

Group Management Report

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

General economic environment¹⁾

The economic recovery in the industrialised countries slowed slightly, while there was a moderate upturn in momentum in the developing and emerging nations. In autumn, the International Monetary Fund (IMF) reduced its forecast for global economic growth in 2016 to 3.1%, down slightly from the figure anticipated in April 2016. IMF experts are currently forecasting growth of 3.4% in 2017.

In a forecast published in November of the year under review, the European Commission estimated that economic growth in the European Union would be 1.8% in 2016. In 2017, growth is expected to decline to 1.6%. The Austrian economy is expected to have grown by 1.5% in 2016. In Bulgaria, the increase in GDP is estimated at 3.1% in 2016. In Croatia, the economy is set to have expanded by 2.6% in the same period. In contrast, a drop in economic output of 3.0% has been anticipated for Belarus. This was driven by the recession in Russia. Based on European Commission estimates, Slovenia, the Republic of Serbia and the Republic of Macedonia saw economic growth of 2.2%, 2.7% and 2.1% respectively in 2016.

The European Central Bank (ECB) continued with its policy of monetary easing using its bond buying programme in the year under review. Within the framework of this programme launched in March 2015, the ECB was buying securities in the amount of EUR 60 bn per month, raising this sum to EUR 80 bn in April 2016. The programme, which was originally planned to mature in March 2017, was prolonged in December 2016 until the end of the year 2017. The monthly purchase volume will be lowered again to EUR 60 bn from April 2017. The ECB also lowered its key interest rate from 0.05% to 0.00% in March 2016. Meanwhile, the US Federal Reserve raised its key interest rate from 0.25-0.5% to 0.5-0.75% in December 2016.

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

	2015	2016e	2017e
Austria	1.0	1.5	1.6
Bulgaria	3.6	3.1	2.9
Croatia	1.6	2.6	2.5
Belarus	-3.9	-3.0	-0.5
Slovenia	2.3	2.2	2.6
Republic of Serbia	0.8	2.7	3.0
Republic of Macedonia	3.7	2.1	3.2

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

Industry trends and competition

The business performance of the Telekom Austria Group is significantly influenced by a number of external factors. In 2016, the market environment in both the fixed-line and the mobile communications markets proved to be highly competitive once again, particularly in mature markets. In the no-frills segment, there was sustained pressure on prices, not least as a result of the emergence of additional mobile virtual network operators (MVNOs). Regulatory provisions continued to negatively impact revenues and earnings. In particular, the stepwise abolition of retail roaming in the EU as of 30 April 2016 affected the Group's financial performance. Additionally, the high frequency usage fees in Croatia as well as the provisions on termination rates have a negative influence. Meanwhile, the uncertain political and economic situation in the CEE region affected consumer behaviour in many countries despite the first signs of a recovery. The Telekom Austria Group counters these factors through the systematic implementation of its convergence strategy, a clear focus on high-value customers, innovative products and services as well as strict cost management.

In Austria, the Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed-line and mobile communications solutions under its A1 brand. The latest market report issued by the regulatory authority, which

¹⁾ Sources: GDP for World and Belarus: IMF <http://www.imf.org/external/pubs/ft/weo/2016/02/pdf/text.pdf>, dated October 2016, pages 2, 45; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Serbia and Republic of Macedonia: http://ec.europa.eu/economy_finance/publications/eeip/pdf/ipo38_en.pdf, dated November 2016, page 185

tracked the most recent market data in Austria up to the end of the first half of 2016, underlines the high degree of maturity of the Austrian market and describes the following average trends across all operators:²⁾

- Average revenues generated per mobile customer decreased in the first half year from EUR 14.5 to EUR 14.3, while end customer revenues rose by 2.9% year-on-year. While the number of voice minutes fell by 4.7% compared with the first half of 2015 and the number of text messages saw a further significant downturn of 20.1%, data volume almost doubled, with growth of 92.3%. As previously, the strongest stimulus for this trend came from smartphone users, where an increase of 18.4% to more than 4.3 million users was recorded.
- In the Austrian fixed-line market, the number of fixed access lines again increased slightly by 0.3% year-on-year. By contrast, the share of total voice minutes attributable to fixed lines declined further from 13.1% in the first half of 2015 to 12.7% in the first half of 2016. Average voice revenues per month in the fixed-line segment also remained on a downward trend, declining by 10.3% for private customers and 5.1% for business customers. The strong demand for broadband solutions continued in 2016 and resulted in an overall rise of 13.3% to over nine million broadband connections. Fixed-line and mobile broadband grew by 3.7% and 15.5% respectively.

According to Statistics Austria, the share of Austrian households with internet access rose from 82% to 85%. Broadband lines in private households increased to 85%, while lines at companies rose to 98%.³⁾

²⁾ https://www.rtr.at/de/inf/TK_Monitor_4_2016/TM4_2016.pdf, pages 11, 16, 17, 18, 33, 47, 52, 65 (Telekom Austria Group calculations)

³⁾ http://www.statistik.at/web_de/statistiken/informationsgesellschaft/index.html

In Bulgaria, the high level of competitive intensity continued to have an influence on pricing for mobile communications services as well as convergent product packages in the year under review. In 2016, the internet penetration rate across all households increased from 59.1% to 63.5% year-on-year, with mobile broadband currently being used by 52.2% of all users.⁴⁾

The recovery of the Croatian Information and Communications Technology market (ICT market) and the macroeconomic situation continued in the year under review. Broadband penetration in the fixed-line business increased to 23.9% in the third quarter of 2016 (Q3 2015: 22.7%), while mobile broadband penetration improved from 75.2% to 79.0% in the same period.⁵⁾

In Belarus, the ICT market has developed strongly in recent years, which has led to a steady increase in the number of internet customers and the number of mobile telephone users. The proportion of households with internet access also rose steadily, amounting to 62.2% at the end of 2015.⁶⁾

In Slovenia, the internet penetration rate increased from 77.6% in the previous year to 78.4% in the year under review. According to official statistics, a further increase in mobile voice minutes was reported in Slovenia, while voice minutes attributable to fixed lines significantly decreased in 2016.⁷⁾

In the Republic of Serbia, the catch-up process in terms of internet access continued, starting from a far lower level than in the other markets of the Telekom Austria Group. Overall, 64.7% of all households already had internet access in 2016. Meanwhile, 90.2% of all Serbian households also own mobile telephones and 65.8% have a computer.⁸⁾

According to the Statistical Office of the Republic of Macedonia, 75.3% of all Macedonian households had internet access in the first quarter of 2016. 81% of people with internet access used a mobile device to access the web.⁹⁾

Regulation

As the market leader, A1 Telekom Austria Aktiengesellschaft is classified as a provider with substantial market power in Austria and is therefore subject to the corresponding regulatory measures. These include extensive network access and price regulations. The international subsidiaries of the Telekom Austria Group are also subject to far-reaching regulatory provisions in their respective national markets. The relevant regulation for A1 Telekom Austria Aktiengesellschaft in the fixed-line network applies at retail and wholesale levels. This includes obligations to give alternative providers access to infrastructure and services. However, decisions on regulation are made not just at a national level, but are also reached at a European level. For example, this is the case for the European Commission roaming and net neutrality regulations¹⁰⁾, which apply equally to all EU member states.

Fixed-line telecommunication markets

In the spring of 2015, the Austrian regulatory authority initiated the fifth round of the statutory market review process, which is oriented towards the European Commission's new 'relevant markets recommendation' of October 2014. Draft decisions for most of the markets to be examined had been issued by the end of 2016, although final decisions are not expected before the

⁴⁾ <http://www.nsi.bg/en/content/6099/households-who-have-internet-access-home;>

http://www.nsi.bg/sites/default/files/files/pressreleases/ICT_hh2016_en_TSVVo5D.pdf

⁵⁾ [https://www.hakom.hr/UserDocsImages/2016/e_trziste/KVA%20ENG%20Q3%202016%20Fixed%20broadband%20penetration.pdf;](https://www.hakom.hr/UserDocsImages/2016/e_trziste/KVA%20ENG%20Q3%202016%20Fixed%20broadband%20penetration.pdf)

https://www.hakom.hr/UserDocsImages/2016/e_trziste/KVA%20ENG%20Q3%202016%20Mobile%20broadband%20penetration.pdf

⁶⁾ [http://www.belstat.gov.by/en/ofitsialnaya-statistika/real-sector-of-the-economy/communication-and-ict/communication/annual-data/main-indicators-of-general-use-communications-development/;](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, 2016 (retrieved on 30 December 2016): [http://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/statistical-publications-data-books-bulletins/public-compilation/index_6467/;](http://www.belstat.gov.by/en/ofitsialnaya-statistika/publications/statistical-publications-data-books-bulletins/public-compilation/index_6467/) page 352

⁷⁾ http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=Ho87E&ti=&path=../Database/Hitre_Repozitorij/&lang=1 (Telekom Austria Group calculations);

http://pxweb.stat.si/pxweb/Dialog/viewplus.asp?ma=Ho83E&ti=&path=../Database/Hitre_Repozitorij/&lang=1

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<http://webzrs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indId%3d270101IND01%2662%3d1%2c2%2c3%2c4%2c5%2635%3d6%262%3d%23All%231%26sAreaId%3d270101%26dType%3dName%26lType%3dEnglish;>

http://webzrs.stat.gov.rs/WebSite/repository/documents/00/02/25/88/ICT_2016_pres_engl.pdf

⁹⁾ http://www.stat.gov.mk/PrikaziSooptenie_en.aspx?rbrtxt=77

¹⁰⁾ Regulation (EU) 2015/2120 of the European Parliament and of the Council of 25 November 2015 laying down measures concerning open internet access and amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services and Regulation (EU) No 531/2012 on roaming on public mobile communications networks within the Union

middle of the second quarter of 2017. The new drafts had no impact on the year under review. As the process is still ongoing, the extent to which the new regulatory decisions will have a commercial impact in the second half of 2017 remains difficult to forecast at present.

Mobile telecommunications markets

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

Glidepaths for mobile termination rates

	Jan 15	Jul 15	Jan 16	Jul 16	Jan 17	Jul 17
Austria (EUR)	0.008049	0.008049	0.008049	0.008049	0.008049 ¹⁾	0.008049 ¹⁾
Bulgaria (BGN)	0.019	0.019	0.019	0.019	0.014	0.014
Croatia (HRK)	0.063 ¹⁾	0.063 ¹⁾	0.063 ¹⁾	0.063 ¹⁾	0.063 ¹⁾	0.047 ¹⁾
Belarus (BYR)	0.018/0.009 ²⁾	0.018/0.009 ²⁾	0.018/0.009 ²⁾	0.018/0.009 ²⁾	0.018/0.009 ²⁾	0.018/0.009 ²⁾
Slovenia (EUR)	0.0114	0.0114	0.0114	0.0114	0.0114	0.0114
Republic of Serbia (RSD)	3.43	3.43	3.43	2.75	2.07	2.07
Republic of Macedonia (MKD)	0.90	0.90	0.90	0.90	0.63	0.63

¹⁾ National MTRs stated. International MTRs differ.

²⁾ Belarus values following the currency reform in 2016: peak times/off-peak times – the weighted average MTR value amounts to BYN 0.015 per minute.

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

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

EU roaming glidepath

Retail (in EUR)	July 14	30 April 2016	15 June 2017
Data (per MB)	0.20	domestic tariff + 0.05 ¹⁾	domestic tariff
Voice-calls made (per minute)	0.19	domestic tariff + 0.05 ¹⁾	domestic tariff
Voice-calls received (per minute)	0.05	weighted average MTR ¹⁾	0
SMS (per SMS)	0.06	domestic tariff + 0.02 ¹⁾	domestic tariff

Wholesale (in EUR)	July 14	30 April 2016	15 June 2017
Data (per MB)	0.05	0.05	? ²⁾
Voice (per minute)	0.05	0.05	? ²⁾
SMS (per SMS)	0.02	0.02	? ²⁾

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

²⁾ Upon entry into force of the new regulation, the Commission shall initiate a review of the wholesale roaming market with a view to assessing measures necessary to enable abolition of retail roaming surcharges.

