

**TELEKOM
AUSTRIA
GROUP**

ANNUAL REPORT 2014

**NEW
WAYS**





To achieve something new, one has to try out new ways. Or follow the same path in an innovative, unconventional way. A willingness to think and act on fresh new ideas is the only way to overcome barriers and harness promising potential.

KEY FIGURES OF THE TELEKOM AUSTRIA GROUP

	2014	Change in %	2013	2012 ¹⁾
Fixed Access Lines (in '000)				
in Austria	2,287.1	0.1	2,283.9	2,282.3
in Bulgaria ²⁾	153.6	-3.9	159.9	157.6
in Croatia	219.9	13.9	193.1	163.0
in the Republic of Macedonia	62.6	-	-	-
Total	2,723.3	3.3	2,636.9	2,602.9
of which broadband lines in Austria	1,469.1	5.7	1,390.2	1,312.1
of which broadband lines in Bulgaria ²⁾	145.1	-6.4	155.0	152.0
of which broadband lines in Croatia	136.0	24.5	109.2	86.8
A1 TV customers	251.8	6.9	235.7	218.8
Mobile Communication Customers (in '000)				
in Austria ³⁾	5,424.1	-5.1	5,714.5	5,179.2
in Bulgaria ²⁾	4,221.0	0.9	4,181.5	4,515.6
in Croatia	1,741.0	-5.6	1,843.8	1,921.0
in Belarus	4,949.9	0.0	4,947.4	4,800.4
in Slovenia	681.5	0.3	679.2	662.6
in the Republic of Serbia	2,159.5	7.0	2,017.7	1,859.9
in the Republic of Macedonia	622.0	-1.2	629.7	632.0
Total⁴⁾	20,008.4	-0.5	20,117.4⁵⁾	19,625.6⁶⁾
Employees (full-time equivalent, as of 31 Dec)	16,240	1.2	16,045	16,446
Key Financial Data (in EUR million)⁶⁾⁷⁾				
Revenues	4,018.0	-4.0	4,183.9	4,329.7
of which generated abroad (in %)	39.1	-	37.2	36.7
EBITDA comparable ⁸⁾	1,286.1	-0.1	1,287.4	1,455.7
of which generated abroad (in %)	41.7	-	43.5	39.5
EBITDA comparable margin (in %)	32.0	-	30.8	33.6
EBITDA incl. effects from restructuring and impairment tests	850.8	-28.1	1,182.8	1,421.1
Operating income	-3.0	n. m.	318.2	457.1
Net result	-185.4	n. m.	52.1	104.0
Free cash flow ⁹⁾	156.1	n. m.	-716.7	325.4
Cash flow from operations	901.4	-14.3	1,051.6	1,047.9
Capital expenditures ¹⁰⁾	757.4	-57.4	1,779.1	728.2
Net debt ¹¹⁾	2,693.3	-28.3	3,758.7	3,278.3
Equity	2,218.0	52.0	1,459.1	819.1
Equity ratio (in %)	26.7	-	18.7	11.3
Net debt to EBITDA comparable ¹¹⁾	2.1x	-	2.9x	2.3x
Return on Invested Capital — ROIC ¹²⁾ (in %)	-0.1	-	2.4	3.8
Return on Equity — ROE ¹²⁾ (in %)	-10.1	-	4.9	12.1
Key Share Figures				
Earnings per share (in EUR)	-0.46	n. m.	0.07	0.23
Free cash flow per share (in EUR)	0.34	n. m.	-1.62	0.74
Market capitalisation as of 31 Dec (in EUR billion)	3.7	n. m.	2.4	2.5
Share price as of 31 Dec (in EUR) ¹³⁾	5.51	8.9	5.06	5.28
Share price high (in EUR) ¹³⁾	6.99	12.4	6.22	8.57
Share price low (in EUR) ¹³⁾	4.93	13.2	4.35	4.15
Dividend per dividend-bearing share (in EUR)	0.05 ¹⁴⁾	-	0.05	0.05

1) As of 1 January 2013 IAS 19 — Employee Benefits (amended) became effective. Accordingly, the reported results for the interim and full year 2012 were adjusted retrospectively.
2) As of Q4 2013 the methodology for counting subscribers has been changed in Bulgaria. Previous quarters of 2012 and 2013 were adjusted retrospectively. 3) As of Q2 2013 the methodology for counting subscribers has been changed in Austria. Previous quarters of 2012 and 2013 were adjusted retrospectively. 4) The difference between the individual segments and the total is due to the business segment M2M. 5) Including subscribers in Liechtenstein (6.4 million in 2013, 6.2 million in 2012) 6) Comparative period 2013 was adjusted in accordance with IAS 8 (please refer to Note (1) of the Consolidated Financial Statements). 7) The consolidated financial figures in 2012, 2013 and 2014 include effects from the application of hyperinflation accounting pursuant to IAS 29. 8) Defined as EBITDA, excluding effects from restructuring and impairment tests. 9) Defined as cash flow generated from operations minus capital expenditures in existing business areas. 10) Excluding additions to asset retirement obligations. 11) As of 31 December 2014 long-term financial investments, instalment sales receivables and financial leasing are no longer included in the calculation of net debt; comparative figures were restated accordingly. 12) For definitions see glossary. 13) Due to the capital increase, share prices were adjusted retrospectively. For more information see p. 48. 14) Proposal to the 2014 Annual General Meeting, which will take place on 27 May 2015.

TELEKOM AUSTRIA GROUP

As a leading telecommunications provider, Telekom Austria Group serves almost 23 million customers in seven countries across Central and Eastern Europe.

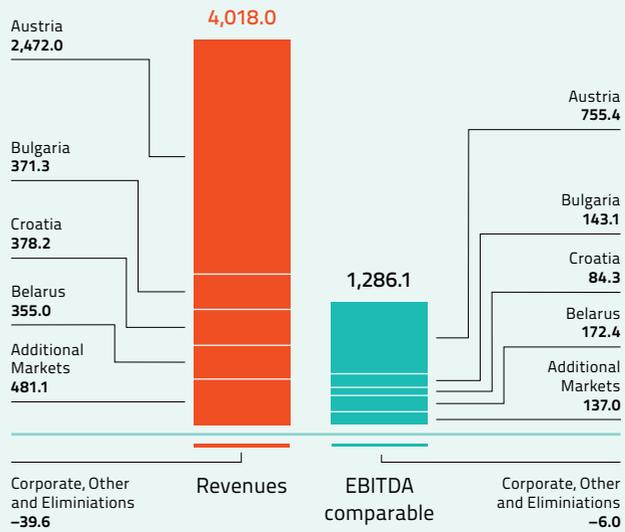
REVENUES AND EBITDA COMPARABLE

in EUR million



REVENUES AND EBITDA COMPARABLE BY SEGMENT

in EUR million / in 2014



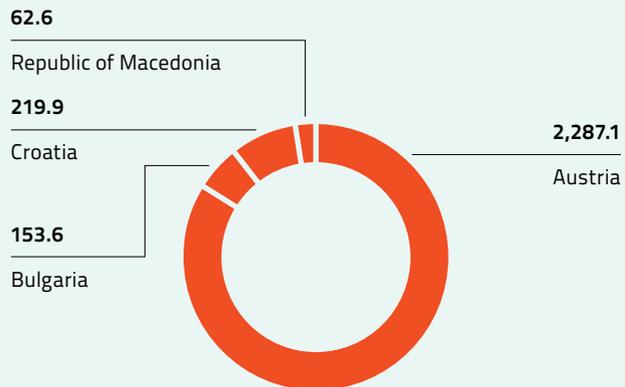
MOBILE COMMUNICATION CUSTOMERS BY SEGMENT

in '000 / as of 31 Dec



FIXED ACCESS LINES BY SEGMENT

in '000 / as of 31 Dec 2014



PLEASE FIND THE 2014 KEY FIGURES HERE

NEW APPROACHES



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Online Annual Report: www.telekomaustria.com/ar/2014

IMPRINT

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European telecommunication markets, América Móvil will also further our competitiveness on a global scale.

DEAR READER,

GOING IN A NEW DIRECTION, or following the same path in a new way, requires a pioneering spirit. In a business context, however, this cannot mean uncontrolled adventures or experiments. Generating added value and harnessing new potential lie at the heart of every strategic decision. Reorientation and innovative approaches to forward-looking objectives necessarily require detailed planning with a view to achieving more than just partial victories. Along with a focused implementation of the strategy and efficient teamwork, this is probably one of the most important success factors.

In the year under review the Telekom Austria Group went in a number of new directions and took new approaches to existing paths in order to achieve its ambitious targets. In particular, this includes the change in our shareholder base with the new controlling majority shareholder, América Móvil. As well as backing our strategic focus, such as the expansion of our convergence offering, América Móvil will support significant investments in our network infrastructure in the longer term. At a time when there is a pronounced trend towards consolidation in the

As an example of successful repositioning in existing markets, this report also details our focus on achieving the turnaround in our home market of Austria, which is already within reach — thanks in particular to uncompromising cost management, a focus on high-value customer segments and the network quality leadership that sets us apart from our peer group in highly competitive markets. Special attention is also given to our activities in CEE, a region in which we continue to believe and whose potential we are actively harnessing through a wide range of measures. Last but not least, we also report on how we intend to fulfil our role as a technology and innovation leader in an environment where the business world and everyday life are becoming increasingly digital: By always being among the first to embrace, test and advance the latest technological trends and developments and roll them out on a wide scale.

Our dynamic markets will continue to present considerable challenges that require us to demonstrate our versatility and pioneering spirit. Nevertheless, we are confident that the new directions and approaches pursued by the Telekom Austria Group will pave the way for a successful future. ✓



Please read more in the Management Board interview starting on page 12

Hannes Ametsreiter
Chairman of the Management Board

Siegfried Mayrhofer
Chief Financial Officer

Günther Ottendorfer
Chief Technology Officer

EQUITY STORY

The most important arguments for investing at a glance



Turnaround target in Austria



IN ITS HOME MARKET in Austria, the Telekom Austria Group is targeting a reversal of trends towards a positive EBITDA comparable development. The priority is value-orientated growth. For this purpose, A1 Telekom Austria AG (A1) is focusing on high-value customer segments and on convergence. The company is ideally equipped to monetise the ongoing growth of data: Thanks to an outstanding frequency spectrum, A1 can distinguish itself from the competition in terms of network quality. In the fixed-line business, the accelerated fibre rollout — an additional EUR 400 mn is to be invested in this from 2015 to 2018 — offers growth opportunities through up- and cross-selling. Moreover, strict cost management will also contribute significantly to the expected growth of results in the future. The sustainability of the anticipated turnaround will depend on the impact of expected market entries by new mobile virtual network operators (MVNOs).

Medium-term growth opportunities in CEE



THE OVERRIDING OBJECTIVE of the Telekom Austria Group as one of the leading providers in CEE is to capitalise on the medium-term economic growth potential that the Group sees in this region. Depending on market maturity, the convergence strategy, which has been proven successful, shall be implemented here too. It has been developed furthest in Bulgaria, Croatia and the Republic of Macedonia where the Group's number one goal is to stop the current EBITDA comparable decline in the face of fierce competition and macroeconomic challenges. In Belarus, meanwhile, the Telekom Austria Group focuses on data growth and operational strength in order to counteract inflation and currency devaluation. In the Additional Markets segment growth opportunities will also continue to be used in the best way possible.



Solid balance sheet structure and dividend growth potential



THE TELEKOM AUSTRIA GROUP has a solid capital structure, which is defined by the current target rating of Baa2 and BBB of the rating agencies Moody's and Standard & Poor's respectively. The successful capital increase in November 2014 further strengthened the Group's balance sheet structure and gave it additional financial flexibility for investments — for example for the accelerated fibre rollout in Austria and value-accretive M&A activities. As part of its longer-term dividend policy, the Telekom Austria Group intends to distribute a sustainable annual dividend of at least 5 Eurocents per share, which has the potential to grow in the medium-term. This minimum value has already been confirmed for 2014 and 2015.

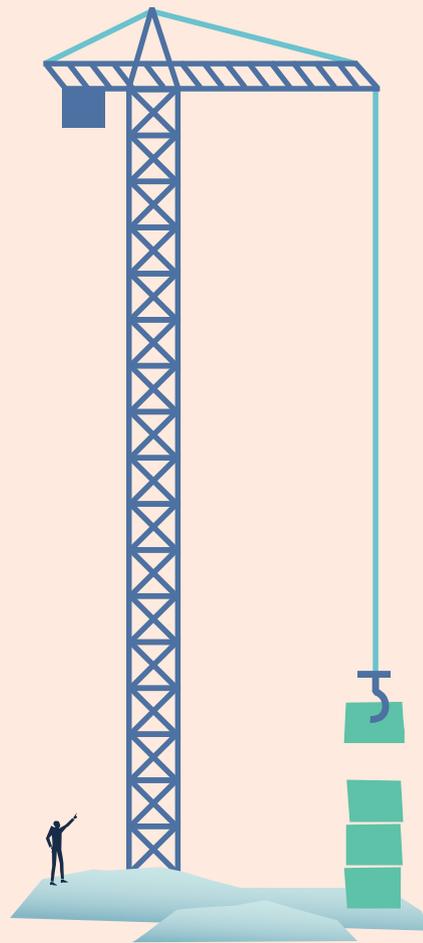
Shareholder structure with long-term orientation



THE SHAREHOLDER STRUCTURE with the controlling majority owner América Móvil and the core shareholder Österreichische Industrieholding AG (ÖIAG) offers the Telekom Austria Group a stable basis for the future, even in times of Europe-wide market consolidation. In order to secure an appropriate free float in terms of sufficient liquidity, the core shareholders agreed that América Móvil must ensure a broadly diversified free float of at least 24% again within 24 months of the expiration of the takeover bid in October 2014.

