUR 0.21 per share to the Annual General Meetings 2019 and 2020 for the financial years 2018 and 2019.

In order to ensure its financial flexibility, A1 Telekom Austria Group remains committed to maintaining a solid investment grade rating of Baa2 from Moody's and BBB from Standard & Poor's (currently Baa1 from Moody's and BBB from Standard & Poor's).

Vienna, February 11, 2019  
The Management Board

Thomas Arnoldner, CEO  
Telekom Austria Aktiengesellschaft

Alejandro Plater, COO  
Telekom Austria Aktiengesellschaft

Siegfried Mayrhofer, CFO  
Telekom Austria Aktiengesellschaft