Information on financial reporting

The Telekom Austria Group reports on seven business segments: Austria, Bulgaria, Croatia, Belarus, Slovenia, Republic of Serbia and Republic of Macedonia. The segment Corporate & Other performs strategic and management functions for all segments in addition to financing agendas.

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

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

Information on reporting changes

As of Q1 2016, the Telekom Austria Group changed its reporting structure to be fully aligned with América Móvil. Details of the key changes to the reporting structure can be found in Note (4) of the Notes to the Consolidated Financial Statements.

The attached Consolidated Financial Statements are prepared according to applicable accounting standards. The presentation and analysis of financial information and key performance indicators until page 43 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 the operational performance. Please therefore also refer to the financial information presented in the Consolidated Financial Statements, which do not contain proforma figures, as well as the reconciliation tables provided on page 27.

Revenue and earnings development

Proforma view

Key financials (in EUR million)	2016 reported	2015 proforma	Change in %
Total revenues	4,211.5	4,231.8	-0.5
EBITDA	1,354.3	1,390.5	-2.6
% of total revenues	32.2%	32.9%	
Operating income	486.7	568.2	-14.4

Proforma view

	2016 reported	2015 proforma	Change in %
Cost of service	1,346.5	1,359.5	-1.0
Cost of equipment	521.9	470.7	10.9
Selling, general & administrative expenses	986.1	1,005.8	-2.0
Others	2.7	5.2	-48.4
Total costs and expenses (in EUR million)	2,857.2	2,841.2	0.6
thereof employee costs	787.1	814.6	-3.4
thereof restructuring charges	7.2	0.4	n.m.
Impairment charges	2.3	0.0	n.a.
Depreciation and amortisation	865.3	822.3	5.2

Reported view

	2016 reported	2015 reported	Change in %
Net result	413.2	392.8	5.2
Net cash flow from operating activities	1,195.5	1,228.4	-2.7
Earnings per share (in EUR)	0.58	0.55	5.5
Free cash flow per share (in EUR)	0.35	0.53	-34.1
Capital expenditures ¹⁾	764.1	784.5	-2.6
Net debt	2,339.4	2,483.0	-5.8

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

The following analysis is based on proforma¹⁾ figures if not stated otherwise.

In the 2016 financial year, the Telekom Austria Group focused once again on counteracting competitive price pressure and regulatory intervention through a clear value focus and strict cost management. In addition to the operational development,

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

the Telekom Austria Group strengthened its position by means of M&A activities. The following transactions between the start of the comparison period and the end of the reporting period are highlighted:

- > The acquisition of the fixed-line reseller Amis in Slovenia and in Croatia, consolidated as of 1 September 2015.
- > The acquisition of the fixed-line operator Blizoo in Bulgaria, consolidated as of 1 October 2015.
- > The merger of Vip operator in the Republic of Macedonia with the third-largest operator in the country, ONE, consolidated as of 1 October 2015.
- > The acquisition of the fixed-line operator Atlant Telecom and its subsidiary TeleSet in Belarus, consolidated as of 1 December 2016.

In December 2016, an agreement for the acquisition of the fixed-line operator Metronet in Croatia was signed; the company is expected to be consolidated following the closing from the first quarter of 2017.

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

The performance in 2016 compared with the previous year was also impacted by the following material one-off and FX effects:

- > EUR 10.5 mn positive one-off effects in total revenues in Austria in Q4 2015: Reversal of accruals in fixed-line and other revenues
- > EUR 30.0 mn positive one-off effect in total revenues in Slovenia in other operating income in 2015, with payments in Q1 2015 (EUR 20.0 mn) and in Q4 2015 (EUR 10.0 mn): Agreement on settling mutual relations and business collaboration with Telekom Slovenije
- > EUR 21.6 mn positive one-off effect in EBITDA in Austria in Q4 2015 in restructuring charge resulting from a settlement
- > EUR 7.0 mn positive one-off effect in EBITDA in Austria in Q1 2016 resulting from the change of value adjustments for handsets under cost of equipment
- > EUR 14.4 mn positive one-off effect in EBITDA in Austria in Q3 2016 resulting from the reversal of an accrual for copyrights under cost of service
- > Negative FX effects of EUR 78.8 mn in revenues and EUR 37.0 mn in EBITDA in 2016, of which EUR 78.7 mn and EUR 37.2 mn respectively attributable to Belarus

In 2016, there were no one-off effects (without FX effects) for total revenues (2015: EUR +40.5 mn). One-off effects (without FX effects) for EBITDA amounted to EUR +21.4 mn (2015: EUR +62.1 mn).

In 2016, competition in Austria continued to be driven by mobile no-frills offers. In addition, mobile WiFi routers with unlimited data offers are becoming an increasingly relevant element of the Austrian broadband market. Developments in the Austrian market were also impacted by the stepwise abolition of retail roaming in the EU as of 30 April 2016. In Bulgaria, performance in 2016 was again characterised by a difficult competitive environment which particularly affected the business segment. However, some market segments showed first signs of stabilisation. In Croatia, the beginning easing of the market environment continued, whereas regulatory pressure remained in the form of high frequency usage fees.

The macroeconomic and regulatory headwinds in Belarus remained in place in the year under review. In this environment, the government sought to stabilise inflation, but also increased the value added tax on mobile services from 20% to 25% in April 2016. In 2016, the Slovenian telecommunications market was again characterised by fierce competition in the mobile business. In the Republic of Serbia, the highly competitive market environment saw the launch of new convergent offers in the first half of 2016. Following the merger of Vip operator with ONE in October 2015 in the Republic of Macedonia, one.Vip, the combined entity, is now the leading operator in the mobile segment of the telecommunications market. In spite of this consolidation, competition in the mobile market accelerated with the entry of a mobile virtual network operator (MVNO) as of July 2016.

In mobile communications, the Telekom Austria Group subscriber number remained stable (0.0%) at 20.71 million subscribers in the year under review. The strongest growth was recorded in Austria, with 167,800 additional customers. This development was driven by Machine-to-Machine (M2M) SIM cards. The number of customers in the Republic of Serbia (36,000) and Slovenia (5,800) also increased, whereas customer numbers declined in Bulgaria (-127,500), the Republic of Macedonia (-59,800), Croatia (-13,600) and Belarus (-11,900).

In the fixed-line business, the company gained around 76,500 revenue generating units (RGUs) at Group level, corresponding to growth of 1.3% to around 5.90 million RGUs. This growth was attributable primarily to Croatia and Slovenia, which contributed 67,100 and 24,400 additional RGUs respectively, while the number of RGUs in Austria fell by 38,900.

As a result of the developments described above, the Telekom Austria Group experienced a downturn in revenues of 0.5% in the 2016 financial year (reported: +2.1%). Higher total revenues in Croatia and the Republic of Serbia as well as stable total revenues in Bulgaria were offset by declines in the other segments. Adjusted for the one-off and FX effects described above, total revenues rose by 2.4% compared with the previous year.

Key performance indicators Telekom Austria Group

in EUR million

Proforma view

	2016 reported	2015 proforma	Change in %
Total revenues			
Austria	2,575.5	2,582.1	-0.3
Bulgaria	412.0	411.7	0.1
Croatia	398.3	372.3	7.0
Belarus	321.0	333.8	-3.9
Slovenia	214.1	245.5	-12.8
Republic of Serbia	221.1	210.7	5.0
Republic of Macedonia	119.4	122.7	-2.7
Corporate & other, eliminations	-50.1	-47.1	n.m.
Total	4,211.5	4,231.8	-0.5

	2016 reported	2015 proforma	Change in %
EBITDA			
Austria	897.5	881.2	1.8
Bulgaria	125.6	143.9	-12.7
Croatia	88.3	79.6	10.9
Belarus	151.5	164.0	-7.6
Slovenia	52.8	83.0	-36.4
Republic of Serbia	38.8	43.5	-10.7
Republic of Macedonia	26.1	24.4	7.2
Corporate & other, eliminations	-26.4	-29.1	n.m.
Total	1,354.3	1,390.5	-2.6

	2016 reported	2015 proforma	Change in %
Operating income			
Austria	402.1	414.9	-3.1
Bulgaria	15.4	41.4	-62.8
Croatia	9.4	8.8	6.7
Belarus	87.8	86.8	1.2
Slovenia	20.1	56.2	-64.2
Republic of Serbia	-7.8	-7.6	n.m.
Republic of Macedonia	-29.5	-3.3	n.m.
Corporate & other, eliminations	-10.8	-29.0	n.m.
Total	486.7	568.2	-14.4

On the cost side, the Telekom Austria Group increasingly invested in handset subsidies in almost all markets in 2016, resulting in a larger number of handsets sold and hence higher costs of equipment. The ongoing optimisation of operating efficiency was a focal point of management activities once again. Among other things, this included the implementation of management clusters in the previous year, resulting in lower operating expenses for administration and maintenance in 2016. Restructuring expenses originated entirely from the Austrian segment and amounted to EUR 7.2 mn in the year under review after EUR 0.4 mn in the previous year. These include social plans for employees exempt from work ('freigestellte Mitarbeiter') whose employment is being terminated in a socially responsible way, and expenses for the transfer of civil servants to the government. Costs and expenses were also influenced by the one-off effects in 2015 and 2016 mentioned above. All in all, the developments described led to a slight increase in costs and expenses of 0.6% year-on-year (reported: increase of 3.7%).

In the 2016 financial year, EBITDA fell by 2.6% (reported: -1.1%) as a result of the lower level of total revenues, amongst others driven by roaming, as well as higher costs and expenses. EBITDA growth in Austria, Croatia and the Republic of Macedonia could not offset the decline in the other segments. All in all, the EBITDA margin declined from 32.9% in the previous year to 32.2% in the year under review. Adjusted for the one-off and FX effects described above, EBITDA rose by 3.1% year-on-year.

Depreciation and amortisation increased by 5.2% year-on-year, mostly due to the higher level of depreciation and amortisation in Austria and the Republic of Macedonia. As a result, operating income declined by 14.4% compared with the previous year (reported: -14.9%).

The following analysis is based on reported figures only.

The Telekom Austria Group recorded a financial result of negative EUR 127.0 mn in the year under review, 18.1% lower than in the previous year. This was mainly due to the EUR 20.1 mn reduction in the interest expense primarily due to the repayment of a EUR 750 mn bond on 29 January 2016. FX differences amounted to a positive EUR 10.0 mn in the reporting period after a negative EUR 2.3 mn in 2015.

A tax benefit of EUR 53.5 mn was recorded in the year under review. This was mainly due to the positive effect of the recognition of higher deferred tax assets on tax losses carried forward due to higher expected future tax results within the Austrian tax group. Tax expenses of EUR 23.8 mn were reported in the previous year.

Overall, the Telekom Austria Group reported a positive net result of EUR 413.2 mn in the year under review (2015: EUR 392.8 mn).

Reported view

Company Key Figures	2016 reported	2015 reported	Change in %
Earnings per share (in EUR)	0.58	0.55	5.5
Dividend per share (in EUR)	0.20 ¹⁾	0.05	n.a.
Free cash flow per share (in EUR)	0.35	0.53	-34.1
ROE ²⁾	15.9%	16.9%	
ROIC ³⁾	9.9%	9.7%	

¹⁾ Proposal to the 2017 Annual General Meeting, which will take place on 9 June 2017.

²⁾ Ratio of net result to the average equity employed; serves as an indicator which measures the yield on equity.

³⁾ Total return on invested capital, calculated as the operating result after tax divided by the average capital invested.

The following analysis is based on reported figures only.