HIGHLIGHTS 2014

LTE in four markets



New majority shareholder América Móvil

WITH AMÉRICA MÓVIL the Telekom Austria Group has a strong international majority owner and is well equipped for the future. Since 20 October 2014 the telecommunications group has held a 59.7% share in the Telekom Austria Group.

Impairment in Bulgaria

THE TELEKOM AUSTRIA GROUP responded to changed estimates of economic and corporate development with an impairment for the Bulgarian subsidiary Mobiltel.

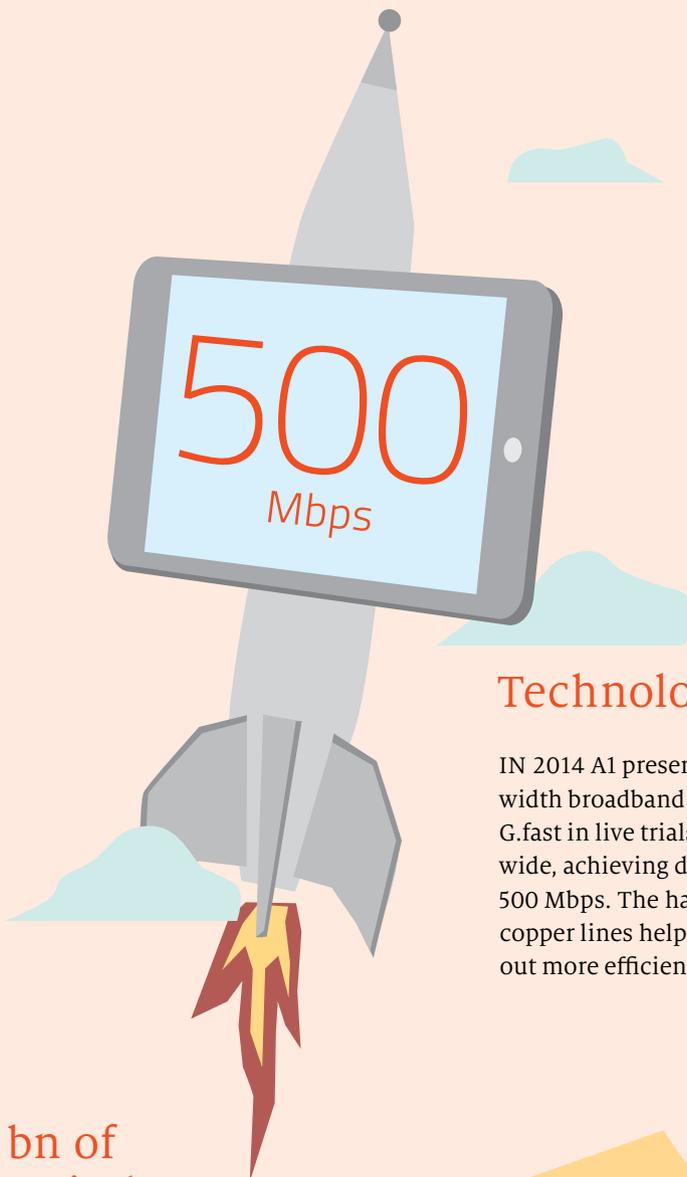
THE STEADY INCREASE in data volume is managed by the Telekom Austria Group by means of an accelerated upgrade of its LTE infrastructure. A1 already offers network coverage of more than 60% in Austria, Vipnet (Croatia) around 27%, Si.mobil (Slovenia) over 75% and Vip operator (Republic of Macedonia) over 42%.

On the right path in Austria

THE CONSISTENT IMPLEMENTATION of the turnaround strategy launched in 2012 is bearing its first tangible fruit: For the first time after years of falling revenues and earnings, EBITDA comparable in Austria is growing slightly again on a year-on-year basis, mainly because of the focus on high-value customer segments, best network quality and strict cost reduction programmes.

Macedonia is convergent

BY ACQUIRING the leading Macedonian cable provider blizoo Macedonia the Telekom Austria Group implemented its convergence strategy in a fourth country. The merger of Vip operator and One, which has been agreed between Telekom Austria Group and Telekom Slovenije Group, further strengthens Vip operator's market presence. The approval of the transaction by the authorities is pending and expected for the first quarter of 2015.



Technology pioneer

IN 2014 A1 presented the ultra high-bandwidth broadband transmission technology G.fast in live trials for the first time worldwide, achieving data speeds of more than 500 Mbps. The harnessing of existing copper lines helps to make the fibre roll-out more efficient.



EUR 1 bn of fresh capital

THE SUCCESSFUL capital increase of the Telekom Austria Group generated EUR 1 bn in November 2014. The funds are to be used to strengthen the balance sheet, for fibre investments and for strategic acquisitions.



Prize winner in network quality

TOP MARKS in tests and rankings regularly confirm the Telekom Austria Group's infrastructure and quality leadership. In 2014 A1 won four out of four network tests.

TELEKOM AUSTRIA GROUP OVERVIEW

The Telekom Austria Group, which is listed on the Vienna Stock Exchange, is a leading communications provider in the CEE region and operates in seven countries with around 23 million customers. The total market of these seven countries has a population of around 41 million. As of 31 December 2014 the Group had around 16,000 employees and generated revenues of around EUR 4.0 bn in the financial year 2014. The wide-ranging portfolio includes products and services in the areas of voice telephony, broadband internet, multimedia services, data and IT solutions, wholesale and payment solutions.

THE COMPANY has a portfolio of different brands. They include 'no-frills' products for price-sensitive customers as well as premium offerings depending on the positioning and the maturity level of its markets. High-speed options cater especially to growing data demands. The Telekom Austria Group also focuses on bundling services so customers can benefit from tailored solutions, including the combination of fixed and mobile services in four of its markets.

In addition to its retail customers, the Group provides numerous companies with diverse solutions including connectivity and network & IT outsourcing. Its wholesale arm supplies roaming, voice, data, mobile and satellite solutions.

1998
Telekom Austria AG is born
Spin-off from Post and Telekom Austria AG



2000
Market entry in Liechtenstein
mobilkom liechtenstein starts operations



2001
Market entry in Slovenia
Acquisition of majority stake in Si.mobil



2006
Market entry in Serbia
Acquisition of UMTS frequencies, Vip mobile starts operating



DYNAMIC EXPANSION

1998
Market entry in Croatia
Founding of Vipnet



2000
IPO
Listing on the Vienna Stock Exchange and the New York Stock Exchange

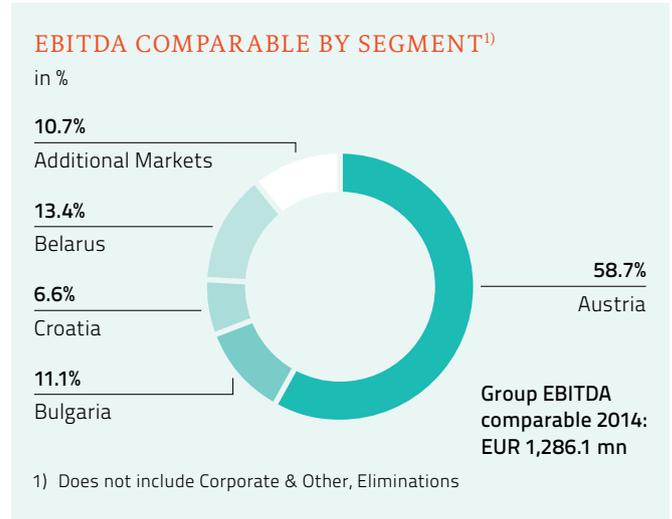
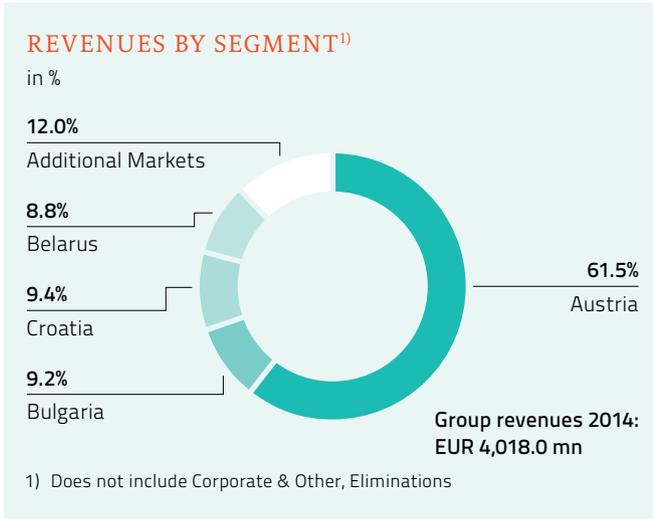


2005
Market entry in Bulgaria
Takeover of Mobiltel



2007
Market entry in Macedonia and Belarus
Vip operator starts operating in the Republic of Macedonia; acquisition of velcom in Belarus





The commercial success of the Group depends on the development and maintenance of state-of-the-art fixed and mobile networks, which necessitates regular extensive infrastructure investments. The mobile network of A1 Telekom Austria AG (A1) has long been regarded as the premium Austrian network: No other operator has ranked

top in the connect magazine network test as often. A1 emerged from the 'connect' test as the victor in Austria once again in 2014. The high quality of the network underpins the company's position as the leading provider of premium products and services in its home market. ✓

2010
A1
Single brand
Merger of mobile and fixed line businesses in Austria

2012
Entry of América Móvil
The telecommunications group acquires 22.76% of shares

2013
Expansion of the business base in Austria
Acquisition of YESSS! and additional frequency spectrum

2014
Macedonia becomes convergent
Acquisition of cable operator blizoo Macedonia

2014
Merger of Telecom Liechtenstein with mobilkom liechtenstein
Telekom Austria Group holds 24.9% share

2014
Shareholders' agreement between ÖIAG and América Móvil
América Móvil becomes majority shareholder with a stake of 59.7%

2011
Bulgaria and Croatia become convergent
Acquisition of fixed-line providers in Bulgaria and Croatia

2014
Successful capital increase
EUR 1 bn to strengthen the balance sheet, for fibre rollout and acquisitions

AUT SEGMENT

Austria

Products: Mobile, fixed-line, convergent products, internet, data and IT solutions, value-added services, wholesale offers, IPTV, handsets, mobile solutions for companies, mobile payment services
Mobile market position: #1

	Change	
	2014	2013
Mobile communication subscribers (in '000)	5,424.1	-5.1%
Market share (in %)	41.1	-
Fixed access lines (in '000)	2,287.1	0.1%
Revenues (in EUR million)	2,472.0	-7.0%
EBITDA comparable (in EUR million)	755.4	1.4%
Employees	8,635	-1.9%

BLR SEGMENT

Belarus

Products: Mobile, internet, value-added services, wholesale offers, handsets, fixed-line services for selected business customers
Mobile market position: #2

	Change	
	2014	2013
Mobile communication subscribers (in '000)	4,949.9	0.0%
Market share (in %)	42.4	-
Revenues (in EUR million)	355.0	7.0%
EBITDA comparable (in EUR million)	172.4	10.6%
Employees	1,881	7.5%

7 COUNTRIES
 16,000 EMPLOYEES

BUL SEGMENT

Bulgaria

Products: Mobile, fixed-line, convergent products, internet, data and IT solutions, value-added services, wholesale offers, IPTV, handsets, mobile solutions for companies
Mobile market position: #1

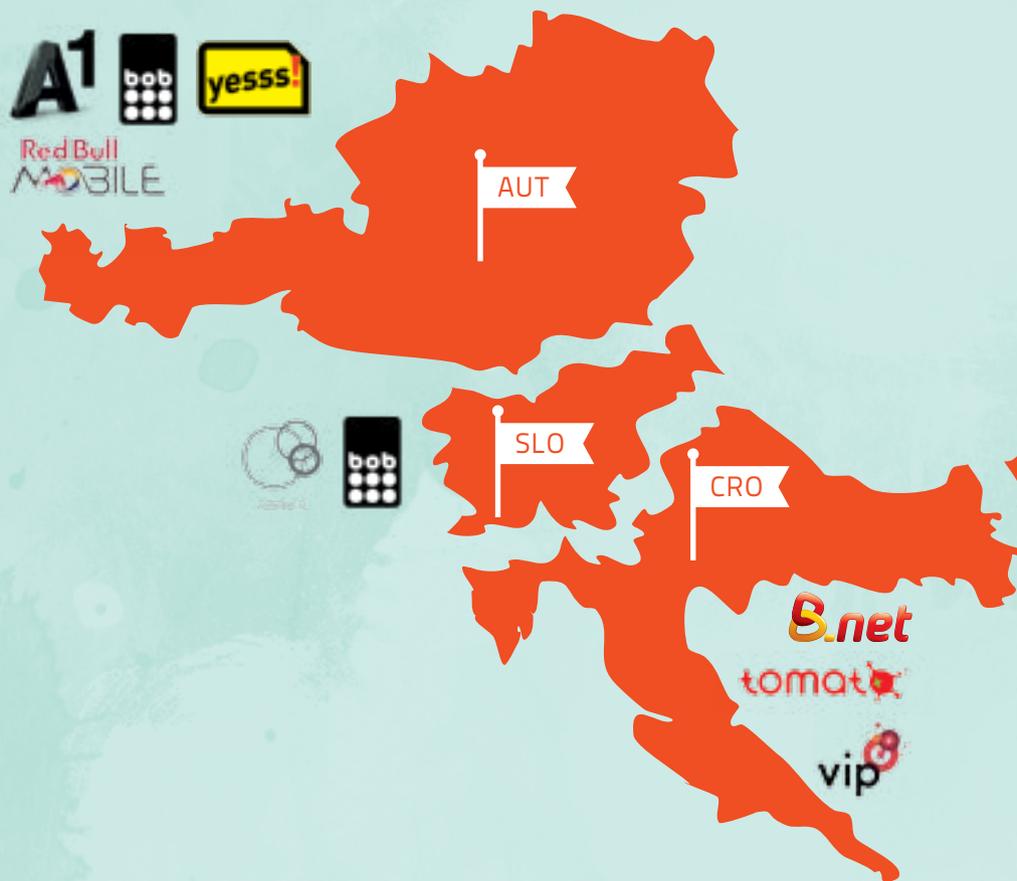
	Change	
	2014	2013
Mobile communication subscribers (in '000)	4,221.0	0.9%
Market share (in %)	37.6	-
Fixed access lines (in '000)	153.6	-3.9%
Revenues (in EUR million)	371.3	-7.1%
EBITDA comparable (in EUR million)	143.1	-9.8%
Employees	2,527	-4.6%