Net assets and financial position

Reported view

Balance sheet structure (in EUR million)	31 Dec 2016 reported	As % of the balance sheet total	31 Dec 2015 reported	As % of the balance sheet total
Current assets	1,438.9	18.1	1,853.1	22.3
Property, plant and equipment	2,550.8	32.1	2,409.4	29.0
Goodwill	1,241.8	15.6	1,229.7	14.8
Other intangible assets	2,321.4	29.2	2,507.9	30.2
Other assets	390.4	4.9	304.4	3.7
Assets	7,943.2	100.0	8,304.5	100.0
Current liabilities	1,847.8	23.3	2,253.3	27.1
Long-term debt	2,303.5	29.0	2,584.1	31.1
Employee benefit obligation	206.3	2.6	196.5	2.4
Non-current provisions	731.8	9.2	750.3	9.0
Other long-term liabilities	83.1	1.0	94.2	1.1
Stockholders' equity	2,770.7	34.9	2,426.0	29.2
Liabilities and stockholders' equity	7,943.2	100.0	8,304.5	100.0

As of 31 December 2016, the balance sheet total declined by 4.4% year-on-year to EUR 7,943.2 mn.

Current assets fell by 22.4% to EUR 1,438.9 mn in the year under review as a result of the reduction in cash and cash equivalents.

Non-current assets increased slightly by 0.8% to EUR 6,504.3 mn, as the growth in property, plant and equipment and deferred tax assets was partially offset by the reduction in other intangible assets. The increase in property, plant and equipment was attributable to the fibre rollout in Austria, the development of a solar power plant in Belarus and changes in parameters for calculating the asset retirement obligation. The positive tax income effect is mainly due to the recognition of higher deferred tax assets on tax losses carried forward due to higher expected future tax results within the Austrian tax group. The reduction in other intangible assets resulted from the depreciation of licences.

Current liabilities decreased by 18.0% to EUR 1,847.8 mn in the year under review as a result of the aforementioned repayment of the Eurobond and short-term bank debt. This was partially offset by the reclassification of a EUR 500 mn bond, which will become due on 27 January 2017, to short-term debt. Accounts payable also fell due to lower accrued interest and the payment of spectrum in the 800-MHz frequency band in the Republic of Serbia in January 2016, which was acquired in November 2015, as well as payments in Austria which were due in Q1 2016.

Non-current liabilities decreased by 8.3% to EUR 3,324.7 mn in the year under review. The aforementioned bond reclassification and the early repayment of financial debt were lowered by the EUR 500 mn bond issue on 7 December 2016.

Dividend payments for the 2015 reporting year, which also included coupon payments in the amount of EUR 33.8 mn for the outstanding EUR 600 mn hybrid bond, remained stable at EUR 67.2 mn in the year under review.

The rise in equity from EUR 2,426.0 mn to EUR 2,770.7 mn results from the net income for 2016 combined with retained earnings. This also led to an increase in the equity ratio as of 31 December 2016 to 34.9% after 29.2% as of 31 December 2015.

Net debt

Reported view

Net debt (in EUR million)	31 Dec 2016 reported	31 Dec 2015 reported
Long-term debt	2,303.5	2,584.1
Short-term borrowings	500.1	810.4
Cash and cash equivalents, short-term investments	-464.2	-911.5
Net debt Telekom Austria Group	2,339.4	2,483.0
Net debt/EBITDA (last 12 months)	1.7	1.8

The Telekom Austria Group's net debt fell by 5.8% to EUR 2,339.4 mn in the year under review, as the lower level of financial debt more than offset lower cash and cash equivalents. Despite the decrease in EBITDA, this resulted in a reduction in the net debt to EBITDA ratio from 1.8x as of 31 December 2015 to 1.7x as of 31 December 2016.

Cash flow

Reported view

Cash flow (in EUR million)	2016 reported	2015 reported	Change in %
Earnings before income tax (EBT)	359.7	416.6	-13.7
Net cash flow from operating activities	1,195.5	1,228.4	-2.7
Net cash flow from investing activities	-823.5	-866.2	n.m.
Net cash flow from financing activities	-824.3	-465.2	n.m.
Net change in cash and cash equivalents	-451.7	-108.9	n.m.
Adjustment to cash flows due to exchange rate fluctuations, net	0.6	-5.9	n.m.

Earnings before income tax (EBT) declined by 13.7% year-on-year. Depreciation increased due to depreciation of frequencies in Austria which started in Q1 2016 as well as due to last year's M&A transactions. Additional needs for working capital (see 'Consolidated Statements of Cash Flows' in the Consolidated Financial Statements) were primarily driven by the payment for restructuring. Payments for income taxes and higher receivables due to instalment sales also contributed to the change in working capital, despite interest received. All in all, the lower level of earnings before income tax (EBT) and slightly higher working capital needs in a year-on-year comparison resulted in a reduction in net cash flow from operating activities of 2.7% year-on-year to EUR 1,195.5 mn.

Net cash flow from investing activities decreased by 4.9% to EUR 823.5 mn in the year under review as the acquisitions in Q3 2015 outweighed the rise in capital expenditures paid. The latter included payments for expenditures from the previous year, such as the spectrum investment in the Republic of Serbia in Q4 2015.

Net cash flow from financing activities decreased from EUR -465.2 mn in 2015 to EUR -824.3 mn in the year under review. The repayment of a EUR 750 mn bond in January 2016 and bank debt outweighed the EUR 500 mn bond issue on 7 December 2016.

Overall, this resulted in a reduction in cash and cash equivalents of EUR 451.7 mn in the year under review compared with EUR 108.9 mn in the previous year.

Free cash flow, which is calculated as net cash flow from operating activities less capital expenditures paid and interest paid plus proceeds from the sale of equipment, declined from EUR 352.2 mn in the previous year to EUR 232.0 mn in the year under review. This was attributable essentially to the higher level of capital expenditures paid, while net cash flow from operating activities also decreased.

Capital expenditures¹²⁾

In the year under review, capital expenditures fell by 2.6% year-on-year, largely as a result of the acquisition of mobile frequencies in Croatia and the Republic of Serbia in the previous year.

Tangible capital expenditures rose by 11.9% in 2016, as lower investment in the Republic of Serbia was more than outweighing by higher levels in the other segments. The increase in Austria in tangible capital expenditures was attributable

¹²⁾ Detailed figures can be found in the reconciliation tables and the Notes to the Consolidated Financial Statements.

to increased investment in the fibre network. In Bulgaria, tangible capital expenditures decreased as a result of the lower level of IT investment, among other things. Higher levels of investment in the LTE rollout and the fibre network led to higher tangible capital expenditures in Croatia compared with the previous year. The increase in tangible capital expenditures in Belarus was mainly driven by the development of a solar power plant, which will significantly reduce the company's vulnerability to FX and energy prices volatility.

The significant reduction in intangible capital expenditures to EUR 123.7 mn (2015: EUR 212.0 mn) is largely due to the acquisition of mobile frequencies in Croatia, Belarus and the Republic of Serbia in the previous year. In Austria, lower spending on the mobile network due to lower prices led to a reduction in intangible capital expenditures. In Croatia, Belarus and the Republic of Serbia, intangible capital expenditures declined as a result of the acquisition of frequency in the previous year totalling EUR 64.9 mn.

Segment analysis

Segment Austria

Key Performance Indicators Austria

Proforma view (= Reported view)

Key financials (in EUR million)	2016 reported	2015 proforma	% change
Total revenues	2,575.5	2,582.1	-0.3
thereof wireless revenues	1,238.9	1,244.0	-0.4
thereof service revenues	1,034.8	1,057.2	-2.1
thereof equipment revenues	146.9	135.2	8.6
thereof fixed-line and other revenues	1,336.6	1,338.2	-0.1
EBITDA	897.5	881.2	1.8
% of total revenues	34.8%	34.1%	
Operating income	402.1	414.9	-3.1
% of total revenues	15.6%	16.1%	

Wireless indicators	2016 reported	2015 proforma	% change
Postpaid subscribers (in '000)	4,242.7	4,076.8	4.1
Prepaid subscribers (in '000)	1,728.8	1,726.9	0.1
Wireless subscribers (in '000)	5,971.5	5,803.7	2.9
thereof mobile broadband subscribers (in '000)	945.4	873.6	8.2
MoU (per Ø subscriber)	233.3	244.6	-4.7
ARPU (in EUR)	14.7	15.6	-5.7
Churn (%)	1.6%	1.4%	
Market share	39.4%	39.5%	
Penetration	158.7%	161.2%	

Wireline indicators	2016 reported	2015 proforma	% change
RGUs (in '000)	3,495.5	3,534.4	-1.1
thereof fixed broadband RGUs	1,481.0	1,458.5	1.5
ARPL (in EUR)	28.0	28.4	-1.3
Total access lines (in '000)	2,202.8	2,236.9	-1.5
Unbundled lines (in '000)	228.7	236.1	-3.2
Fixed line voice traffic (in million minutes)	1,469.1	1,639.5	-10.4
Mobile and fixed broadband penetration in % of households	139.4%	135.2%	

As there were no mergers or acquisitions in Austria between the start of the comparison period and the end of the reporting period, the following analysis is based on reported figures.

In 2016, competition in Austria continued to be driven by mobile no-frills offers. In addition, mobile WiFi routers with unlimited data offers are becoming an increasingly relevant element of the Austrian broadband market. A1 Telekom Austria Aktiengesellschaft counters these challenges, on the one hand, with its successful multi-brand strategy that allows it to address price pressure via its no-frills brands bob and YESSS!. On the other hand, A1 introduced a hybrid modem in July 2016 which combines the fixed-line and the mobile network and thereby enables A1 to offer higher fixed-line bandwidth products. Convenient unlimited mobile broadband offers complete A1's data-centric high-value proposition.

In the year under review, the number of wireless subscribers in the Austrian segment rose by 2.9% year-on-year, due to the growth in the number of Machine-to-Machine (M2M) SIM cards. However, the customer base remained almost stable excluding M2M, with growth in the high-value segment offsetting most of the decline in the number of no-frills customers. The number of mobile broadband customers rose due to a change in the counting methodology. The market share in mobile communications declined slightly to 39.4% in the year under review (2015: 39.5%). In the fixed-line business, the number of revenue generating units (RGU) decreased by 1.1% year-on-year in 2016. Fixed broadband RGU growth slowed over the course of the year to 1.5% year-on-year, while TV RGUs again increased by 5.5% to 284,400 customers in the same period.

Additionally, speed upgrades and hybrid routers exhibited strong growth. These developments were contrasted by another decline in fixed-line voice minutes by 10.4% (2015: -10.0%).

In 2016, total revenues in the Austrian segment declined slightly by 0.3% year-on-year. Excluding the aforementioned positive one-off effects from 2015 in the amount of EUR 10.5 mn, total revenues remained stable (+0.1%). These positive effects were reflected in fixed-line and other revenues. The stable revenues were driven by higher interconnection revenues and revenues from handset sales, which compensated the reduction in service revenues.

In the mobile business, the decrease in wireless service revenues compared with the previous year was almost exclusively due to the stepwise abolition of retail roaming in the EU as of 30 April 2016. Excluding these negative effects, wireless service revenues rose as losses in the low-value customer segment were more than offset by higher fixed fees, which mainly resulted from subscriber growth in higher-value customer segments as well as tariff indexations. Equipment revenues rose due to the volume growth resulting from increased handset subsidies. In the fixed-line business, higher revenues from broadband and TV as well as the support from speed upgrades and hybrid routers partly offset the decline in voice revenues. Together with increasing interconnection revenues due to a changed settlement logic as well as higher quantities, this resulted in a slight increase in fixed-line service revenues.

Average monthly revenue per user (ARPU) declined from EUR 15.6 to EUR 14.7 in the year under review; this was attributable primarily to negative roaming effects and a higher proportion of M2M SIM cards. Excluding the negative roaming effects, ARPU remained almost stable (-0.2% year-on-year). Given the further decline in the fixed-line voice business, which was only partially mitigated by higher revenues from broadband and AI TV, average monthly revenue per fixed-line (ARPL) declined to EUR 28.0 in the year under review (2015: EUR 28.4).