CRO SEGMENT

Croatia

Products: Mobile, fixed-line, convergent products, internet, value-added services, wholesale offers, IPTV and satellite TV, handsets, mobile solutions for companies
Mobile market position: #2

	Change	
	2014	2013
Mobile communication subscribers (in '000)	1,741.0	-5.6%
Market share (in %)	36.0	-
Fixed access lines (in '000)	219.9	13.9%
Revenues (in EUR million)	378.2	-2.8%
EBITDA comparable (in EUR million)	84.3	-28.3%
Employees	1,151	1.1%





SLO ADDITIONAL MARKETS SEGMENT

Slovenia

Products: Mobile, internet, value-added services, wholesale offers

Mobile market position: #2

	Change	
	2014	2013
Mobile communication subscribers (in '000)	681.5	0.3%
Market share (in %)	29.2	-
Revenues (in EUR million)	199.6	0.4%
EBITDA comparable (in EUR million)	63.6	1.2%
Employees	399	0.7%

SRB ADDITIONAL MARKETS SEGMENT

Republic of Serbia

Products: Mobile, internet, value-added services, wholesale offers

Mobile market position: #3

	Change	
	2014	2013
Mobile communication subscribers (in '000)	2,159.5	7.0%
Market share (in %)	22.5	-
Revenues (in EUR million)	213.2	16.8%
EBITDA comparable (in EUR million)	64.0	-0.1%
Employees	933	1.6%

MKD ADDITIONAL MARKETS SEGMENT

Republic of Macedonia

Products: Mobile, fixed-line, TV, internet, value-added services, wholesale offers

Mobile market position: #2

	Change	
	2014	2013
Mobile communication subscribers (in '000)	622.0	-1.2%
Market share (in %)	28.2	-
Fixed access lines (in '000)	62.6	-1.3%
Revenues (in EUR million)	62.0	-4.4%
EBITDA comparable (in EUR million)	12.6	-14.6%
Employees	535	149.8%

DIVERSIFICATION
IN CEE
WITH A SOLID BASIS
IN THE HOME MARKET
AUSTRIA



ON THE RIGHT TRACK

The Management Board of the Telekom Austria Group talks about the successful stabilisation of the Austrian business, the new majority shareholder América Móvil, the successful capital increase, new trends and its plans for the future.

You have a new majority shareholder, have just successfully executed a capital increase, and have initiated the turnaround of the Austrian business. In contrast, you had to recognise a considerable impairment on your investment in Bulgaria. How do you rate this picture overall?

HANNES AMETSREITER: In many ways we have taken new paths in 2014, both strategically and operationally. And we are heading in the right direction. We have successfully implemented our convergence strategy and significantly strengthened the company with a range of operational measures, M&A activities and cost reductions. Despite further drastic regulatory cuts, we have succeeded in stabilising EBITDA comparable. Everybody in the company can be proud of this. At the same time our individual markets show a diverse picture. Austria is known as one of the most difficult markets in Europe in our sector. The average price level in the mobile and fixed-line business in Austria remains one of the lowest

in whole Europe. Nevertheless, after years of decline we achieved a slight increase in EBITDA comparable in 2014. As for our international markets, Belarus and Slovenia show encouraging growth rates, but there are also countries such as Bulgaria and Croatia where we have already implemented specific measures but have not yet achieved stabilisation. However, our new majority shareholder América Móvil and the successful capital increase put us in an excellent position to generate value-enhancing growth by means of a strengthened capital structure and sound investments in the Telekom Austria Group.

Were there surprises in 2014 — with regard to the environment or your business performance? Which highlights shaped the business in particular?

HANNES AMETSREITER: The biggest challenge for us was surely the realignment of the Austrian business. As the market leader we set out on a progressive path with a new tariff structure and are now very happy that high levels

of customer acceptance for our products and services have confirmed the validity of this alignment. Unfortunately negative surprises in the form of the impairment in Bulgaria, increased frequency usage fees in Croatia and provisions resulting from an ECJ verdict concerning the status of civil servants in Austria cast a shadow over the inherently positive operational picture.

And how do you assess the 2014 result from a CFO's perspective?

SIEGFRIED MAYRHOFER: The fact that we have managed to achieve stabilisation after six years of declining EBITDA comparable for the Telekom Austria Group is decidedly positive. In purely operational terms, not including non-recurring effects, we even achieved growth again. The aforementioned impairment in Bulgaria does of course have a negative impact on the development of net income, but it has no direct effect on our cash flow, which grew in 2014 and reflects the strong operational trends. The successful

The Management Board of Telekom Austria Group
Hannes Ametsreiter (CEO), middle
Siegfried Mayrhofer (CFO), right
Günther Ottendorfer (CTO), left





implementation of our capital increase, whereby we obtained EUR 1 bn of fresh capital for the company with the support of our core shareholders, is also satisfying. We will now use these funds to continue pursuing our strategy.

However, our new majority shareholder América Móvil and the successful capital increase put us in an excellent position.

HANNES AMETSREITER

What were the main factors for the positive trend in the Austrian business?

SIEGFRIED MAYRHOFER:

The key element for this success was certainly the consistent focus on high-value customer segments. Here, we succeeded in meeting our customers' needs through attractive offers with pinpoint accuracy. In doing so it was crucial to distinguish ourselves from the competition via premium services and network quality. At the same time we sustainably lowered our costs by means of efficient market management and an adjustment of the level of handset subsidies. The strict cost discipline, however, did not relate

to market management only. We also initiated numerous structural measures, such as for example in purchasing and the IT landscape.

What are the future plans for Austria now? Are there opportunities for growth? What could potentially endanger the turnaround?

HANNES AMETSREITER: We will continue working intensively on the implementation of our strategy in order to generate sustainable growth in the Austrian market. We believe that we will continue to benefit from the rising demand for data and from our position as network quality leader in future and that we will also continue to win over our customers with attractive convergent products.

SIEGFRIED MAYRHOFER: The provider structure of our market is of course also crucial for its development. In particular, we are monitoring potential new MVNOs (mobile virtual

network operators) here very closely. However, we are confident that by means of a differentiated market management and attractive products we will remain successful even in an environment with new players.

What does América Móvil's arrival on the scene mean for the Telekom Austria Group specifically? Together with ÖIAG, it means you now have a very stable shareholder structure ...

HANNES AMETSREITER: We have been working with América Móvil in a highly constructive manner since their initial entry in 2012. The successful takeover bid in the reporting year shows that América Móvil believes in our company and our region. Because América Móvil operates in both the mobile and fixed-line businesses and greatly values network quality, we are also strongly aligned with regard to our strategic priorities. In any case the stable shareholder structure makes it easier for us to pursue strategic goals and to make long-term investments in infrastructure.

Talking of strategy: Has anything changed because of América Móvil coming on board or for any other reason? The concept of focusing on convergence has proven successful. Are you sticking to it? And where do you see the greatest potential for growth?

HANNES AMETSREITER: América Móvil is especially supportive of our focus on convergence. We see clear growth potential here. The successful implementation in Austria, Croatia, Bulgaria and most recently the Republic of Macedonia shows that this approach works. Convergence will therefore remain our central strategic focus.

Where is the telecoms sector going? Are there new trends that you consider important? Are new technologies coming our way?

GÜNTHER OTTENDORFER: Our industry remains a very exciting sector dominated by rapid developments in

relation to data growth and innovative over-the-top players such as Netflix and Google. Of course dynamic data growth entails growth opportunities for us, too. Moreover, the machine-to-machine business (M2M) also affords potential in manifold ways. In addition, the provision of content and media offers telecommunications companies options for differentiation and growth in the media business too.

In 2013 you spent a lot of money on new frequencies in order to offer your customers even higher network quality. How is the expansion looking at the end of 2014?

GÜNTHER OTTENDORFER: At the Austrian multiband auction we acquired unique frequency spectrum by European standards. Above all, this makes a rollout in rural areas much more cost efficient. The expansion is progressing very well, and we are also far ahead of the competition in terms of coverage of the LTE network. In Austria we have over 60% coverage as of the end of 2014, but we are also making good progress with the expansion in the CEE region. But ever higher bandwidths are not only increasing in importance in the mobile business. That is why in the fixed-line business we are using technologies such as G.fast which allow us to offer extremely high bandwidths via the existing copper network. This means we can efficiently push ahead with the expansion of ultra-fast broadband services alongside the fibre rollout.

Your markets in CEE are a mixed bag. Most recently in particular the impairment of Mobiltel in Bulgaria drew attention. Has this solved all the problems there?

HANNES AMETSREITER: A look at our international markets shows a diverse but generally stable picture. Some markets are performing well, and countries like Belarus, Slovenia and the Republic of Serbia offer very good growth rates, which highlight the

opportunities of the CEE region. Nevertheless, the business in Belarus is exposed to a substantial currency risk. In other countries like Bulgaria and Croatia, which are struggling economically, our operations also face significant challenges. The impairment in Bulgaria for example is based on a reduction in our expectations both with respect to the company's operational performance and the economic development of the country. Our task is now to set strategic priorities in order to stabilise these countries too.

Where will you head next in CEE? Can the concept you are successfully implementing in Austria be applied there too? At first glance, the political and economic environment and exchange rate development do not look favourable everywhere ...

SIEGFRIED MAYRHOFER: We continue to believe in the fundamental growth potential of the CEE region. The people there are well educated and highly motivated, so we see no reason why these economies should not con-

The key element for this success was certainly the consistent focus on high-value customer segments.

SIEGFRIED MAYRHOFER

verge to the EU average in the medium term. And we are confident that this catch-up process will also be reflected in the operating performance of our subsidiaries in the medium term. Nevertheless, the political and economic environment in CEE is of course much more fragile than in Austria. Thus we anticipate headwinds for the time being. In Eastern Europe, as in all markets, a healthy market structure and development form the basis for a sustainable business model. With increasing maturity there will be more opportunities for convergent products such as those with which we are already successful in Austria. And increasing data volumes are also a feature in CEE.

How are you progressing with the technological rollout in CEE — and thus in countries with very different maturity levels?

GÜNTHER OTTENDORFER: As in Austria we also see high network quality as the key to success in CEE. We are therefore continuously striving to provide ever higher capacity for broadband services in our network footprint. We are, for example, pushing ahead with the expansion of LTE networks in our international markets and already offer LTE services in three countries outside Austria — Croatia, Slovenia and the Republic of Macedonia — with a coverage of more





EUR 100 mn. Of course we will continue to focus on savings also in the future.

How do Telekom Austria Group's financial resources and liquidity look following the capital increase?

SIEGFRIED MAYRHOFER: The capital increase was very successful and we achieved proceeds of EUR 1 bn. It considerably strengthened both the balance sheet and the liquidity position of our company. This is helping us to secure our target rating of Baa2/BBB, while we have sufficient liquidity to implement our strategic investments.

Let's hazard a look ahead: What is your estimate for development in 2015?

HANNES AMETSREITER: We are confident that we have the right strategy and the right setup for achieving our ambitious goals. In 2015 we aim at revenue growth for the first time in seven years and expect a 2% increase. Also, we will continue to invest in the expansion of our network, in particular into the accelerated fibre rollout in Austria. In total, we want to spend EUR 700–750 mn. ✓

than 27%, 75% and 42% respectively. In the fixed-line business we are continuously optimising our network quality and coverage in CEE also — partly by actively expanding our own infrastructure, partly by acquiring alternative providers.

Operational excellence and cost optimisation feature high up on your agenda. What progress was made here in 2014?

SIEGFRIED MAYRHOFER: Cost savings were the greatest driver of the EBITDA comparable stabilisation in 2014. As mentioned before, we initiated a range of structural measures besides increasing cost efficiency in market management. Several strategic efficiency programmes — relating for example to purchasing, IT infrastructure and the simplification of internal processes — resulted in considerable and sustainable cost reductions. These optimisations affected rolling operating expenses as well as our capital expenditure. In total, this generated gross cost savings in OPEX and CAPEX of around

What is being done with the funds from the capital increase? Are you planning acquisitions or investments in your network quality?

SIEGFRIED MAYRHOFER: We will use part of the capital increase to reduce our leverage. In addition, we are now very well equipped to make both strategic acquisitions and investments in our network quality.

GÜNTHER OTTENDORFER: In particular, we are planning to push the LTE expansion and accelerate the fibre rollout in the years 2015 to 2018. Here we plan to invest an additional amount of around EUR 400 mn. This plan is subject to the annual budget approvals by the Supervisory Board as well as the announced government broadband subsidy programme. Of course, the fact that the government has recognised the high importance of infrastructure for Austria by promising subsidies of up to EUR 1 bn is an important prerequisite for the extensive rollout. These subsidies will of course have a considerable impact on our ability to invest in infrastructure in Austria.

In particular, we are planning to push the LTE expansion and accelerate the fibre rollout in the years 2015 to 2018.

GÜNTHER OTTENDORFER

HOT TOPICS

In 2014 the Telekom Austria Group realised a number of important strategic measures, and the new approaches adopted in recent years were confirmed by substantial successes. The Group is systematically pursuing its turnaround strategy with the support of a new controlling majority shareholder. In its CEE markets the Telekom Austria Group's high-performance network infrastructure is paving the way for successfully mastering the challenges of the future.



AMÉRICA MÓVIL

In América Móvil the Telekom Austria Group has a new controlling majority shareholder that will reinforce its continued growth through its global presence and fully support the Group's strategy.