Proforma view (= Reported view)

Total costs and expenses (in EUR million)	2016 reported	2015 proforma	Change in %
Cost of service	849.5	867.6	-2.1
Cost of equipment	226.6	223.8	1.3
Selling, general & administrative expenses	602.9	604.2	-0.2
Others	-1.0	5.3	n.m.
Total costs and expenditures	1,678.0	1,700.9	-1.4
thereof employee costs	616.7	634.8	-2.9

Costs and expenses in the Austrian segment fell by 1.4% year-on-year in 2016 (EUR -23.0 mn). The positive one-off effects in costs and expenses in the year under review and the comparison period almost offset each other. In the year under review, EUR 7.0 mn resulted from the change in value adjustments for handsets in the first quarter and EUR 14.4 mn from the reversal of an accrual for copyrights in the third quarter. In the previous year, restructuring charges contained a positive one-off effect in the amount of EUR 21.6 mn stemming from a settlement. The costs and expenses declined in 2016 primarily as a result of cost savings in personnel as well as maintenance and repair expenses. The reduction in costs and expenses was also driven by the higher level of own work capitalised. The interconnection expenses increased as a result of a changed settlement logic, while cost of equipment due to higher volumes and provisions also rose. In the Austrian segment, a restructuring charge of EUR 7.2 mn (2015: EUR -0.4 mn) was recognised for the 2016 reporting period. This includes social plans for employees exempt from work ('freigestellte Mitarbeiter') whose employment is being terminated in a socially responsible way, and expenses for the transfer of civil servants to the government.

Lower total revenues were more than compensated by the decline in costs and expenses, which led to an EBITDA increase of 1.8% in the year under review. The EBITDA margin improved from 34.1% in the previous year to 34.8% in 2016. Adjusted for one-off effects in costs and revenues, EBITDA rose by 3.2%.

In the period under review, depreciation and amortisation increased by 5.7% year-on-year, mostly due to spectrum licences starting in Q1 2016. All in all, operating income in the Austrian segment declined by 3.1% year-on-year.

Segment Bulgaria

Key Performance Indicators Bulgaria

Proforma view

Key financials (in EUR million)	2016 reported	2015 proforma	% change
Total revenues	412.0	411.7	0.1
thereof wireless revenues	324.8	326.9	-0.6
thereof service revenues	271.9	276.8	-1.7
thereof equipment revenues	46.9	38.6	21.4
thereof fixed-line and other revenues	87.2	84.8	2.8
EBITDA	125.6	143.9	-12.7
% of total revenues	30.5%	35.0%	
Operating income	15.4	41.4	-62.8
% of total revenues	3.7%	10.1%	

Wireless indicators	2016 reported	2015 proforma	% change
Postpaid subscribers (in '000)	3,509.4	3,494.9	0.4
Prepaid subscribers (in '000)	598.7	740.8	-19.2
Wireless subscribers (in '000)	4,108.1	4,235.7	-3.0
thereof mobile broadband subscribers (in '000)	382.4	319.6	19.7
MoU (per Ø subscriber)	275.4	260.7	5.6
ARPU (in EUR)	5.5	5.4	2.2
Churn (%)	2.0%	2.0%	
Market share	38.4%	38.8%	
Penetration	150.5%	149.2%	

Wireline indicators (proforma)	2016 reported	2015 proforma	% change
RGUs (in '000)	1,018.9	1,011.9	0.7
thereof fixed broadband RGUs	429.3	413.8	3.7

Wireline indicators (reported)	2016 reported	2015 reported	% change
ARPL (in EUR)	10.8	11.7	-7.6
Total access lines (in '000)	542.6	539.1	0.6

The following analysis is based on proforma¹³⁾ figures if not stated otherwise.

In Bulgaria, the performance in 2016 was again characterised by a competitive environment, which is particularly visible in the business segment. To counter price pressure, Mobiltel intensified its focus on value-based management and its efforts to retain high-value customers. The Bulgarian mobile market also saw a shift from prepaid to postpaid offers. These factors meant that the downturn in service revenues slowed considerably in 2016 compared with the previous years. Management also aimed to mitigate revenue pressure on profitability by means of strict cost management.

The number of wireless subscribers declined by 3.0% in the year under review in line with the general market trend, attributable exclusively to losses in the prepaid segment. The ongoing rise in the use of mobile data led to a further year-on-year increase in the number of mobile broadband customers of 19.7% to over 382,400. Although the mobile market share declined from 38.8% to 38.4%, the aforementioned focus on value-oriented retention resulted in an increased share of contract customers, 85.4% (2015: 82.5%). In the fixed-line business, revenue generating units (RGUs) increased by 0.7% year-on-year due to the growing popularity of bundled products with TV and the increased demand for broadband products.

¹³⁾ 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.

Total revenues were stable (+0.1%) compared with the previous year (reported: +9.6%), as the higher level of equipment revenues offset the decline in other operating income and wireless service revenues. Despite rising interconnection revenues and improved trends in the residential business following the aforementioned focus on value-oriented management, wireless service revenues declined as a result of strong price pressure in the business segment in particular. Equipment revenues increased due to volume growth and higher demand for more expensive handsets. Fixed-line service revenues increased on the back of growth in satellite TV (DTH) revenues and fixed corporate solutions.

Average monthly revenue per user (ARPU) rose by 2.2% to EUR 5.5 (2015: EUR 5.4) due to the higher proportion of contract subscribers. On a reported basis, the average monthly revenue per fixed line (ARPL) fell from EUR 11.7 in the previous year to EUR 10.8; this was due to the consolidation of Blizoo customers with a comparably low ARPL. However, reported fixed-line service revenues increased from EUR 34.9 mn in the previous year to EUR 70.3 mn in the year under review.

Costs and expenses increased by 7.0% year-on-year, resulting to a large extent from higher costs of equipment due to the increase in the number of handsets sold and higher average subsidies per handset. In the costs of service area, interconnection costs rose in line with the growing popularity of tariffs including free minutes to all national networks. Content costs rose in line with the growth of TV RGUs. Intensified cost-cutting measures, leading to lower costs in the administration area, and the optimisation of network maintenance costs partly offset the cost increases mentioned above.

Stable total revenues, together with higher costs and expenses, resulted in an EBITDA decline of 12.7% in the year under review (reported: -5.7%). In the year under review, the EBITDA margin fell to 30.5% (2015: 35.0%). In 2016, depreciation and amortisation increased by 7.4% year-on-year due to a network modernisation project. As a result, operating income declined by 62.8% in 2016 (reported: -63.3%).

Segment Croatia

Key Performance Indicators Croatia

Proforma view

Key financials (in EUR million)	2016 reported	2015 proforma	% change
Total revenues	398.3	372.3	7.0
thereof wireless revenues	307.9	292.2	5.4
thereof service revenues	249.9	242.9	2.9
thereof equipment revenues	51.2	45.4	12.8
thereof fixed-line and other revenues	90.5	80.1	12.9
EBITDA	88.3	79.6	10.9
% of total revenues	22.2%	21.4%	
Operating income	9.4	8.8	6.7
% of total revenues	2.4%	2.4%	

Wireless indicators	2016 reported	2015 proforma	% change
Postpaid subscribers (in '000)	846.8	836.0	1.3
Prepaid subscribers (in '000)	873.2	897.6	-2.7
Wireless subscribers (in '000)	1,720.0	1,733.6	-0.8
thereof mobile broadband subscribers (in '000)	131.1	139.1	-5.7
MoU (per Ø subscriber)	304.2	299.8	1.5
ARPU (in EUR)	11.9	11.5	3.2
Churn (%)	2.8%	2.5%	
Market share	36.1%	36.0%	
Penetration	114.3%	113.7%	

Wireline indicators (proforma)	2016 reported	2015 proforma	% change
RGUs (in '000)	620.1	553.0	12.1
thereof fixed broadband RGUs	234.4	200.2	17.1

Wireline indicators (reported)	2016 reported	2015 reported	% change
ARPL (in EUR)	23.6	23.5	0.4
Total access lines (in '000)	284.9	256.9	10.9

The following analysis is based on proforma¹⁴⁾ figures if not stated otherwise.

The Croatian segment continued its positive operating development in the year under review thanks to sustained fixed-line growth and stronger mobile trends. On the other hand, regulatory pressure remained in the form of high frequency usage fees. The mobile business has benefited from the push towards higher tariffs since May 2015 and the continuous rise in the proportion of contract customers as a result. The fixed-line business continued to grow as a result of the increased sales focus on broadband and TV services. The fixed-line business segment will be further strengthened following the closing of the acquisition of Metronet, which is expected for the first quarter of 2017. The company is expected to be consolidated in the first quarter of 2017.

The total number of wireless subscribers fell by 0.8% to around 1.72 million in the year under review. The proportion of contract customers increased to 49.2% over the course of the year (2015: 48.2%). The market share increased slightly from 36.0% in the previous year to 36.1% in the year under review. In the fixed-line business, the number of revenue generating units (RGUs) increased by 12.1% to 620,100, with growth of 17.1% in broadband RGUs and 7.2% in TV RGUs.

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.

Vipnet recorded total revenue growth of 7.0% in the year under review (reported: +8.6%). Service revenues rose on the back of the strong growth in fixed-line RGUs as well as higher fixed fees in the mobile business following the aforementioned push towards higher-value tariffs. Equipment revenues also rose as a result of more handsets sold and the higher subsidy level.

Average monthly revenue per user (ARPU) increased from EUR 11.5 in the previous year to EUR 11.9 in the year under review. This was due to the higher contract customer ARPU in the wake of the aforementioned migration to higher-value tariffs. Average monthly revenue per fixed line (ARPL) remained almost stable on a reported basis at EUR 23.6. On a reported basis, the higher number of revenue generating units (RGUs) and the stable ARPL meant that fixed-line service revenues increased by 24.5% compared with the previous year.

The 5.9% year-on-year increase in costs and expenses in the year under review was attributable primarily to higher equipment costs which increased due to volume growth as well as higher equipment prices. Furthermore, growth in the number of RGUs led to an increase in wholesale costs resulting from bitstream access and higher content costs.

The higher costs and expenses were more than offset by revenue growth, which led to an EBITDA increase of 10.9% year-on-year (reported: +12.3%). In the year under review, the EBITDA margin improved to 22.2% (2015: 21.4%). Together with higher depreciation and amortisation due to the changed methodology for accounting of spare parts and the activation of a new license in November 2015, this translated into an increase in operating income of 6.7% (reported: +9.0%).

Segment Belarus

Key Performance Indicators Belarus

Proforma view

Key financials (in EUR million)	2016 reported	2015 proforma	% change
Total revenues	321.0	333.8	-3.9
thereof wireless revenues	309.0	319.8	-3.4
thereof service revenues	242.5	267.4	-9.3
thereof equipment revenues	58.4	47.3	23.6
thereof fixed-line and other revenues	12.0	14.0	-14.4
EBITDA	151.5	164.0	-7.6
% of total revenues	47.2%	49.1%	
Operating income	87.8	86.8	1.2
% of total revenues	27.4%	26.0%	

Wireless indicators	2016 reported	2015 proforma	% change
Postpaid subscribers (in '000)	3,972.5	4,011.7	-1.0
Prepaid subscribers (in '000)	972.3	945.1	2.9
Wireless subscribers (in '000)	4,944.9	4,956.8	-0.2
thereof mobile broadband subscribers (in '000)	391.6	308.8	26.8
MoU (per Ø subscriber)	401.4	391.5	2.5
ARPU (in EUR) ¹⁾	4.1	4.5	-9.0
Churn (%)	1.6%	1.4%	
Market share	43.2%	42.5%	
Penetration	120.3%	123.0%	

Wireline indicators (proforma)	2016 reported	2015 proforma	% change
RGUs (in '000)	279.4	272.2	2.6
thereof fixed broadband RGUs	132.0	135.1	-2.3

Wireline indicators (reported)	2016 reported	2015 reported	% change
ARPL (in EUR)	7.9	n.a.	n.a.
Total access lines (in '000)	179.3	n.a.	n.a.

¹⁾ As per September 2015, the presentation of value-added services has been changed, which negatively impacts ARPU.

The following analysis is based on proforma¹⁵⁾ figures if not stated otherwise.

In Belarus, strong operational developments continued to face macroeconomic and regulatory headwinds. In this context, the government is pushing for a stabilisation of inflation, which slowed to 10.6% in 2016 (2015: 12.0%). The government increased the value added tax on mobile services from 20% to 25% in April 2016. The devaluation at the start of the year also overshadowed the positive operating results, although the currency recovered thanks to the improved development of the oil price and the Russian Rouble over the course of the year. In a year-on-year comparison, however, the Belarusian Rouble still declined by 19.7% (figure based on period averages in accordance with IFRS). Through the acquisition of Atlant and its subsidiary TeleSet, which has been consolidated as of 1 December 2016, velcom developed from a pure mobile provider into a convergent operator.

Thanks to its positioning as a premium provider with excellent network quality as well as a tariff and handset portfolio centred on smartphones and tablets, velcom again succeeded in benefiting from the rising demand for data. Furthermore, the company continued to focus its efforts on optimising operating expenses and disconnecting them from currency effects and energy prices; this included the commissioning of a solar power plant.

¹⁵⁾ 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.

The total number of wireless subscribers at velcom declined slightly, by 0.2% year-on-year during the year under review, to 4.94 million. This was driven by a lower number of multiple SIM cards as a result of worsening economic environment and lower purchasing power. However, this development improved again in Q4 2016. The 26.8% rise in the number of mobile broadband customers to around 391,600 reflects the aforementioned strong demand for data services. Owing to the negative currency development, average monthly revenue per user (ARPU) declined from EUR 4.5 to EUR 4.1. velcom had 279,400 fixed-line revenue generating units (RGUs) at the end of the year.

Including negative currency effects in the amount of EUR 78.7 mn, total revenues declined by 3.9% year-on-year in 2016 (reported: -3.4%). In local currency, total revenues rose by 19.7%. Inflation-related price adjustments in December 2015 and April, May and September 2016, as well as the migration of existing customers from old tariffs to higher-ARPU bundled offers, were the main reasons for the increase in service revenues. Equipment revenues rose due to FX-driven higher handset prices as well as volume growth. Other operating income increased following the commissioning of the solar power plant, which reduced the company's vulnerability to FX and energy prices volatility.

Consolidated costs and expenses fell slightly by 0.2% in the year under review (reported: increase of 0.5%) but rose in local currency. This was attributable primarily to the higher costs of equipment, which increased similar to the revenues due to FX-driven higher handset prices and volume growth. FX-denominated costs such as frequencies, maintenance and repair expenses were also higher. Inflation-related salary increases led to a rise in employee costs. Interconnection costs rose on the back of increased traffic and higher international tariffs. Other expenses increased due to the retirement of software.

Despite the positive operating development, EBITDA in EUR declined by 7.6% in the year under review (reported: -7.4%) driven by negative FX effects in the amount of EUR 37.2 mn. The Belarusian segment recorded the highest EBITDA margin in the Group at 47.2% in the year under review (2015: 49.1%). Despite the decline in EBITDA, the lower level of depreciation and amortisation owing to the negative FX effect translated into an increase in operating income of 1.2% (reported: +1.4%).

Segment Slovenia

Key Performance Indicators Slovenia

Proforma view

Key financials (in EUR million)	2016 reported	2015 proforma	% change
Total revenues	214.1	245.5	-12.8
thereof wireless revenues	180.0	210.1	-14.3
thereof service revenues	135.7	136.3	-0.4
thereof equipment revenues	40.1	39.1	2.5
thereof fixed-line and other revenues	34.1	35.4	-3.8
EBITDA	52.8	83.0	-36.4
% of total revenues	24.7%	33.8%	
Operating income	20.1	56.2	-64.2
% of total revenues	9.4%	22.9%	

Wireless indicators	2016 reported	2015 proforma	% change
Postpaid subscribers (in '000)	591.8	570.3	3.8
Prepaid subscribers (in '000)	122.5	138.2	-11.3
Wireless subscribers (in '000)	714.3	708.5	0.8
thereof mobile broadband subscribers (in '000)	39.8	35.7	11.2
MoU (per Ø subscriber)	346.6	348.6	-0.6
ARPU (in EUR)	15.8	16.4	-3.5
Churn (%)	1.5%	1.4%	
Market share	30.1%	29.9%	
Penetration	115.1%	113.7%	

Wireline indicators (proforma)	2016 reported	2015 proforma	% change
RGUs (in '000)	172.0	147.6	16.5
thereof fixed broadband RGUs	70.2	65.3	7.6

Wireline indicators (reported)	2016 reported	2015 reported	% change
ARPL (in EUR)	35.4	37.9	-6.4
Total access lines (in '000)	70.2	65.5	7.1

The following analysis is based on proforma¹⁶⁾ figures if not stated otherwise.

In 2016, the Slovenian telecommunications market was again characterised by fierce competition in the mobile business. Si.mobil countered this challenging environment through the acquisition of the fixed-line reseller Amis in September 2015.

In 2016, the number of wireless subscribers rose by 0.8% year-on-year due to higher gross additions in the business segment as well as more no-frills customers. The number of fixed-line revenue generating units (RGUs) increased by 16.5% year-on-year to 172,000 in 2016, driven by higher demand for IPTV, voice and broadband.

Total revenues in Slovenia declined by 12.8% year-on-year (reported: -4.3%) as a result of the positive one-off effect of EUR 30.0 mn in 2015 relating to an agreement on settling mutual relations and business collaboration with Telekom Slovenije. Excluding this one-off effect, total revenues declined by 0.6%. Despite lower volumes, wireless equipment revenues rose as a result of higher average prices. Mobile service revenues declined due to the stepwise abolition of retail roaming in the EU as of 30 April 2016 in spite of higher interconnection revenues and a volume-driven increase in revenue from monthly fees. Fixed-line revenues declined mostly due to intensified competition.

¹⁶⁾ 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.

Costs and expenses declined by 0.7% year-on-year as higher costs of equipment due to higher handset prices were more than offset by savings in administrative expenses thanks to cluster synergies.

This reduction in costs and expenses could not compensate the one-off revenue effect in the previous year, which led to an EBITDA decline of 36.4% year-on-year (reported: -34.7%). Adjusted for this one-off effect, EBITDA declined by 0.5%. Taking into account the 21.6% increase in depreciation and amortisation due to amortisation of brand names, operating income declined by 64.2% (reported: -64.6%).

Republic of Serbia

Key Performance Indicators Republic of Serbia

Proforma view (= Reported view)

Key financials (in EUR million)	2016 reported	2015 proforma	% change
Total revenues	221.1	210.7	5.0
thereof wireless revenues	213.9	207.8	2.9
thereof service revenues	139.9	150.6	-7.1
thereof equipment revenues	69.8	53.9	29.4
EBITDA	38.8	43.5	-10.7
% of total revenues	17.6%	20.6%	
Operating income	-7.8	-7.6	n.m.
% of total revenues	-3.5%	-3.6%	

Wireless indicators	2016 reported	2015 proforma	% change
Postpaid subscribers (in '000)	1,236.8	1,160.9	6.5
Prepaid subscribers (in '000)	908.5	948.4	-4.2
Wireless subscribers (in '000)	2,145.3	2,109.3	1.7
thereof mobile broadband subscribers (in '000)	98.1	88.7	10.6
MoU (per Ø subscriber)	272.4	274.0	-0.6
ARPU (in EUR)	5.6	5.9	-6.0
Churn (%)	3.3%	3.7%	
Market share	22.4%	22.6%	
Penetration	135.0%	130.9%	

As there were no mergers or acquisitions in the Republic of Serbia between the start of the comparison period and the end of the reporting period, the following analysis is based on reported figures.

In the 2016 financial year, competition in the Republic of Serbia remained intense following the launch of new aggressive convergent offers on the market during the first half of the year, which Vip mobile counteracted through its focus on the contract segment and hardware promotions.

The proportion of contract customers increased from 55.0% in the previous year to 57.7%. This was also attributable to a general shift in the market from multiple prepaid to single postpaid offers. The total number of customers increased by 1.7% compared with the previous year due to the abovementioned growth in the number of contract subscribers.

Total revenues in the Republic of Serbia rose by 5.0% year-on-year in 2016; this was driven by higher equipment revenues. Mobile service revenues declined by 7.1% year-on-year due to a negative effect from the changed distribution model which led to a different accounting treatment as well as lower roaming revenues; this was offset partially by higher revenues from monthly fees and interconnection revenues.

Costs and expenses increased by 9.1% year-on-year in 2016. This development was driven by increased costs of equipment, interconnection costs as well as selling and marketing expenses, which were partially compensated by lower roaming expenses.

Higher total revenues and higher costs and expenses led to an EBITDA decline of 10.7% compared with the previous year. Without the abovementioned effect, EBITDA increased. Together with the reduction in depreciation and amortisation, this resulted in operating income of negative EUR 7.8 mn in the year under review (2015: EUR -7.6 mn).

Republic of Macedonia

Key Performance Indicators Republic of Macedonia

Proforma view

Key financials (in EUR million)	2016 reported	2015 proforma	% change
Total revenues	119.4	122.7	-2.7
thereof wireless revenues	92.4	92.4	0.0
thereof service revenues	82.8	84.1	-1.6
thereof equipment revenues	7.0	5.7	22.6
thereof fixed-line and other revenues	27.0	30.3	-10.9
EBITDA	26.1	24.4	7.2
% of total revenues	21.9%	19.9%	
Operating income	-29.5	-3.3	n.m.
% of total revenues	-24.7%	-2.7%	

Wireless indicators	2016 reported	2015 proforma	% change
Postpaid subscribers (in '000)	641.0	636.5	0.7
Prepaid subscribers (in '000)	462.6	526.9	-12.2
Wireless subscribers (in '000)	1,103.6	1,163.5	-5.1
thereof mobile broadband subscribers (in '000)	2.3	2.4	-3.8
MoU (per Ø subscriber)	398.3	379.1	5.1
ARPU (in EUR)	6.1	5.9	2.7
Churn (%)	2.5%	2.5%	
Market share	49.5%	53.4%	
Penetration	107.7%	106.2%	

Wireline indicators (proforma)	2016 reported	2015 proforma	% change
RGUs (in '000)	314.3	304.5	3.2
thereof fixed broadband RGUs	102.0	99.9	2.1

Wireline indicators (reported)	2016 reported	2015 reported	% change
ARPL (in EUR)	12.3	12.7	-2.5
Total access lines (in '000)	141.8	144.5	-1.9

The following analysis is based on proforma¹⁷⁾ figures if not stated otherwise.

Following the merger of Vip operator with ONE in October 2015, the combined entity, one.Vip, is now the leading operator in the mobile segment of the telecommunications market of the Republic of Macedonia. In spite of this consolidation, competition in the mobile market accelerated with the entry of a mobile virtual network operator (MVNO) as of July 2016.

In the Republic of Macedonia, one.Vip's customer base declined by 5.1% year-on-year as customers continued to move from multiple prepaid to single contract subscriptions. In the fixed-line business, the number of revenue generating units (RGU) increased by 3.2% compared with the previous year.

Total revenues declined by 2.7% year-on-year (reported: +47.3%) due to the decrease in interconnection revenues caused by lower transit.

Total costs and expenses declined by 5.1% year-on-year; this was primarily due to synergy effects in administrative and advertising expenses in particular.