PAGES 18 — 21



TURNAROUND IN AUSTRIA

EBITDA comparable has been stabilised and the turnaround has begun: The focus on high-value customer segments, convergence and targeted cost optimisation programmes are bearing fruit.

PAGES 22 — 27



FUTURE REGION CEE

The Telekom Austria Group's diverse CEE markets provide for a varied but stable overall situation — and offer promising potential in the medium to long term.

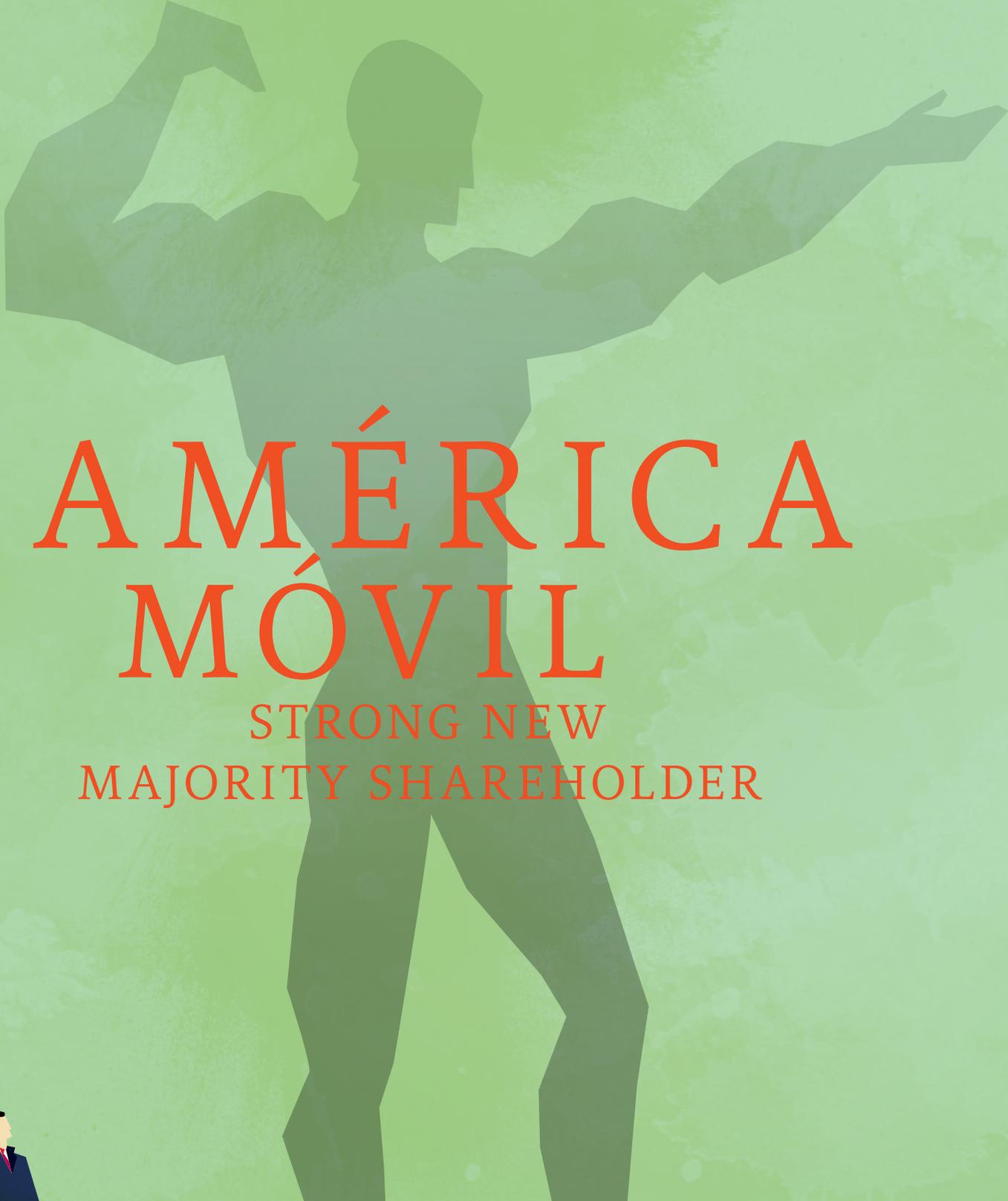
PAGES 28 — 33



INNOVATION & TECHNOLOGY

The early adoption of state-of-the-art technologies secures technology and innovation leadership for the Telekom Austria Group.

PAGES 34 — 38



AMÉRICA MÓVIL

STRONG NEW
MAJORITY SHAREHOLDER



The Telekom Austria Group has taken a new path with a new majority shareholder. Since 20 October 2014 the telecommunications company América Móvil has held a 59.7% share in the Group. With this strong international majority owner by its side the Telekom Austria Group is well equipped for the challenges of the future.

THE NEW PRINCIPAL SHAREHOLDER

América Móvil (AMX) is a leading multinational telecommunications service provider with 289 million mobile customers and 34 million fixed-line accesses. It operates in 18 countries in the Americas providing mobile and fixed-line services, as well as broadband, cable and satellite television under the brands Telcel and Telmex in Mexico — its home market —, Claro mostly throughout Central and South America and TracFone in the United States.

The group employs around 170,000 people worldwide and is listed on the Mexican Stock Exchange, the New York Stock Exchange, the NASDAQ National Market and the Latin America Securities Market (Latibex).

In 2014 group revenues amounted to 884 bn Mexican pesos (MXN) and EBITDA was around 279 bn MXN.¹⁾

SHAREHOLDERS' AGREEMENT AND TAKEOVER OFFER

América Móvil, through its wholly-owned subsidiary Carso Telecom, and ÖIAG entered into a shareholders' agreement dated 23 April 2014 for a 10 year term, which became effective on 27 June 2014. The purpose of this agreement was to provide América Móvil with the industrial leadership and sole control of Telekom Austria, and ÖIAG with certain veto rights defining its role as a core shareholder in Telekom Austria Group. Moreover, the shareholders' agreement contains rules on the uniform exercise of voting rights in the corporate bodies of Telekom Austria Group, nomination rights for members of the Supervisory Board and Management Board and share transfer restrictions. As of the effectiveness of the shareholders' agreement, América Móvil obtained a controlling interest in Telekom Austria Group.

1) América Móvil's fourth quarter of 2014 financial and operating report

As a result of the shareholders' agreement, Carso Telecom launched a public takeover offer for all outstanding Telekom Austria Group shares not held by the América Móvil group, ÖIAG or Telekom Austria Group. By 27 June 2014 the shareholders' agreement became effective. On 14 July 2014, América Móvil announced that it acquired 103,978,115 shares, so that América Móvil held 50.8% of Telekom Austria Group's share capital. The offer was EUR 7.15 per no-par value share of the Telekom Austria Group. Following a three-month sell-out period, which is legally required, the Telekom Austria Group was finally informed on 20 October that América Móvil directly and indirectly held a share of 59.7% in the voting rights of the Telekom Austria Group.

As a result of the effectiveness of the shareholders' agreement, América Móvil gained a controlling share in the Telekom Austria Group; at the same time, the position of ÖIAG as core shareholder of the company was defined. After the transaction ÖIAG retained its share of 28.42% in the share capital of the Telekom Austria Group.

NEW WAYS

- ✓ Shareholders' agreement between América Móvil and ÖIAG signed
- ✓ First capital increase of EUR 1 bn of net proceeds fully supported by core shareholders
- ✓ New majority shareholder América Móvil holds a 59.7% share in Telekom Austria Group per 24 November 2014
- ✓ América Móvil supports growth strategy



Takeover timeline 2014



The Supervisory Board of the Telekom Austria Group consists of 10 shareholder elected members, eight of which were nominated by América Móvil and two of which were nominated by ÖIAG. ÖIAG nominated the chairman of the Supervisory Board, who does not have a casting vote, while Carso Telecom nominated the deputy chairman. Via the majorities in the Supervisory Board and Supervisory Board committees América Móvil controls the Supervisory Board while ÖIAG has veto rights.

The Management Board will consist of three members, two of which, namely the chief financial officer and the chief operations officer/chief

technology officer will be nominated by América Móvil, while one management board member, namely the chief executive officer, will be nominated by ÖIAG. The chief executive officer will not have a casting vote. Via the majority in the Management Board, América Móvil will control the Management Board, while ÖIAG will have certain veto rights.

As long as ÖIAG holds 25% plus one share or more of the registered share capital of Telekom Austria Group, ÖIAG has, in addition to the mandatory statutory minority blocking rights of a 25% plus one share-minority shareholder, vetoes relating to issues such as capital increases, relocation of the Group headquarters and relocation of major Group and business functions, a potential sale of core business functions or an amendment of the corporate name or trademarks of the Telekom Austria Group.

América Móvil — present in 18 countries in the Americas

<p>North America</p> <p> USA</p> <p> Mexico</p>	<p>The Caribbean</p> <p> Puerto Rico</p> <p> Dominican Republic</p>
<p>Central America</p> <p> Guatemala</p> <p> El Salvador</p> <p> Nicaragua</p> <p> Honduras</p> <p> Panama</p> <p> Costa Rica</p>	<p>South America</p> <p> Columbia Paraguay</p> <p> Ecuador Uruguay</p> <p> Peru</p> <p> Brazil</p> <p> Chile</p> <p> Argentina</p>

NUMEROUS ADVANTAGES FOR THE TELEKOM AUSTRIA GROUP

The intensified involvement of América Móvil is advantageous for the Telekom Austria Group in many respects. The global orientation makes the new partnership highly attractive and contributes to ensuring competitiveness. A stable shareholder structure with two core shareholders is particularly beneficial in an increasingly competitive environment with global companies — especially in the light of an anticipated consolidation phase.

The Telekom Austria Group can now also draw on América Móvil's multinational experience for the development of its telecommunications services. In turn, Telekom Austria Group's strength lies in its extensive experience in a rapidly changing European market. By bundling innovation and knowledge both sides will benefit. The exploitation of all areas for potential

partnerships between América Móvil and Telekom Austria Group and the potential for leveraging synergies are further advantages. As there is currently no geographical overlap between the markets in which América Móvil and the Telekom Austria Group operate, the two companies complement each other well.

RESPECTING THE IDENTITY OF THE TELEKOM AUSTRIA GROUP

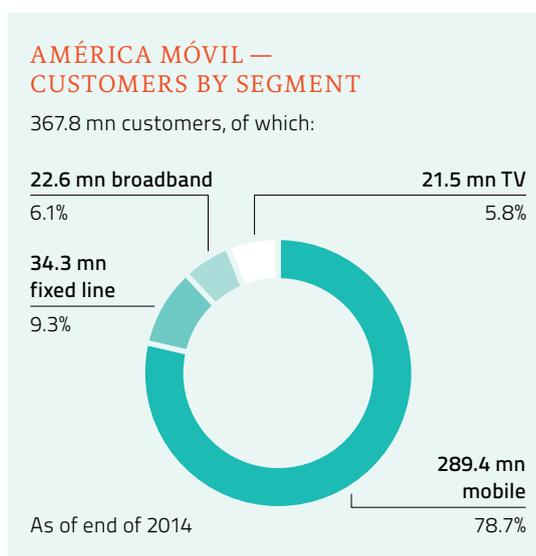
The conditions of the takeover offer, which were agreed as part of an 'Austrian package', include the preservation of the Telekom Austria Group's independent identity. Brands and the service profile will be retained, the headquarters and therefore the major management functions as well as research and development will remain in Vienna. Against this backdrop, the Management Board of the Telekom Austria Group confirmed in relation to the takeover offer that 'from a current perspective, there will be no significant impact on Telekom Austria's employment or location situation.'

The Telekom Austria Group is to remain a leading telecommunications service provider with regard to quality, technology and innovation in its markets. The shared goal of América Móvil and ÖIAG is to raise the performance of the Telekom Austria Group while accounting for the interests of all stakeholders. América Móvil recognises all employment and constitutional regulations concerning the Austrian employees and has also pledged to comply with the specific provisions and agreements to safeguard public interests which the Telekom Austria Group is subject to.

A survey carried out by economic research institute 'Economica' underpinned the importance of the 'Austrian Package', and in particular that the headquarters function remains in Austria, which is specified in the shareholders' agreement. The analysis regarding economic and regional effects of the headquarters in Austria has shown that the value generation amounted to approx. EUR 700 mn in the year 2013. In addition to the negative impact on the labour market, a loss of the headquarters function could also result in the loss of taxation rights in Austria.

STRATEGIC PARTNER FOR FUTURE GROWTH

América Móvil plans to examine further expansion opportunities. In an increasingly competitive market environment, América Móvil thus



strengthens the competitiveness of the Telekom Austria Group. As a result, CEO Hannes Ametsreiter sees América Móvil as 'a strategic owner, which as an important, globally active telecommunications group can strengthen Telekom Austria in its strategic alignment in the highly competitive European market.'

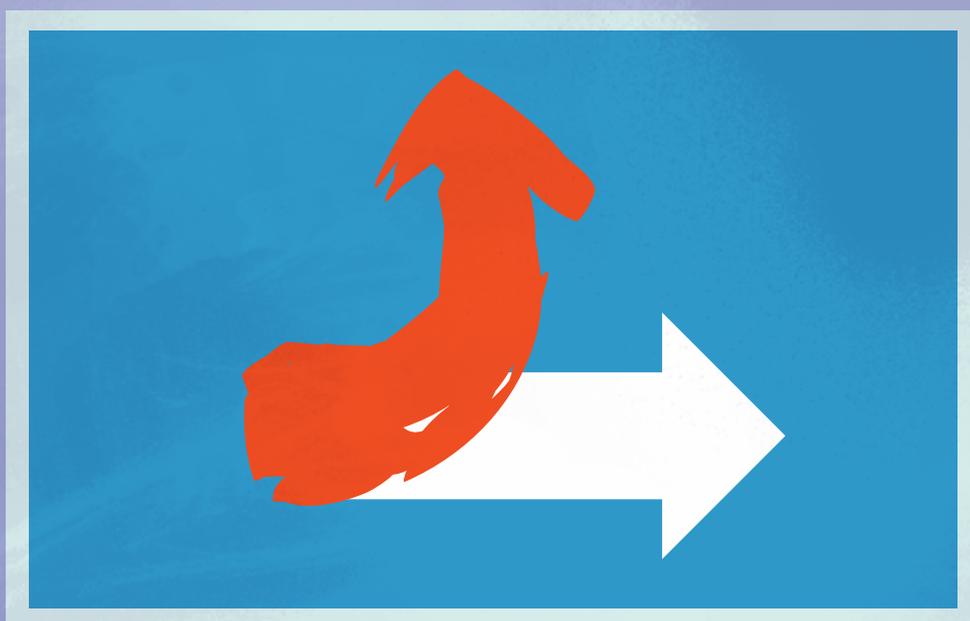
Alongside ÖIAG the Telekom Austria Group now has a new strategic majority shareholder that supports the path embarked on as well as further growth. With regard to the shareholders' agreement with ÖIAG, Daniel Hajj, CEO of América Móvil, also makes it clear that 'this agreement provides the basis for future growth, continued innovation, and solid investment in Telekom Austria.'

CAPITAL INCREASE STRENGTHENS CAPITAL STRUCTURE AND LIQUIDITY

As an important contribution to the further strategic development, core shareholders América Móvil and ÖIAG supported a capital increase of the Telekom Austria Group. This was successfully carried out in November 2014 and brought in net proceeds of approximately EUR 1 bn. Firstly, this will strengthen the balance sheet and secure the investment-grade rating by reducing debt. Secondly, an additional EUR 400 mn is to be invested in accelerating the fibre rollout in Austria, subject to annual budget approvals and the government implementing the announced broadband subsidy programme. In addition, flexibility was created for value-enhancing M&A activities. ✓

TURNAROUND IN AUSTRIA

QUALITY, NOT QUANTITY



In its home market the Telekom Austria Group has countered the revenue and EBITDA comparable decline of recent years with a consistent turnaround strategy since 2012. It emphasises an increased focus on high-value customer segments and convergent products. In addition, the road to the turnaround entails investments in network quality and extensive, finely balanced cost optimisation programmes.

'ON COURSE' WITH A NEW COURSE

The Austrian telecommunications market continues to present the Telekom Austria Group with numerous challenges. Due to the ongoing, intense competition, it has one of the lowest price levels in Europe in terms of purchasing power with average monthly revenue per mobile customer of EUR 16.2. Regulatory requirements are another burden, especially with regard to roaming tariffs and termination rates, which have been drastically reduced by 60% between January 2013 and January 2015. In order to mitigate the continuous revenue and earnings declines caused by these factors, the Telekom Austria Group has been pursuing a 'turnaround strategy' since 2012.

The key element of this strategy is the focus on premium customers. These are mainly A1 contract customers¹⁾, who are offered subsidies as well as a comprehensive service when buying new handsets: At 52% of the total customer base of the Telekom Austria Group, they are responsible for 80% of the customer value²⁾ in Austria, thus offering a significantly higher value contribution. The focus on these premium customers — as well as the concept 'more for more' with a more extensive performance and service offering — is intended to reverse the trend of revenue and earnings development. In addition to the consistent continuation of the convergence strategy, highest network quality standards and strict cost discipline present other important cornerstones of the strategy.

1) Premium customers are A1 classic contract customers and Red Bull Mobile customers.

2) Customer value = average revenue per mobile user – direct costs – subsidies

In the case of EBITDA comparable the targeted turnaround is not only within reach but has already been achieved at an operational level: The EBITDA comparable rose by 1.4% in Austria year-on-year in 2014, and adjusted for one-off effects, EBITDA comparable even increased by 9.2% year on year. The one-off effects relate to a change in revenue accounting estimates in the context of the introduction of a new fixed-line billing system interface in Austria, which had a negative impact amounting to EUR 28.2 mn in the second quarter. In addition, a verdict by the ECJ in Q4 2014 required the recognition of additional personnel provisions for civil servants of EUR 30.1 mn. These non-recurring effects may have prevented

NEW WAYS

- ✓ Focus on high-value customer segments and convergent products
- ✓ New tariff policy and device strategy
- ✓ Investment in new technologies confirm quality leadership
- ✓ Innovative cost optimisation programme
- ✓ Moderate increase of EBITDA comparable launches turnaround



Key elements of the turnaround strategy

-
- FOCUS ON HIGH-VALUE CUSTOMER SEGMENTS**
 - ✓ More for more: More performance as well as service & data monetisation
 - DIFFERENTIATION THROUGH THE BEST NETWORK**
 - ✓ Best frequency spectrum and approx. EUR 400 mn additionally for fibre rollout
 - COST EFFICIENCY**
 - ✓ More efficient market management
 - ✓ Consistent cost control

the turnaround already achieved in operational terms from making a visible impact on Group EBITDA comparable, but the Telekom Austria Group has clearly been successful in halting the declining trend.

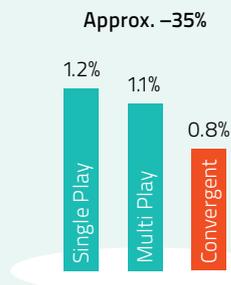
THE KEY ELEMENTS OF THE TURNAROUND STRATEGY

MORE FOR THE CUSTOMER

As part of the 'more for more' concept the Telekom Austria Group offers its customers more performance while at the same time improving price differentiation. The optimisation of the tariff structure relates to the A1 offering as well as the 'no-frills' brands. In that way the Telekom Austria Group meets particularly the continuously increasing demand for data with a greater wealth of options. While e.g. data speeds used to be throttled if the data limit was exceeded, customers now have the option to buy additional data volume if they need to. Both customers and the Telekom Austria Group benefit from this: Customers do because they have a choice between additional data or an upgrade to a different tariff if they reach their data limits, and the Telekom Austria Group does because it can 'monetise' the increasing data volume, i.e. convert it into tangible revenues. The result: satisfied customers and rising revenues commensurate with performance.

SUCCESSFUL CONVERGENCE STRATEGY KEY FOR TURNAROUND TARGET

Churn mobile voice Austria in 2014



Av. monthly churn mobile voice, residential Austria

CONVERGENCE ENSURES CUSTOMER LOYALTY

In addition to concentrating on high-value customer segments, the Telekom Austria Group is



COSTS REDUCED EFFECTIVELY

Transformation of sales and service processes

A comprehensive programme was launched in 2012 to redesign and optimise all sales and service processes as well as to harmonise the IT system landscape for this purpose. Following the introduction of the target IT system environment in 2013, significant savings were generated in this area in 2014 already. Order processes were automated to nearly 90%, and early standardised technical feasibility checks ensure faster execution. Manual post-processing of orders is therefore mostly a thing of the past, the same as sales cancellations and wasted kilometres driven in field service. Similarly, implementation costs for sales campaigns were cut by two thirds. An internal survey in 2014 showed that these efficiency improvements and process simplifications have also been positively received by employees, including those in Customer Service.

Optimisation in purchasing

Another programme is concerned with purchase optimisation. It is intended to optimise the value chain of the Telekom Austria Group together with its suppliers and partners in three dimensions: Beyond the mere negotiation of prices, a further step also scrutinises in detail the necessity or usefulness of the imposed requirements. A third step adds the optimisation of processes connected with the services offered, which frequently occurs jointly with suppliers. Systematic monitoring, interdepartmental teams, monthly board meetings and the willingness to 'think outside the box' have resulted in a strengthening and simultaneous streamlining of the value chain as part of this project. As a result, savings of considerably more than EUR 100 mn have been generated between the start of the project in 2011 and the end of 2014.

Restructuring of the technology department

A realignment or restructuring is intended to make A1's operating technology areas more efficient. The project set up for this purpose was launched in June 2013; the reorganisation started in May 2014. Due to the continually mounting content-related requirements in technical planning and implementation, it is a central goal of the project to make work processes more compartmentalised and to develop generalists into specialists. Likewise, a functional allocation of responsibilities and the establishment of specialised teams prevent the duplication of work. In this way, technical tasks from planning to commissioning are to be made more efficient according to the 'plan-build-run' concept, and all orders will in future be handed over 'ready for construction'. The project affects around 1,300 employees who are actively involved in the process improvements.

relying mainly on convergence to stabilise revenues: Bundles of mobile and fixed-line services with far-reaching household coverage clearly differentiate the company from its competitors in Austria. This approach is also advantageous for customers and for the company. The customer can obtain various services from a single provider and pay for everything with just one bill. In addition, customers increasingly want to use services and content with different devices. As a result, the Telekom Austria Group has already sold over one million fixed-line product bundles. As well as bringing additional revenues, the focus on convergent products entails in particular a stable customer base for the company: Contract customers who use mobile and fixed-line services in one bundle change mobile providers less often. The level of churn of these convergent customers is up to 35% lower than among customers who use mobile services only. The churn rate for contract customers is now back at a record low of 0.6% (monthly average) after rising following tariff adjustments in the second quarter due to the extraordinary cancellation rights.

Despite the migration of customers from fixed line to mobile, the Telekom Austria Group was able to grow its customer base in the fixed-line business. While voice telephony has almost completely shifted to mobile networks, fixed access lines for broadband services are growing in popularity as a result of rising demand for data volume. The demand for A1 TV is also growing. With A1 the Telekom Austria Group is among Europe's leaders in this regard and one of very few European incumbents to see growth in fixed access lines.

BEST NETWORK QUALITY AS FOUNDATION

The excellent network quality of the Telekom Austria Group provides a solid foundation for the high-value strategy and is a precondition for all services. It is maintained and expanded by means of ongoing investment. At the Austrian multiband auction in 2013 the Telekom Austria Group invested around EUR 1 bn in the acquisition of 50% of the auctioned spectrum. A1 therefore has by far the best frequency spectrum in Austria, especially in the valuable low frequency bands. On this basis, and by means of further expanding the LTE network, network coverage in rural areas in particular can be made considerably more efficient.

The Telekom Austria Group will continue to invest in the quality of its networks in future. Subject to the annual budget approvals as well as the announced government broadband subsidy programme, EUR 400 mn will be spent additionally on the accelerated fibre rollout from 2015 to 2018. The broadband subsidies announced by the Federal Republic of Austria, stemming from the proceeds of the multiband auction in 2013, will support this rollout. Specifically, subsidies of EUR 300 mn have so far been granted for 2016. All in all, the government held out the prospect for subsidies of EUR 1 bn.

The establishment of the 30 Mbps product as the standard offer stands at the core of Telekom Austria Group's fibre strategy. From 2018 it shall replace the current standard offer of 8 Mbps. The intelligent combination of different technologies presents the basis for this, which also ensures an efficient use of the invested funds. The focus is on fibre, vectoring and G.fast — a new technology which makes possible significantly higher transmission rates with the existing copper technology. This will allow the Telekom Austria Group to satisfy the rapidly rising demand for higher bandwidths and data volumes, especially for existing customers.

TARGETED COST OPTIMISATION

In addition to measures that primarily affect the revenue development of the Telekom Austria Group, cost efficiency also makes an important contribution on the way to achieving the turnaround in Austria. Extensive measures have been implemented for this purpose in the last two years. A crucial element was the increase in cost efficiency in market management. Specifically and above all, handset subsidies were considerably reduced. Subscriber retention costs thus fell by 27.2% and subscriber acquisition costs by as much as 75.9%. Nevertheless, in February 2014 the Telekom Austria Group introduced the option to pay for handsets in instalments, so as to make it easier for customers to purchase new devices. This option has been received extremely well by customers: Around 17% of new customers have since used this option.

A range of efficiency programmes presented the second cost optimisation focus point, which in some cases led to considerable process improvements and savings thanks to targeted structural measures. These projects affected departments including IT, purchasing and technology, and

Prize-winning network quality



The quality leadership of the Telekom Austria Group is regularly confirmed by top marks for its infrastructure in tests and rankings. The 2014 futurezone network test e.g. confirms that A1 offers the best mobile network in Austria. A1's network also met the highest quality standards in the 2014 connect network test. It was designated the best network in Austria and the second-best network in the German-speaking region, nearly on par with Swisscom.



brought considerable relief both in terms of operating expenses and capital expenditure.

TURNAROUND STRATEGY BEARS FRUIT

As a result of the successful implementation of these measures, Telekom Austria Group again achieved a slight growth of EBITDA comparable in Austria for the year 2014.

The new Austrian strategy has therefore been successful and will be continued with the same force in the years to come. It is thus also a model for successfully overcoming the imminent challenges in the other markets of the Telekom Austria Group. ✓



FUTURE REGION CEE

CHALLENGES AND
OPPORTUNITIES

NEW WAYS

The countries of the CEE region in which the Telekom Austria Group operates are characterised by mixed market conditions. Overall, however, they make a substantial and stable contribution to the success of the Telekom Austria Group, whose management remains convinced of the medium to long-term potential of the CEE region. Measured in terms of mobile market share in each country, the Group is the market leader in Bulgaria, number two in Croatia, Belarus, Slovenia and the Republic of Macedonia and number three in the Republic of Serbia.

- ✓ New convergent market: Republic of Macedonia fourth convergent market out of seven
- ✓ LTE expansion in Croatia, Slovenia and the Republic of Macedonia
- ✓ Revenue decline and impairment in Bulgaria: New positioning, restructuring and cost cutting address key issues
- ✓ Mid-term growth opportunities despite macroeconomic and regulatory challenges
- ✓ Further cost-cutting programmes in CEE rolled out



CHALLENGING ENVIRONMENT

Besides the intense competition, the greatest challenges in CEE emerge from macroeconomic and regulatory conditions. In addition to the mostly weak economic momentum and much lower purchasing power compared to Western Europe, the alignment of regulatory conditions to EU standards plays a particularly important role. While economic and regulatory effects have negatively impacted results most recently in Bulgaria, Croatia and the Republic of Macedonia in particular, the Belarusian market is dominated by high inflation and dramatic exchange rate fluctuations. The situation is similar for the business in the Republic of Serbia, albeit to a lesser extent.