¹⁷⁾ 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.

Overall, the decrease in total revenues, together with lower total costs and expenses, resulted in year-on-year EBITDA growth of 7.2% in 2016 (reported: +55.4%). Depreciation and amortisation increased by 101.4% year-on-year due to the merger-related depreciation of mobile network components. Overall, this resulted in negative operating income of EUR 29.5 mn, compared to a negative EUR 3.3 mn in the comparison period (reported: EUR -0.6 mn).

Reconciliation tables – Additional performance measures and further details on abovementioned figures

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

ARPL (reported)

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

ARPL-relevant revenues (in EUR million)	2016 reported	2015 reported	% change
Austria	746.4	762.4	-2.1
Bulgaria	70.3	34.9	101.1
Croatia	77.8	62.5	24.5
Belarus	1.5	n.a.	n.a.
Slovenia	29.8	9.9	199.8
Republic of Serbia	n.a.	n.a.	n.a.
Republic of Macedonia	21.0	14.4	45.8

Total access lines (in '000)	2016 reported	2015 reported	% change
Austria	2,202.8	2,236.9	-1.5
Bulgaria	542.6	539.1	0.6
Croatia	284.9	256.9	10.9
Belarus	179.3	n.a.	n.a.
Slovenia	70.2	65.5	7.1
Republic of Serbia	n.a.	n.a.	n.a.
Republic of Macedonia	141.8	144.5	-1.9

ARPU (proforma)

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

in EUR million	2016 reported	2015 proforma	% change proforma
Wireless service revenues	2,146.3	2,199.8	-2.4

Free Cashflow (reported)

(in EUR million)	2016 reported	2015 reported	% change
Net cash flow from operating activities	1,195.5	1,228.4	-2.7
Capital expenditures paid	-816.5	-731.1	n.m.
Proceeds from sale of plant, property and equipment	18.9	10.7	76.6
Interest paid	-166.0	-155.8	n.m.
Free cash flow	232.0	352.2	-34.1

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 Belarusian segment is also presented in local currency.

in EUR million	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	321.0	332.2	-3.4	333.8	-3.9	1.6
Total costs and expenditures	-169.4	-168.6	n.m.	-169.8	n.m.	-1.2
EBITDA	151.5	163.7	-7.4	164.0	-7.6	0.4

in BYN million	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	707.1	587.8	20.3	590.6	19.7	2.8
Total costs and expenditures	-373.3	-298.2	n.m.	-300.4	n.m.	-2.2
EBITDA	333.8	289.5	15.3	290.2	15.0	0.6

Year-to-date Comparison

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 reseller Amis in Slovenia and in Croatia, consolidated as of 1 September 2015.
- > The acquisition of the fixed-line operator Blizoo in Bulgaria, consolidated as of 1 October 2015.
- > The merger of Vip operator in the Republic of Macedonia with the third-largest operator in the country, ONE, consolidated as of 1 October 2015.
- > The acquisition of the fixed-line operator Atlant Telecom and its subsidiary TeleSet in Belarus, consolidated as of 1 December 2016.

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

Group Summary

Key financials (in EUR million)	2016 reported	2015 reported	Change in %	2015 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	4,211.5	4,125.3	2.1	4,231.8	-0.5	106.4
EBITDA	1,354.3	1,368.7	-1.1	1,390.5	-2.6	21.8
% of total revenues	32.2%	33.2%		32.9%		
Operating income	486.7	571.7	-14.9	568.2	-14.4	-3.5

Total costs and expenses (in EUR million)	2016 reported	2015 reported	Change in %	2015 proforma	% change proforma	Absolute change (proforma - reported)
Cost of service	1,346.5	1,312.6	2.6	1,359.5	-1.0	46.9
Cost of equipment	521.9	463.7	12.6	470.7	10.9	7.1
Selling, general & administrative expenses	986.1	976.8	1.0	1,005.8	-2.0	29.0
Others	2.7	3.5	-24.4	5.2	-48.4	1.6
Total costs and expenses (in EUR million)	2,857.2	2,756.6	3.7	2,841.2	0.6	84.6
thereof employee costs	787.1	799.7	-1.6	814.6	-3.4	14.9
thereof restructuring charges	7.2	0.4	n.m.	0.4	n.m.	0.0
Impairment charges	2.3	0.0	n.m.	0.0	n.m.	0.0
Depreciation and amortisation	865.3	797.1	8.6	822.3	5.2	25.3

Segment Bulgaria

Key financials (in EUR million)	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	412.0	375.8	9.6	411.7	0.1	35.9
thereof wireless revenues	324.8	326.5	-0.5	326.9	-0.6	0.4
thereof service revenues	271.9	276.8	-1.7	276.8	-1.7	0.0
thereof equipment revenues	46.9	38.6	21.4	38.6	21.4	0.0
thereof fixed-line and other revenues	87.2	49.3	76.8	84.8	2.8	35.5
EBITDA	125.6	133.2	-5.7	143.9	-12.7	10.8
% of total revenues	30.5%	35.4%		35.0%		
Operating income	15.4	42.1	-63.3	41.4	-62.8	-0.6
% of total revenues	3.7%	11.2%		10.1%		

Wireline indicators	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
RGUs (in '000)	1,018.9	1,011.9	0.7	1,011.9	0.7	0.0
thereof fixed broadband RGUs	429.3	413.8	3.7	413.8	3.7	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 Croatia

Key financials (in EUR million)	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	398.3	366.9	8.6	372.3	7.0	5.4
thereof wireless revenues	307.9	292.2	5.4	292.2	5.4	0.0
thereof service revenues	249.9	242.9	2.9	242.9	2.9	0.0
thereof equipment revenues	51.2	45.4	12.8	45.4	12.8	0.0
thereof fixed-line and other revenues	90.5	74.7	21.1	80.1	12.9	5.4
EBITDA	88.3	78.6	12.3	79.6	10.9	1.0
% of total revenues	22.2%	21.4%		21.4%		
Operating income	9.4	8.6	9.0	8.8	6.7	0.2
% of total revenues	2.4%	2.4%		2.4%		

Wireline indicators	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
RGUs (in '000)	620.1	553.0	12.1	553.0	12.1	0.0
thereof fixed broadband RGUs	234.4	200.2	17.1	200.2	17.1	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)	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	321.0	332.2	-3.4	333.8	-3.9	1.6
thereof wireless revenues	309.0	319.8	-3.4	319.8	-3.4	0.0
thereof service revenues	242.5	267.4	-9.3	267.4	-9.3	0.0
thereof equipment revenues	58.4	47.3	23.6	47.3	23.6	0.0
thereof fixed-line and other revenues	12.0	12.5	-3.5	14.0	-14.4	1.6
EBITDA	151.5	163.7	-7.4	164.0	-7.6	0.4
% of total revenues	47.2%	49.3%		49.1%		
Operating income	87.8	86.6	1.4	86.8	1.2	0.2
% of total revenues	27.4%	26.1%		26.0%		

Wireline indicators (proforma)	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
RGUs (in '000)	279.4	n.a.	n.a.	272.2	2.6	n.m.
thereof fixed broadband RGUs	132.0	n.a.	n.a.	135.1	-2.3	n.m.

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

Segment Slovenia

Key financials (in EUR million)	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	214.1	223.6	-4.3	245.5	-12.8	21.9
thereof wireless revenues	180.0	209.6	-14.1	210.1	-14.3	0.5
thereof service revenues	135.7	136.3	-0.4	136.3	-0.4	0.0
thereof equipment revenues	40.1	39.1	2.5	39.1	2.5	0.0
thereof fixed-line and other revenues	34.1	14.0	142.6	35.4	-3.8	21.4
EBITDA	52.8	80.9	-34.7	83.0	-36.4	2.2
% of total revenues	24.7%	36.2%		33.8%		
Operating income	20.1	56.7	-64.6	56.2	-64.2	-0.5
% of total revenues	9.4%	25.3%		22.9%		

Wireline indicators	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
RGUs (in '000)	172.0	147.6	16.5	147.6	16.5	0.0
thereof fixed broadband RGUs	70.2	65.3	7.6	65.3	7.6	0.0

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

Republic of Macedonia

Key financials (in EUR million)	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	119.4	81.1	47.3	122.7	-2.7	41.7
thereof wireless revenues	92.4	62.9	47.0	92.4	0.0	29.5
thereof service revenues	82.8	58.3	42.1	84.1	-1.6	25.9
thereof equipment revenues	7.0	3.9	80.6	5.7	22.6	1.8
thereof fixed-line and other revenues	27.0	18.2	48.5	30.3	-10.9	12.1
EBITDA	26.1	16.8	55.4	24.4	7.2	7.6
% of total revenues	21.9%	20.7%		19.9%		
Operating income	-29.5	-0.6	n.m.	-3.3	n.m.	-2.7
% of total revenues	-24.7%	-0.8%		-2.7%		

Wireless indicators	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Postpaid subscribers (in '000)	641.0	636.5	0.7	636.5	0.7	0.0
Prepaid subscribers (in '000)	462.6	526.9	-12.2	526.9	-12.2	0.0
Wireless subscribers (in '000)	1,103.6	1,163.5	-5.1	1,163.5	-5.1	0.0
thereof mobile broadband subscribers (in '000)	2.3	2.4	-3.8	2.4	-3.8	0.0
MoU (per Ø subscriber)	398.3	405.5	-1.8	379.1	5.1	-26.4
ARPU (in EUR)	6.1	6.4	-5.1	5.9	2.7	-0.5
Churn (%)	2.5%	2.5%		2.5%		
Market share	49.5%	53.4%		53.4%		
Penetration	107.7%	106.2%		106.2%		

Wireline indicators	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
RGUs (in '000)	314.3	304.5	3.2	304.5	3.2	0.0
thereof fixed broadband RGUs	102.0	99.9	2.1	99.9	2.1	0.0

Revenues

in EUR million	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Austria	2,575.5	2,582.1	-0.3	2,582.1	-0.3	0.0
Bulgaria	412.0	375.8	9.6	411.7	0.1	35.9
Croatia	398.3	366.9	8.6	372.3	7.0	5.4
Belarus	321.0	332.2	-3.4	333.8	-3.9	1.6
Slovenia	214.1	223.6	-4.3	245.5	-12.8	21.9
Republic of Serbia	221.1	210.7	5.0	210.7	5.0	0.0
Republic of Macedonia	119.4	81.1	47.3	122.7	-2.7	41.7
Corporate & other, eliminations	-50.1	-47.1	n.m.	-47.1	n.m.	0.0
Total revenues	4,211.5	4,125.3	2.1	4,231.8	-0.5	106.4

EBITDA

in EUR million	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Austria	897.5	881.2	1.8	881.2	1.8	0.0
Bulgaria	125.6	133.2	-5.7	143.9	-12.7	10.8
Croatia	88.3	78.6	12.3	79.6	10.9	1.0
Belarus	151.5	163.7	-7.4	164.0	-7.6	0.4
Slovenia	52.8	80.9	-34.7	83.0	-36.4	2.2
Republic of Serbia	38.8	43.5	-10.7	43.5	-10.7	0.0
Republic of Macedonia	26.1	16.8	55.4	24.4	7.2	7.6
Corporate & other, eliminations	-26.4	-29.1	n.m.	-29.1	n.m.	0.0
Total EBITDA	1,354.3	1,368.7	-1.1	1,390.5	-2.6	21.8

D&A

in EUR million	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Austria	-493.1	-466.3	n.m.	-466.3	n.m.	0.0
Bulgaria	-110.2	-91.1	n.m.	-102.5	n.m.	-11.4
Croatia	-78.8	-70.0	n.m.	-70.7	n.m.	-0.8
Belarus	-63.7	-77.0	n.m.	-77.2	n.m.	-0.2
Slovenia	-32.7	-24.2	n.m.	-26.9	n.m.	-2.7
Republic of Serbia	-46.6	-51.1	n.m.	-51.1	n.m.	0.0
Republic of Macedonia	-55.7	-17.4	n.m.	-27.6	n.m.	-10.2
Corporate & other, eliminations	15.5	0.1	n.m.	0.1	n.m.	0.0
Total D&A	-865.3	-797.1	n.m.	-822.3	n.m.	-25.3