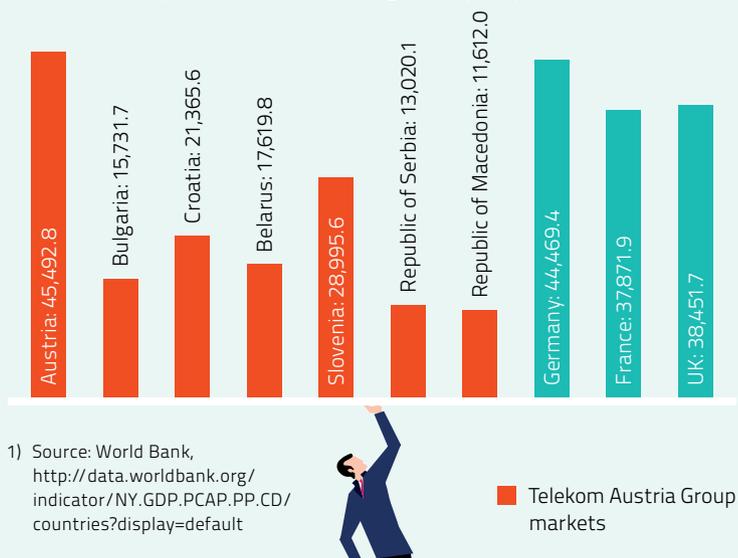
use of growth opportunities. In those of its markets with a high proportion of prepaid customers, the Telekom Austria Group is pursuing the goal of migrating these customers into contract tariffs. As well as optimising the core business and convergence, the Group is also relying on strict cost management in order to mitigate negative influences on the results of individual subsidiaries.

MARKET CONSOLIDATION, CONVERGENCE AND GROWTH

In light of these macroeconomic and regulatory challenges, the exploitation of growth opportunities is the main operating goal of the Telekom Austria Group in the CEE region. In the more mature markets Bulgaria and Croatia, the Group is also applying convergence and targeted up- and cross-selling. After the acquisition of the cable operator blizoo Macedonia in June 2014, the Telekom Austria Group now offers convergent products in four markets. In its mobile-only markets, it is primarily striving to make the best

WESTERN EUROPE/CEE PURCHASING POWER COMPARISON

GDP 2013 per capita based on purchasing power parity in USD¹⁾



The Telekom Austria Group is also investing consistently in improving its infrastructure in Central and Eastern European countries. For example, LTE networks are being expanded in order to offer customers the best possible network quality. In addition to Austria, the Group can therefore now offer LTE services in Croatia, Slovenia and the Republic of Macedonia, currently achieving coverage of more than 27%, 75% and 42% respectively. This puts the Telekom Austria Group in a good position to tap into the region's growth potential in the medium to long term. Thanks to the successful capital increase of EUR 1 bn in November 2014, the Group is also well equipped financially for potential further acquisitions in the CEE region.

In addition, macroeconomic conditions remain difficult with a persistent population decline, 12% unemployment and low purchasing power, which negatively affects demand. On a political level, 2014 was a turbulent year with the banking crisis in June as well as the dissolution of parliament and reelections in October. In June 2014 the rating agency Standard & Poor's downgraded the country's rating to BBB-. A further downgrade to BB+ occurred in December 2014. Mobiltel's results are also still influenced by regulatory effects. For example, termination rates were cut by 5% year on year in January 2015.

In total, these developments resulted in changed expectations for the entire Bulgarian telecommunications market and the development of Mobiltel. The Telekom Austria Group responded to this with an impairment of EUR 400 mn in June 2014, of which EUR 59.4 mn were recognised in 2013 and EUR 340.6 mn in 2014 (see Note (1)).

CEE MARKETS IN DETAIL

BULGARIA

The Bulgarian mobile market leader, Mobiltel, is responding to the intense competition, regulatory effects and weak economy by implementing its convergence strategy rigorously. The impairment in 2014 created a new basis for the future development of the company.

BUL

Bulgaria

Impairment creates new starting basis

In 2005 the Telekom Austria Group acquired 100% of the shares in the leading Bulgarian mobile provider Mobiltel. In 2011 two fixed-line operators were also acquired, which serve as the basis for the expansion of the portfolio with convergent products. The Telekom Austria Group now offers convergent products for fixed-line and mobile telephony, broadband internet, value-added services and IPTV in Bulgaria. With a mobile market share of 37.6%, the Group is market leader in Bulgaria and has over 4.2 million mobile customers and around 153,600 fixed access lines.

#1 of 3	37.6%	2.9%
Mobile market position	Mobile market share	GDP growth ¹⁾

NEW MANAGEMENT IMPLEMENTS NUMEROUS STABILISATION MEASURES

This impairment gives the Telekom Austria Group a new, solid basis for the future development of Mobiltel. At the same time, the company has taken a range of measures under a new management to improve its operating performance. In particular, new brand positioning aims to improve differentiation between the convergent premium brand Mtel and the no-frills brand bob. Mobiltel is therefore focusing on a multi-brand strategy and an improvement of brand image and customer experience. These market initiatives are accompanied by a range of measures to control costs and further improve network quality. The latter is being aided not least by the investment of EUR 30.6 mn made in April 2014 to extend the existing frequency spectrum.

Due to the generally growing demand for data and an increase in mobile broadband customers, the Telekom Austria Group continues to see medium-term growth potential for the Bulgarian market. The measures taken in 2014 lay the foundations for using this potential in the long term.

CHALLENGING CONDITIONS RESULT IN IMPAIRMENT

As in previous years, the Bulgarian telecommunications market in 2014 was characterised by intense competition, which was particularly driven by the third-largest provider Vivacom.

CRO

Croatia

Convergence strategy in a challenging market



With its subsidiary Vipnet, the Telekom Austria Group has operated in Croatia since 1998 and has over 1.7 million mobile customers and 219,900 fixed access lines. A market share of 36.0% makes Vipnet the country's second largest mobile operator. Following the takeover of the largest Croatian cable operator B.net in 2011, the Telekom Austria Group enhanced its portfolio in Croatia with the satellite-TV provider Digi TV and four additional cable operators in 2013. In the Croatian market, the Group offers convergent products for fixed-line and mobile telephony, internet, data and IT solutions, value-added services and IPTV.



REGULATORY CUTS

Similarly to the Bulgarian market, the Croatian market is dominated by fierce competition and macroeconomic challenges. Regulatory measures following Croatia's accession to the EU in 2013 — including in particular a cut of roaming fees and termination rates — are negatively affecting results in this previously unregulated market. In addition, a significant increase in frequency usage fees in July 2014 is putting considerable additional pressure on margins.

CONVERGENCE AND STREAMLINING THE PRODUCT PORTFOLIO

The Telekom Austria Group is countering these developments by simplifying its tariff portfolio. By doing so, it is not only cutting its costs but simultaneously creating transparency for its customers. In mobile business, migration into the contract customer segment is being pushed in order to further reduce the high proportion of prepaid customers.

Furthermore, the Group is making use of convergence to keep a low churn rate among existing customers with mobile and fixed-line bundles and to attract additional new customers. After several acquisitions in the fixed-line business, up- and cross-selling opportunities can now be

exploited on a broader basis. Supported by the acquisition of four cable operators, Vipnet succeeded in enlarging its footprint in the fixed-line business and increasing the number of fixed access lines by 13.9% in 2014.

Despite the current challenges, the Telekom Austria Group believes in the medium to long-term growth opportunities of the Croatian market. After Austria, Croatia was the second market in which the Group offered LTE services in early 2012. Today, it has achieved coverage of 27% here.

CROATIA

With convergent products and LTE services, Vipnet is asserting itself as number two in the Croatian mobile market in a difficult economic and regulatory environment with intense competition.

BLR

Belarus

The Group's largest growth market



The Telekom Austria Group entered the Belarusian market in 2007 by acquiring velcom. The company has a market share of 42.4%, which makes it the second-largest mobile service provider in Belarus today. Its offering comprises mobile products for voice telephony, internet and value-added services. For selected business customers, velcom also offers unbundled fixed-line services.



BELARUS

As the second-largest mobile operator in the country, velcom is posting significant growth. The high demand for data is creating one of the Group's strongest operational developments.

HYPERINFLATION AND CURRENCY RISK

From a macroeconomic perspective Belarus has had to combat hyperinflation and wildly fluctuating exchange rates in recent years. In 2014 the Belarusian Rouble lost around 9% of its value compared to the Euro, thus slowing the devaluation somewhat year on year. Nevertheless, there were corresponding exchange rate effects in revenues and earnings in 2014. The high FX risks became visible again when the Belarusian Rouble devalued in January 2015, which however did not affect the 2014 consolidation.

1) Average 2014E–2016E, source: Global Insights

STRONG OPERATING RESULTS

Despite the macroeconomic challenges, the Telekom Austria Group succeeded in generating strong operating results in Belarus and turning the market into one of the best developing segments within the Group. Due to the high demand for data services, velcom was able to further increase EBITDA comparable on a year-on-year basis in 2014. It is also the only company in the Group generating a positive handset margin. The Telekom Austria Group counters the high inflation and volatility of the Belarusian Rouble with inflation-related price adjustments and the greatest possible decoupling of its expenses from foreign currencies — i. e. the endeavour to transact the highest possible proportion of its procurement in the national currency.

The Telekom Austria Group lays its strategic focus in Belarus on data growth and simultaneously aims for high efficiency both with regard to its operating costs (OPEX) and capital expenditure (CAPEX).

MORE CUSTOMERS, MORE FREQUENCIES

Due to the market-related price decline, the average monthly revenue per mobile user (ARPU) in Slovenia fell to EUR 19.1 in 2014, but is still the highest in the Group. At the same time, Si.mobil increased its customer base to 681,500 customers. Both additional contract customers and new mobile broadband customers were acquired. The multiband auction in April 2014 also yielded positive results; Si.mobil acquired nearly 50% of the auctioned frequencies for EUR 63.9 mn and thus laid the foundation for a further increase of network quality. In Slovenia, one of a total of four countries in which it provides LTE technology, the Telekom Austria Group now offers LTE network coverage of more than 75%.

Like in other countries, the Telekom Austria Group is also building on existing data growth in Slovenia. In order to use it, the Group continues to rely on a successful positioning as a provider with a convincing product range, an attractive price policy, a good brand image and high network quality.

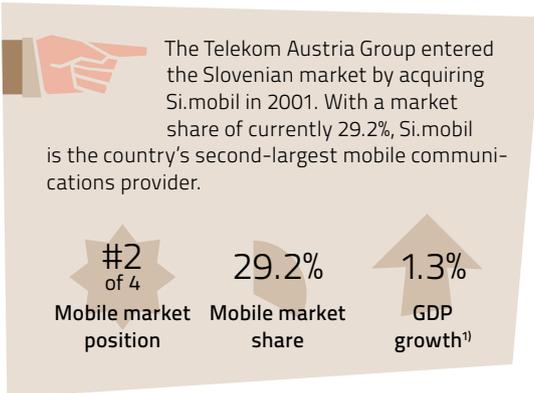
SLOVENIA

With a solid frequency spectrum and high LTE coverage, Si.mobil as number two in the Slovenian mobile market is strengthening its sound market position.

SLO

Slovenia

Extension of the frequency spectrum and customer growth

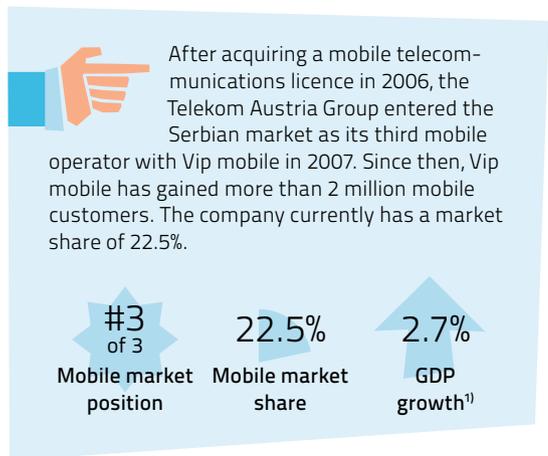


The competition in the Slovenian market — the most highly developed telecommunications market in the Telekom Austria Group's Additional Markets segment — is becoming increasingly intense with four network operators and three mobile virtual network operators (MVNOs). This is also continuously increasing the pressure on mobile prices.

SRB

Republic of Serbia

Higher revenues, attractive potential



The regulatory conditions in the Republic of Serbia are being incrementally aligned to EU standards against the backdrop of negotiations on an association agreement with the EU. For example, the

REPUBLIC OF SERBIA

The Serbian subsidiary Vip mobile is notable for considerable revenue growth and has established itself with smartphones and mobile broadband.

termination rates were further reduced by January 2015. In addition, Vip mobile is faced with the challenge of lacking access to large parts of the mobile spectrum because both competitors in the Serbian market were granted significantly more frequency spectrum. In response, Vip mobile concluded a national roaming agreement with the relevant providers and can thus offer good network quality also outside urban areas.

INCREASE IN REVENUES AND EARNINGS

In 2014 Vip mobile increased its revenues by a considerable 16.8%; at the same time, EBITDA comparable was stable.

In order to use the growth potential of the Serbian market, the Group is aiming to expand its network, increase the proportion of smart-phone customers and develop the mobile data segment.

resulted in a decline of Vip operator’s revenues. The number of mobile customers fell slightly to 622,000, but the proportion of contract customers rose to 52.4%.

TAKEOVER OF BLIZOO, MERGER WITH ONE

The Telekom Austria Group achieved an important success in 2014 by taking over the fixed-line provider blizoo Macedonia. This makes the Republic of Macedonia the fourth market in which the Group can implement its convergence strategy and use a portfolio of combined mobile and fixed-line products for targeted up- and cross-selling. The Telekom Austria Group would also strengthen its market presence with the merger of its subsidiary Vip operator with One, the third-largest mobile provider in the Macedonian market. Subject to the pending approval by the authorities, the Group would hold a majority of 55% in the new company and therefore exercise sole control. The Telekom Austria Group is thus in a strong position to tap into the growth potential arising from the growing importance of modern communication applications in the Republic of Macedonia. ✓

REPUBLIC OF MACEDONIA

Thanks to the takeover of the fixed-line operator blizoo Macedonia in 2014, the Telekom Austria Group can now implement its convergence strategy in a fourth market.

MKD

Republic of Macedonia

New opportunities thanks to convergence

After acquiring a GSM licence, the Telekom Austria Group began its activities in the Macedonian market with Vip operator in 2007. As the second-largest mobile operator, Vip operator currently has a market share of 28.2%. The Macedonian subsidiary has had a 3G network and a LTE licence since 2013. Commercial LTE services have been offered since July 2014.

#2 of 3	28.2%	3.5%
Mobile market position	Mobile market share	GDP growth ¹⁾

Intense competition and a difficult macroeconomic situation also dominate the Macedonian market. In connection with negotiations on an association agreement with the EU, regulatory conditions are being incrementally aligned to EU standards here, too. For example, a new law on electronic communication took effect in 2014, and termination rates were cut drastically, which



1) Average 2014E–2016E, source: Global Insights



AT THE
FOREFRONT OF
INNOVATION &
TECHNOLOGY



The Telekom Austria Group invests continuously in its high-performance network infrastructure and participates in the development and testing of new technologies. In this way, the Group underlines its claim of being the technology and innovation leader and ensures that it is well prepared for future customer requirements notwithstanding the pace of technological development.

INNOVATION LEADER

Key areas of investment in 2014 included the expansion of the Group's LTE mobile networks and the further rollout of high-bandwidth broadband in Austria. To ensure future-proof capacities, the Telekom Austria Group also acquired new frequencies in Slovenia and extended the licences for parts of the existing spectrum in Bulgaria. All in all, in 2014, the Group invested approximately EUR 750 mn, of which EUR 95 mn were spent on frequency spectrum.

The Telekom Austria Group believes that quality leadership helps to differentiate it from the competition and creates significant added value for customers. This conviction is a central element of the Group's technology strategy and is also reflected in its market presence. Accordingly, the Telekom Austria Group permanently seeks to position itself via a high degree of innovation as well as employ new technologies at an early stage and on a broad scale, particularly in mature and competitive markets. For example, the Group has already offered LTE technology, the fourth mobile network generation, in the market since 2010. In October 2014 A1 became the world's first telecom operator to generate data speeds of several hundred Mbps on existing copper lines for a customer in a 19th-century building in Vienna using G.fast.

To fulfil its role as an innovation leader, the Telekom Austria Group also conducts practice-oriented development work and enters into research partnerships with science and industry. Its partners include the Telecommunications Research Center Vienna, the Vienna University of Technology, the Christian Doppler Laboratory for Radio Technology for Sustainable Mobility, the Josef Ressel Centre for User-friendly Secure Mobile Environments and the Technical University of Sofia.

FOCUSED TECHNOLOGY STRATEGY

As well as systematically safeguarding its innovation leadership, the Telekom Austria Group's technology strategy focuses in particular on convergence and network quality as well as operational excellence.

The telecommunications sector is characterised by a need for increasingly quick and seamless access to information and communication applications. To make this possible, the Telekom Austria Group applies a systematic focus on LTE (Long Term Evolution), fibre cables and the widest possible coverage. Mobile and fixed-line technologies are growing together. To reflect this, the Telekom Austria Group includes convergence as a key element of its technology activities, as the flexibility of mobile technologies and the stability of fixed-line technologies can be combined to ensure a first-class customer experience.

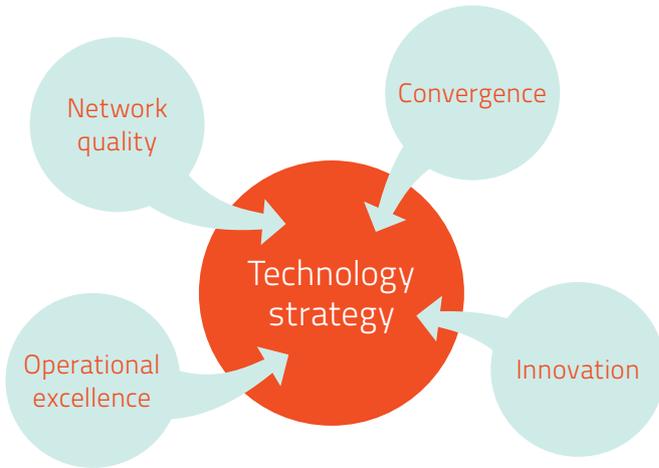
Continuous investment in network quality: LTE network coverage on the rise

- ✓ Austria: >60%
- ✓ Croatia: >27%
- ✓ Slovenia: >75%
- ✓ Republic of Macedonia: >42%

NEW WAYS

- ✓ First operator worldwide to achieve more than 500 Mbps with G.fast on existing copper lines
- ✓ Development of fourth mobile telecommunication generation: Implementation of next expansion stage for LTE with carrier aggregation in Austria and Slovenia
- ✓ Leadership in technology and innovation again confirmed in independent network tests
- ✓ Total recreation of networks: Pioneer role through field trials with network function virtualisation (NFV)
- ✓ Operational excellence: Transformation of ordering and service processes through IT system optimisation





In order to press ahead with convergence, the Telekom Austria Group is pursuing new and innovative approaches such as network function virtualisation (NFV) and software defined networks (SDN). At the same time, the Group is working continuously to optimise its business processes seeking to achieve operational excellence. For example, IT system optimisation in the area of sales and service workflows has helped to simplify order processes considerably.

4G/LTE IN FOUR OF SEVEN MARKETS

LTE will act as a catalyst for the development of future applications and further improvements in mobile data traffic. This is because LTE technology offers data speeds up to ten times higher than the conventional UMTS network. Thanks to the acquisition of additional frequencies in Austria and permanent and substantial investment in its infrastructure, the Telekom Austria Group is continuously increasing its LTE coverage. In Austria, LTE coverage had reached more than 60% of the population by the end of 2014 and is set to be available in large parts of Austria in 2015.

The LTE networks are not only being expanded, however, they are also evolving. In June 2014 A1 Telekom Austria AG became the first operator in Austria to test the future standard for voice telephony over LTE in its live network as part of a Voice over LTE (VoLTE) trial.

THE FUTURE IS NOW

The subsidiaries A1 Telekom Austria AG (A1) and Si.mobil also made an important step in advancing the development of the fourth generation of mobile telecommunications technology towards LTE Advanced with the implementation of LTE carrier aggregation in selected conurbations in

November 2014. With LTE carrier aggregation, the existing bandwidths can be approximately doubled by simultaneously transmitting data streams on different frequency bands. Instead of the previous maximum of 150 Mbps, suitable devices can now achieve speeds of up to 300 Mbps.

With data volumes seeing a vast increase due to the steady flow of new information and communication applications and low latency becoming ever more important, the Telekom Austria Group is working on the next evolutionary steps alongside the LTE expansion. To this end, the Group is already focusing on the fifth generation of mobile telecommunications technology. 5G will enable data speeds of up to 1 Gbps with negligible latency. The Telekom Austria Group is cooperating with a number of different players, providing its technological expertise in order to define the future standards for 5G together with equipment suppliers, research institutes and other telecoms operators.

SYSTEMATIC EXPANSION OF FIXED NETWORK

The Telekom Austria Group is also continuously adapting its fixed network infrastructure to meet the growing demand for fixed high-bandwidth broadband solutions. While the current standard product offers data speeds of 8 or 16 Mbps, the standard product in Austria is set to be several times higher by 2018. The Telekom Austria Group intends to achieve this target through the systematic expansion of its fibre network and by using state-of-the-art technologies as efficiently as possible.

The Group's overarching strategy is to bring the fibre network ever closer to the customer while continuing to use existing copper wires in the access network. Reducing the distance between the fibre infrastructure and the customer and harnessing the possibilities offered by efficient high-speed copper technology means that the achievable data speeds can be increased significantly.

VECTORING AND G.FAST BRING HIGH-SPEED BROADBAND TO THE HOME

To ensure that the existing copper infrastructure can still be used efficiently in future as part of the fibre expansion, the Telekom Austria Group is adopting a targeted approach to innovative technologies in this area: A1 became the world's first telecommunication service provider to test



NFV: VIRTUALISATION IS A HOT TOPIC OF TECHNOLOGY

Network function virtualisation (NFV) is one of the most important developments in the telecommunication industry at present. NFV represents a paradigm shift for the whole industry. It comes with considerable challenges, but also with opportunities for operators to entirely redesign their networks. The restructuring of network elements allows operators to become more agile and hence improve the efficiency of their networks. Hardware and software will be independent of one another. NFV will be one of the Telekom Austria Group's key topics in 2015.

Successful field trials in Croatia and Bulgaria

The Telekom Austria Group is playing a leading role at the forefront of this industry-wide topic that is also meeting with an extremely positive response internationally. In 2014 the Group became one of the first operators in Europe to successfully test the new NFV technology in four field trials. The Croatian subsidiary Vipnet kicked off the field trials in early June 2014, followed by the Bulgarian subsidiary Mobiltel later the same month. Both trials involved a live demonstration of HD video streaming that was made possible by a combination of LTE- and NFV-based platforms. This served to illustrate how a virtualised infrastructure in future will allow customers to transfer smartphone and multimedia content to a cloud-based storage system and stream it directly.

Vip mobile demonstrates NFV on open-source solution in Serbia

The Telekom Austria Group successfully conducted another demonstration of NFV technology at its Serbian subsidiary Vip mobile in September 2014. This trial was based on an open-source IMS (IP Multimedia Subsystem) solution for the first time. As a starting point for virtualisation, IMS services are particularly suitable for applications in commercial networks as they encompass functions such as multi-ring, call jumping, wifi-to-GSM call continuity and virtual operator system (hosted PBX). With this move, the Telekom Austria Group has reached another important milestone on the way to network function virtualisation and taken the first step towards an open-source solution.

NFV enables VoLTE trial in Macedonia

NFV will change the way in which the telecommunication infrastructure is used and how applications are made available in future. For example, NFV technology enables mobile voice services over LTE (VoLTE)—as demonstrated recently in the Telekom Austria Group's fourth field trial in the Republic of Macedonia in December 2014. Expanding the possibilities of the network means that NFV also increases cost efficiency. In addition, NFV significantly reduces the time from the development of new applications to their launch. The use of virtualised network applications on a shared infrastructure will lead to additional benefits in future. Accordingly, NFV is a new core area of the Telekom Austria Group's technology strategy.





A1 — Multi-award-winning network quality

- ✓ Network test by the German specialist magazine connect: Winner in eight out of nine categories in 2014
- ✓ Network test by the futurezone technology platform: Easily the best mobile network in 2014
- ✓ Network test by Android magazine: Best network in 2014, best customer satisfaction in 2014
- ✓ COMPUTERWELT magazine 'Top 1001': Webspeed Award 2014

the ultra-broadband technology G.fast together with its technology partner Alcatel-Lucent. G.fast allows data to be transmitted over short distances at speeds of several hundred Mbps using copper cables. This is particularly suitable for multi-storey buildings in urban areas. In October 2014, A1 was able to conduct the world's first live demonstration of this promising new concept together with a customer. Data speeds of more than 500 Mbps were achieved using existing copper wires. Following the successful completion of the current test phase and the adoption of the international standard by the International Telecommunication Union (ITU) in December 2014, G.fast is currently expected to be commercially available from 2016.

The acceleration of copper wires using G.fast is largely based on the Telekom Austria Group's experience with vectoring. In 2012 A1 became the first network operator in the world to use this technology to reduce interference on existing copper wires, thereby significantly increasing their transmission capacity.