EBIT

in EUR million	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Austria	402.1	414.9	-3.1	414.9	-3.1	0.0
Bulgaria	15.4	42.1	-63.3	41.4	-62.8	-0.6
Croatia	9.4	8.6	9.0	8.8	6.7	0.2
Belarus	87.8	86.6	1.4	86.8	1.2	0.2
Slovenia	20.1	56.7	-64.6	56.2	-64.2	-0.5
Republic of Serbia	-7.8	-7.6	n.m.	-7.6	n.m.	0.0
Republic of Macedonia	-29.5	-0.6	n.m.	-3.3	n.m.	-2.7
Corporate & other, eliminations	-10.8	-29.0	n.m.	-29.0	n.m.	0.0
Total EBIT	486.7	571.7	-14.9	568.2	-14.4	-3.5

CAPEX¹⁾

in EUR million	2016 reported	2015 reported	% change	2015 proforma	% change proforma	Absolute change (proforma - reported)
Austria	460.3	456.8	0.8	456.8	0.8	0.0
Bulgaria	73.0	74.3	-1.8	82.4	-11.4	8.1
Croatia	76.3	72.4	5.4	73.3	4.2	0.9
Belarus	73.7	66.1	11.5	66.5	10.8	0.4
Slovenia	26.8	17.9	49.6	20.2	32.3	2.3
Republic of Serbia	25.9	77.7	-66.7	77.7	-66.7	0.0
Republic of Macedonia	35.4	21.6	64.0	25.1	41.1	3.5
Corporate & other, eliminations	-7.2	-2.3	n.m.	-2.3	n.m.	0.0
Total capital expenditures	764.1	784.5	-2.6	799.6	-4.4	15.2

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

CAPEX – Tangible

in EUR million	2016 reported	2015 reported	% change
Austria	391.3	360.1	8.7
Bulgaria	52.6	50.3	4.5
Croatia	67.2	45.3	48.2
Belarus	65.8	55.6	18.3
Slovenia	20.2	13.7	47.0
Republic of Serbia	19.2	29.4	-34.7
Republic of Macedonia	30.9	20.2	53.0
Corporate & other, eliminations	-6.9	-2.3	n.m.
Total capital expenditures – tangible	640.4	572.5	11.9

CAPEX – Intangible

in EUR million	2016 reported	2015 reported	% change
Austria	68.9	96.7	-28.7
Bulgaria	20.4	24.0	-15.0
Croatia	9.1	27.1	-66.3
Belarus	7.8	10.5	-25.0
Slovenia	6.6	4.2	58.3
Republic of Serbia	6.6	48.2	-86.2
Republic of Macedonia	4.5	1.4	227.7
Corporate & other, eliminations	-0.4	0.0	n.m.
Total capital expenditures – intangible	123.7	212.0	-41.7

Non-financial performance indicators

Corporate social responsibility

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

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

The area of activity named 'Network and customers' aims to ensure a high-quality, secure network infrastructure and a product and service range that offers clear value added for customers. 'Environment' highlights the specific measures to reduce the Telekom Austria Group's ecological footprint. To allow performance measurement in this area, environmental indicators are drawn across the Group. 'Employees' focuses on fostering and developing skills and providing a healthy, flexible and modern working environment. Finally, 'Society' encompasses the Telekom Austria Group's initiatives aimed at fostering digital media skills in its markets.

The environmental management systems at A1 Telekom Austria Aktiengesellschaft, Si.mobil d.d. and Vip mobile d.o.o. are ISO 14001 certified. Furthermore, EMAS requirements in Austria and Slovenia are met. Energy management at A1 Telekom Austria Aktiengesellschaft is also ISO 50001 certified. Since 2014, A1 Telekom Austria Aktiengesellschaft has been the first CO₂ neutral network in Austria to be assessed and validated by TÜV SÜD in line with the PAS 2060 international standard.

Employees

Employees ¹⁾ at year-end	2016	2015	Change in %
Austria	8,352	8,512	-1.9
Bulgaria	3,808	3,607	5.6
Croatia	1,288	1,239	4.0
Belarus	2,248	1,777	26.5
Slovenia	532	508	4.7
Republic of Serbia	917	879	4.3
Republic of Macedonia	822	942	-12.8
Corporate	238	209	13.6
Total	18,203	17,673	3.0

¹⁾ Full-time equivalent employees

Telekom Austria Group had 18,203 employees at year-end 2016, 3.0% more than a year earlier. This development was primarily attributable to the acquisition of Atlant Telecom in Belarus and an increase in the sales force in Bulgaria. Headcount in the Austrian segment was reduced by 1.9% to 8,352 employees as part of the ongoing restructuring measures. Around 48% of existing employees have civil servant status. The segments outside of Austria saw an increase of 7.4% to 9,613 employees.

With a view to maintaining its competitiveness and innovative drive, the Telekom Austria Group invests in sound professional training for its employees on an ongoing basis. The Telekom Austria Group Business School functions as a central development platform. It developed and organised more than 34 training opportunities for 443 participants in the course of 2016. In addition to the training offered by this central institution, the Telekom Austria Group is increasingly using a central e-learning platform to provide training to all its employees throughout the Group wherever and whenever. Employee skills are also developed using a company-wide collaborative tool, Workplace by Facebook. The Telekom Austria Group subsidiaries have also developed their own training programmes tailored to the needs of their respective markets. To meet future requirements for experts and managers, the Telekom Austria Group is particularly committed to apprenticeship training. In Austria, university and college graduates are offered a twelve-month graduate programme while school-leavers can experience on-the-job training through the A1 trainee programme. Internal mobility is being pursued in order to have the right people and skills in place. The use of internal training, coaching and mentoring has been intensified in order to provide sufficient know-how transfer and development possibilities to all employees.

Total spending on further education and professional training in the year under review amounted to EUR 5.0 mn (2015: EUR 5.2 mn). This corresponds to an average of EUR 275 per employee at year-end (2015: EUR 294).

Innovation and technology

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

One of the Telekom Austria Group's priorities remains the digital transformation of its network infrastructure, which it successfully continued in 2016. The first virtualised systems have already gone into commercial operation at the Belarusian and Bulgarian subsidiaries velcom and Mobiltel, and there are specific implementation plans for system virtualisation at all of the Group's other subsidiaries.

In 2016, the accelerated LTE rollout led to a significant improvement in the provision of high-speed mobile internet. Following the launch in Bulgaria in 2016, the Group now already offers LTE in Austria, Bulgaria, Croatia, Slovenia, the Republic of Serbia and the Republic of Macedonia. Voice over LTE (VoLTE) and WiFi Calling was launched in Austria in 2016. In order to achieve even faster internet speeds, carrier aggregation was implemented at selected locations of A1, Vipnet, Vip mobile and Mobiltel, enabling data rates of up to 300 Mbps. 2016 also saw a major innovation in mobile technology with transfers in excess of 500 Mbps in the A1 live network thanks to LTE triple carrier aggregation in conjunction with a new mobile modulation technique.

The largest broadband expansion in the history of A1 was initiated in 2015. At the end of 2016, 50% of all Austrian private and commercial addresses were already equipped with A1's 30 Mbps product. With G.fast, A1 already reached data transfer rates of more than 500 Mbps on conventional copper lines back in 2014. In 2015, it showcased the new broadband technology (VDSL2 35b), which has now been used to connect the first customers to A1's fibre network. While G.fast provides data rates of up to 500 Mbps on line lengths in the region of 200 metres, VDSL2 35b achieves significantly enhanced performance compared with conventional DSL technologies, particularly on line lengths up to approximately 500 metres. Since 2016, A1 has also offered its customers a hybrid modem that brings together mobile and fixed-line infrastructure in order to enable higher speeds. The undivided bandwidth and high capacity of a DSL fixed broadband line is combined with the peak data rates of the A1 LTE network and provided to customers for home internet access.

Research partnerships with scientific and industrial partners and joint projects with national and international institutions are supporting the Telekom Austria Group in the launch of technologies of the future for market and customer-oriented communications solutions. In 2016, the Telekom Austria Group had research partnerships with the Vienna University of Technology, the Christian Doppler Laboratory for Wireless Technologies for Sustainable Mobility, the Christian Doppler Laboratory for Dependable Wireless Connectivity for the Society in Motion, and the Josef Ressel Centre for User-friendly Secure Mobile Environments. Beyond its own sphere of action, A1 also promotes innovation by new companies with a start-up initiative that provides expertise and infrastructure to help make innovations a reality.

The Telekom Austria Group is also a partner of the Industry 4.0 platform and is addressing the interoperability of Internet of Things (IoT) platforms within the Europe-wide H2020 project symbIoT.

The Machine-to-Machine (M2M) business area of the Telekom Austria Group successfully implemented numerous innovative projects in the period under review. These range from managed connectivity as a basic product to other extensive solutions for asset tracking, fleet management and connected cash registers, for instance. Activities in the area of smart metering are focused on Austria due to the national implementation of the EU legal framework, which requires the conversion of 95% of existing electricity meters to smart meters by 2019. The first rollout projects involving A1 field service employees have been successfully completed. The areas of application for M2M communication now encompass almost all industries and customer segments and are collectively described as the Internet of Things (IoT). In order to manage the growing number of networked objects and the rising requirements in terms of communication, the Telekom Austria Group is investing in the extensive rollout of narrowband IoT as an energy-saving, cost-effective network technology for the Internet of Things.

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

Shareholder structure and capital disclosures

At the end of 2016, 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'), formerly Österreichische Industrieholding AG ('ÖIAG'), 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.

	2016	2015	Change in %
Treasury shares	415,159	415,159	0.0%

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

Standard change-of-control clauses that could ultimately lead to the termination of contracts affect the majority of financing agreements. None of these clauses came into effect in the 2016 financial year or up until the date of this report.

The key changes in the shareholder structure relate to directly and indirectly held shares as well as financial and other instruments in accordance with section 91a of the Austrian Stock Exchange Act ('BörseG'). In the course of 2016, América Móvil, S.A.B. de C.V. and América Móvil B.V. sold 8.70% of the shares in Telekom Austria Aktiengesellschaft in two stages:

Firstly, América Móvil B.V. sold 51,887,646 (7.81%) shares in Telekom Austria Aktiengesellschaft on 28 July 2016 and América Móvil S.A.B. de C.V. simultaneously concluded a cash-settled put option agreement expiring on 5 August 2023 for 7.81% of the shares. On the same date, Citigroup Inc. indirectly concluded a call option for 51,887,646 (7.81%) shares in Telekom Austria Aktiengesellschaft, expiring on 7 August 2023, via Citigroup Global Markets Funding Luxembourg. It holds 25,943,824 shares in Telekom Austria Aktiengesellschaft, corresponding to 3.90% of the share capital, indirectly via Citigroup Global Markets Limited and 25,943,824 shares (3.90% of the share capital) under a swap expiring on 4 August 2023.

On 22 August 2016, América Móvil, S.A.B de C.V. voluntarily announced the sale of 5,922,550 shares in Telekom Austria Aktiengesellschaft (0.89%).

As of 6 October 2016, Deutsche Bank Aktiengesellschaft held 26,540,763 shares (3.99% of the voting rights) in Telekom Austria Aktiengesellschaft and 16,993,642 shares (2.56%) in financial/other instruments. Of these, 469,636 shares (0.07%) relate to a right to recall, 915,015 shares (0.14%) to an exchangeable bond (expiry date: 4 August 2023), 15,278,391 shares (2.30%) to a cash-settled put option (expiry date and exercise period: 7 August 2023) and 330,600 shares (0.05%) to cash-settled swaps (expiry date: 8 August 2023).

The following information concerning the Shareholders' Agreement is based solely on publicly available information¹⁸⁾. The company has no additional information. The shareholders' agreement between ÖBIB, América Móvil and América Móvil B.V., Netherlands ('América Móvil B.V.': formerly 'Carso Telecom B.V.') came into force on 27 June 2014 (see Note (27)). Under the terms of the shareholders' agreement, the parties have undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria Aktiengesellschaft by exercising their voting rights on a concerted basis. The shareholders' agreement also contains provisions on the joint exercise of voting rights in the committees of the company for the election of Supervisory Board and Management Board members and restrictions on the sale of shares. The Supervisory Board of the company consists of ten shareholder representatives, of which eight members are nominated by América Móvil B.V. and two by ÖBIB. ÖBIB has the right to appoint the Chairman of the Supervisory Board. América Móvil B.V. has the right to appoint the Deputy Chairman. The Management Board of the company consists of three members. Two members are nominated by América Móvil B.V., while one member of the Management Board, namely the Chief Executive Officer (CEO), is nominated by ÖBIB. On 24 July 2015, the Chief Executive Officer responsibilities of Telekom Austria Aktiengesellschaft were allocated to Alejandro Plater per 1 August 2015, as proposed by the two majority shareholders América Móvil and ÖBIB. The Extraordinary General Meeting on 14 August 2014 also amended the Articles of Association to state that, as long as the Republic of Austria directly or indirectly holds at least 25% plus one share of the share capital of the company, resolutions on capital increases and the issue of instruments containing a conversion right or a conversion obligation for shares of the company and amendments to the provisions of the Articles of Association relating to capital increases and such instruments shall require a majority of at least three quarters of the share capital represented at the vote on the resolution.

¹⁸⁾ Information provided in the takeover offer (9 May 2014): <http://www.telekomaustria.com/de/ir/12474>
Information on the capital increase as of 7 November 2014: <http://www.telekomaustria.com/de/ir/14887>

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 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 25 May 2016, Peter Hagen was elected to the Supervisory Board to replace Elisabetta Castiglioni, while Alejandro Cantú Jiménez's, Stefan Pinter's and Reinhard Kraxner's supervisory board seats were prolonged.

Telekom Austria Aktiengesellschaft: Members of the Supervisory Board

Name (year of birth)	Date of first appointment	End of current term of office/leaving date
Elisabetta Castiglioni (1964)	29.05.2013	25.05.2016
Karin Exner-Wöhrer (1971)	27.05.2015	2020 ⁴⁾
Carlos García Moreno Elizondo, first Deputy Chairman (1957)	14.08.2014	2018 ²⁾
Peter Hagen (1959)	25.05.2016	2019 ³⁾
Carlos M. Jarque (1954)	14.08.2014	2018 ²⁾
Alejandro Cantú Jiménez (1972)	14.08.2014	2019 ³⁾
Reinhard Kraxner (1970)	14.08.2014	2017 ¹⁾
Ronny Pecik (1962)	23.05.2012	2018 ²⁾
Stefan Pinter (1978)	14.08.2014	2017 ¹⁾
Wolfgang Ruttenstorfer, Chairman (1950)	27.05.2010 to 14.08.2014, Reappointed on 27.05.2015	
Oscar Von Hauske Solís (1957)	23.10.2012	2018 ²⁾

Members of the Supervisory Board appointed by the Central Works Council

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

¹⁾ The term of office ends at the Annual General Meeting for the 2016 financial year (provisionally June 2017).

²⁾ The term of office ends at the Annual General Meeting for the 2017 financial year (provisionally May 2018).

³⁾ The term of office ends at the Annual General Meeting for the 2018 financial year (provisionally May 2019).

⁴⁾ The term of office ends at the Annual General Meeting for the 2019 financial year (provisionally May 2020).

There were no changes in the Management Board of Telekom Austria Aktiengesellschaft in 2016.

Cash-use policy

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

On 22 July 2016, Telekom Austria Group announced that América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) agreed that day on a new expected dividend level starting with the financial year 2016. This decision is based on the improved operational and financial performance of the Group. This new dividend expectation entails the payment of EUR 0.20 per share to be maintained or increased on a sustainable basis in line with the operational and financial developments of the Group.

Risk management

Principles and methods

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

The market and competition risks explained below are managed at Group level by means of the regular analysis of risks and opportunities and the use of effective measures to mitigate and detect these. This is pursued through monthly performance calls (MPC) or leadership team meetings (LTM). The effects of deviations from planning are evaluated using scenario and probability calculations. The overall risk situation of this risk category is derived from the sum of the individual risks. In addition to the fixed-line and mobile communications market in Austria, the Telekom Austria Group holds leading positions 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 meeting (MPC) and strategic (LTM) meetings, a multi-year plan comprising strategic risk assessment will also be created. Here, the potential strategic risks and opportunities of the individual companies, and thus of the entire Group, will be assessed, documented and reported to Management or the Audit Committee. This close integration of business planning and risk management ensures appropriate risk control.

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 Telekom Austria Group are explained below.

Risks

Market and competition risks

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

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

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

Regulatory and legal risks

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

As described in the 'Regulation' section, a new regulation on net neutrality and roaming (previously known as 'Connected Continent' or the 'Telecom Single Market' package) came into force in 2016 with extensive consequences for A1 and other subsidiaries within the EU. However, some details of the implementation of the regulation in terms of both net neutrality and roaming are still to be determined, meaning that the extent of its effects cannot be fully predicted. In turn, this gives rise to legal, regulatory and financial uncertainty.

In 2016, the European Commission presented the draft of a new directive revising the current framework, access, authorisation and universal service directives and introducing a range of new regulations (European Electronic Communications Code). This initial proposed legislation must now be negotiated in the European Parliament and at the level of the EU member states. Policy objectives for a 'gigabit society' and a 5G plan of action were also presented.

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

Compliance risks

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

Financial risks

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

Investment risks

In general, the 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 Note (17)).

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

Personnel-related risks

The Telekom Austria Group counters personnel-related risks in various ways. For example, young talents are recruited as part of the '1A Career' programme, which focuses on graduates, trainees and apprentices and ensures diversity in the company. The risk of losing key employees is counteracted by means of forward-looking skill management and succession planning and Group-wide talent management. Managers operate in accordance with Group-wide leadership standards with the dimensions 'Person', 'Team' and 'Business'. Group-wide feedback for manager and employee development is provided as part of performance dialogues. An internal business school develops employees' skills and abilities and serves as a platform for the Group-wide transfer of expertise. In addition to business plan-oriented cost planning, human resources planning includes measures aimed at encouraging employee mobility. Managers are faced with the challenge of getting more out of fewer resources while preventing burnout.

In 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'). Basically, this employee group can be used for work outside the company only with their consent. Transfers within the company are limited. Civil servants are employed according to public law. The rights and duties associated with their employment status are exclusively based on provisions under public law, particularly the Public Sector Employment Law of 1979 ('Beamten-Dienstrechtsgesetz 1979').

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

Around 48% of employees in the Austrian segment have civil servant status. This corresponds to 22% at Group level. To address the structure of employee costs, the Austrian segment has developed not only several social plans in cooperation with employee representatives, but also models which enable employees with civil servant status to transfer to government ministries or to take part in internal mobility initiatives.

Technical and topographical risks

Maintaining a high level of availability and reliability of the services and products offered is a key aspect of operational risk management, as a host of threats such as natural disasters, major technical disruptions, third-party construction work, hidden faults or criminal activities can all impair their quality. Long-term planning takes technological developments into account, while the redundancy of critical components ensures failure safety, and efficient organisational structures for operations and security serve to secure high standards of quality. Furthermore, a separate Group guideline ensures uniform methods for the recognition and management of the most important risks to operational processes. In every major disruption, causes will be clarified and conclusions will be drawn on ways to reduce the risks of repeating the same causes of error.

Environmental risks

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

Internal control system for financial reporting

Telekom Austria Group has an internal control system (ICS) over the financial reporting process, as required by law. The ICS is intended to provide reasonable assurance regarding the reliability, completeness and accuracy of external financial reporting in compliance with international and national accounting standards. Regular internal reporting to Management and the review of the internal control system by Internal Audit also ensure that weaknesses are identified promptly, and reported and eliminated accordingly. The most important content and principles apply to all Telekom Austria Group subsidiaries. Each significant financial transaction is reflected in a risk and control matrix to ensure that its financial reporting is accurate and complete. The effectiveness of the ICS is reviewed, analysed and assessed at regular intervals. At the end of each year, the Group's management carries out an assessment of the relevant companies with the involvement of the respective business units. Based on the findings of this assessment and the defined criteria, Management stated the internal control system to be effective as of 31 December 2016.

Due to the listing of the ultimate parent América Móvil on the New York Stock Exchange (NYSE), the implementation of the U.S. Sarbanes-Oxley Act (SOX) is required (again) pursuant to the specifications of América Móvil. To this end, an adjustment to and amendment of the internal control system to reflect this standard was implemented in the 2015 financial year. In 2016, the full SOX scope was defined for Austria and a limited SOX scope was defined for all other segments. The scope of SOX is redefined each financial year by the ultimate parent.

Outlook

During the year 2016, Telekom Austria Group managed to grow its total revenues on a reported basis. This was achieved despite strong competition in the Austrian mobile market as well as ongoing challenges in the CEE region. Most of the Group's mobile markets continued to be characterized by intense competition, partly resulting from ongoing macroeconomic headwinds which, however, flattened out a bit in some segments. The high devaluation of the Belarusian Rouble already at the beginning of the year dampened total revenue growth in EUR terms in Belarus. Moreover, a further burden arose from the stepwise abolition of retail roaming in the EU as of 30 April 2016, which overshadowed operational improvements.

In 2017, most of these business conditions are expected to remain intact. In Austria, strong competition in the mobile market will persist and is anticipated to remain. In the CEE region, a mixed economic forecast is expected to lend only weak support, while high competition on the mobile market is anticipated to remain. Moreover, operational improvements continue to be overshadowed by negative impacts from the abolition of roaming, which are expected to amount to approximately EUR 40 mn in Group EBITDA in 2017. On a positive note, demand for fixed-line services is expected to remain supportive across Telekom Austria Group's convergent markets.

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

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

For the year 2017, the Management of Telekom Austria Group aims to offset the negative roaming impact and achieve modest growth in Group revenues (on a reported basis).

In order to monetise the strong data growth, Telekom Austria Group will further invest in the LTE rollout across its markets as well as the accelerated fibre deployment in Austria. Despite the ongoing intensified investment in these areas, CAPEX before spectrum investments and acquisitions will decrease moderately to approximately EUR 725 mn in 2017.

On 22 July 2016, América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) agreed on a new expected dividend level starting with the financial year 2016. This decision is based on the improved operational and financial performance of the Group. This new dividend expectation entails the payment of EUR 0.20 per share to be maintained or increased on a sustainable basis in line with the operational and financial developments of the Group.

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

This outlook is based on constant exchange rates, with the exception of the Belarusian Rouble. Whilst the Management of Telekom Austria Group acknowledges the limited predictability of the Belarusian Rouble, it expects the currency to devalue close to inflation by approximately 10-15% versus the EUR in 2017.

With regards to frequencies, the government of Belarus is expected to sell spectrum in the 2,100-MHz band. Moreover, there might be some tenders in Bulgaria for frequencies in the 800-MHz band and potentially in the 2.6-GHz band, in Slovenia for the 3,500-MHz and 10-12-GHz bands in Q1 2017, and in Macedonia for the 900-MHz and 1,800-MHz bands after the termination date of current licenses in March 2017.

Vienna, 25 January 2017

The Management Board

Alejandro Plater
CEO and COO
Telekom Austria Group

Siegfried Mayrhofer
CFO
Telekom Austria Group