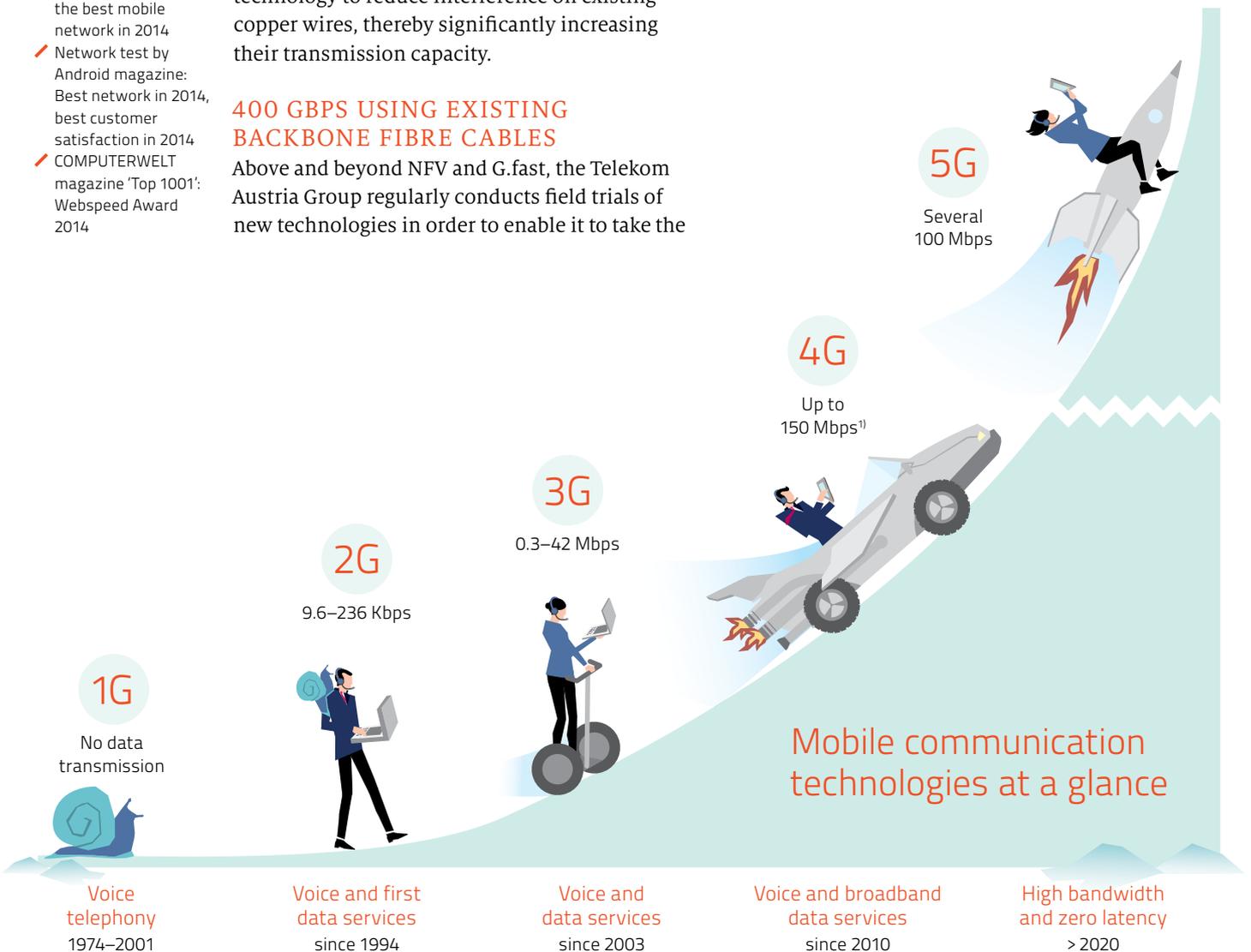
400 GBPS USING EXISTING BACKBONE FIBRE CABLES

Above and beyond NFV and G.fast, the Telekom Austria Group regularly conducts field trials of new technologies in order to enable it to take the

right decisions when it comes to planning the networks of the future. In spring 2014, for example, the Group again demonstrated its position as the leading backbone operator in CEE with a successful field trial of 400 Gbps high-speed technology between Zagreb and Ljubljana. The trial verified the potential for quadrupling the current data speeds of 100 Gbps to 400 Gbps using the existing fibre-optic cables.

EXCELLENT NETWORK QUALITY

Independent tests regularly confirm that the Telekom Austria Group's continuous investment in network capacity and quality leads to substantial improvements in terms of actual performance. The high quality of the network infrastructure, which is one of the Telekom Austria Group's key unique selling points, is recognised in many quarters. Please read more on Austria's best network on page 26 ff. ✓



1) Up to 300 Mbps with LTE carrier aggregation

MARKET ENVIRONMENT

The telecommunications market offers a wide range of attractive opportunities, but also faces challenges. The significant growth in data traffic, rapid technological progress and the strong demand among customers for first-class network and service quality mean that substantial investments are continually required. At the same time, with a high operator density the Central and Eastern European market is home to particularly intensive competition, inconsistent economic momentum and regulatory market intervention, which results in pressure on prices and profitability.

TEN YEARS AGO only one in every six people used mobile services. By the end of 2013 almost half of the world's population was connected to a mobile network, corresponding to a global user base of around 3.4 billion. The number of mobile broadband connections increased tenfold in the same period.¹⁾ This development is being driven by the sustained growth in demand for data and the need for unlimited connectivity, i. e. availability and access to information wherever and whenever required.

This results in substantial opportunities for the telecommunications market; at the same time, however, the industry has a high degree of social responsibility on account of the socio-economic aspects of its business activities. All in all, it has become one of the pillars of the global economy, directly and indirectly accounting for 3.6% of global GDP as of the end of 2013.²⁾

These developments give rise to the question of how and to what extent a telecommunications provider can benefit from these trends and harness them to generate profitability. In the European market in particular, the high level of saturation, intense competition and regulatory

measures have resulted in declining revenues in recent years. Rapid technological change also requires substantial ongoing investment in infrastructure, while the macroeconomic conditions have also proven to be challenging.

MUTED ECONOMIC ENVIRONMENT AND INTENSE COMPETITION

The overall economic development has a pronounced influence on available income and consumer behaviour — and hence on the telecommunications sector. The Telekom Austria Group's markets are currently characterised by mixed developments. Croatia and the Republic of Serbia



1) GSMA, The Mobile Economy 2014, p. 2

2) GSMA, The Mobile Economy 2014, p. 3

actually saw a downturn in economic output in 2014, while the Group's remaining markets enjoyed low single-digit growth. In Belarus the course of business was impacted by hyperinflation and considerable fluctuations in exchange rates. In addition to general consumer reluctance, developments in Bulgaria were adversely affected by high unemployment and outward migration (for more details on the economic environment, see the Group Management Report, page 74 ff.).

The revenue and earnings potential of telecommunications companies is determined not only by available household income, but also by the market structure and the number of providers. The European market that is relevant for the Telekom Austria Group has a far higher provider density than the corresponding markets in the USA or China, for example: Whereas more than 100 telecommunication companies and cable network operators and a wide range of media companies are in competition in Europe, the mobile market in the USA is dominated by four major telecommunications providers. The Chinese market is home to just three providers.

This results in a substantially lower price level for telecommunications services in Europe in general and Austria in particular. The Herfindahl-Hirschmann Index (HHI), which serves as an indicator of competition in national mobile markets, declined by 6.8% in Europe in the period from 2008 to 2012, thereby illustrating

the increase in competitive intensity.³⁾ This is exacerbated by the fact that a large number of providers are operating in an increasingly saturated mobile market by international standards. In Europe, the SIM card penetration rate has comfortably exceeded 100% in almost all markets, meaning that there is only limited growth potential in the traditional business areas of voice minutes and text messages.

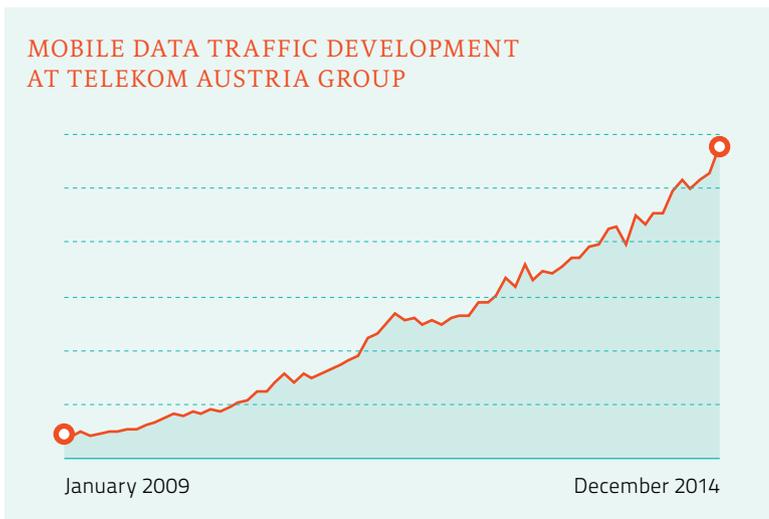
In this difficult environment particularly high cost efficiency and a product range that meets market and customer requirements are essential for telecommunications companies. Convergent products that bundle fixed-line and mobile services offer additional earnings potential depending on the maturity of the respective market and ensure reduced churn among customers. Above and beyond this, the strong growth in demand for data in particular is providing new momentum for market development and opening up additional earnings potential.

RAPID GROWTH IN DATA VOLUME, TECHNOLOGICAL CHANGE

The massive growth in demand for information and entertainment has dominated the development of the telecommunications sector for a number of years. The ability to offer data access at more or less all times and all locations is becoming a major competitive advantage. Connectivity is increasingly becoming an integrated element of everyday business and private life. Smartphones have long been established as the standard device for information, communication and work, while equipment, machinery and vehicles are increasingly being connected to the internet, particularly in the areas of healthcare, transportation and public utilities.

Industry experts are anticipating average annual growth of 40% in global mobile data traffic and 25% in fixed-line data traffic between 2014 and 2020. Between the third quarter of 2013 and the third quarter of 2014 alone, global mobile data traffic increased by 60%. Smartphone-based data traffic is expected to increase eightfold by 2020, while the same is true for mobile data traffic generally.^{4) 5)}

Expectations in terms of data upload and download speeds are also steadily rising. Mobile and fixed-line services are increasingly dominated by 'All IP', i. e. the expectation that all services can be accessed by all users at any time and in any



place. Cloud services, which are increasingly used to access content by various devices, are also becoming more and more important.

The rapid development of information and communications technology requires a high level of ongoing investment in network quality, which in turn represents a substantial cost factor. This includes the expansion of fibre networks and the LTE infrastructure. Austrian providers, for example, spent more than EUR 2 bn on mobile spectrum in the frequency auction in September/October 2013 alone. In Europe these licences are generally sold by auction and granted for a period of 15 to 20 years.

The challenge for telecommunications providers is to not only expand their infrastructure to cope with growth in data traffic, but also to 'monetise' this growth, i. e. to convert it into revenues and earnings. The fact that customers in many markets are used to unlimited data tariffs at fixed prices makes this a complex matter for the companies involved. In this market environment higher network quality is one way for providers to differentiate themselves from their competitors.

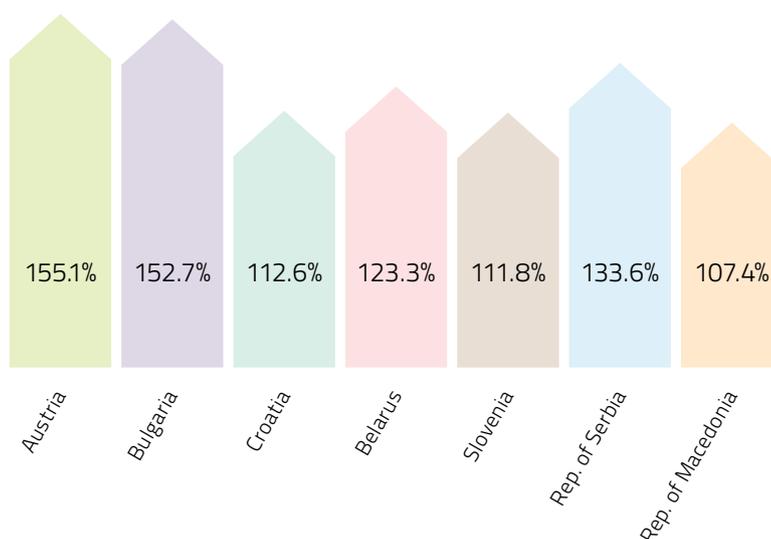
MARKET INTERVENTION THROUGH REGULATORY MEASURES

The Telekom Austria Group's markets are subject to various regulatory systems in the mobile and fixed-line segments. The provisions of the EU apply to Austria, Bulgaria, Croatia and Slovenia. In the Republic of Serbia and the Republic of Macedonia, regulatory conditions are gradually aligned to EU standards against the backdrop of association negotiations.

Generally speaking, the EU — and hence its member states — pursues an interventionist, consumer-oriented approach. The resulting reduction in termination rates, i. e. the fees that one network operator is required to pay another network operator for placing a call domestically or abroad, has led to a substantial decline in the interconnection revenues generated by telecommunications companies.

Another objective of the EU is to eliminate roaming fees for customers within the European Union — a plan that is currently under discussion. The 'Digital Single Market Proposal' that was presented by the European Commission in 2013 would require a reduction in roaming fees for calls, text messages and data to the level of the

Mobile communications market penetration



respective national termination rates ('roam like at home'). Above and beyond this, there are calls for the imposition of net neutrality, i. e. the equal treatment of all transmitted data. Regardless of the outcome of this specific proposal, this kind of harmonisation can be expected to occur in the medium term, with the result that revenues will decline further.

Irrespective of this, telecommunications companies and, in particular, former monopolists are subject to price controls in certain areas. In addition, market leaders are subject to particularly stringent control by the competition authorities in order to ensure that they comply with the relevant regulations on competition.

In summary, it is essential that European telecommunications providers cushion the impact of revenue losses due to regulation, the economic environment and price-oriented competition by focusing on high-yield market segments and trends and pioneering innovations. The balancing act between cost efficiency and further infrastructure investments represents a key factor when it comes to successfully protecting profitability and leveraging future potential, not least in the interest of customers. ✓

3) GSMA, The Mobile Economy 2014, p. 26

4) ERICSSON Mobility Report November 2014

5) Telekom Austria Group mobile data traffic approximately 6,000 terabyte at the end of 2014

STRATEGY

The year 2014 has in many ways been a transformative year for Telekom Austria Group. Not only did the company successfully implement important steps towards returning the business to EBITDA comparable growth as described in the previous chapters, but it also saw major shareholder América Móvil increase its stake in the company from 23.7% at the end of 2013 to 59.7% at the end of 2014. Telekom Austria Group thus gained a new majority shareholder with the financial resources to back key strategic decisions. One such decision was the launch of the first capital increase in the history of the company in November 2014, which was fully supported by both América Móvil and ÖIAG, paving the way for a reduction in leverage, a faster fibre-rollout and value-accretive M&A.



DRIVING DIGITALISATION

The strategy reflects the transition of Telekom Austria Group from a telecoms incumbent offering communication services to an established telecoms provider driving digital business and lifestyle. The Group's infrastructure serves the needs of an emerging digital society, allowing people and businesses to connect anywhere and at any time. In Austria A1 owns the best mobile network by far according to the connect magazine also in 2014, and with an additional investment of EUR 400 mn the fibre rollout planned for 2015 to 2018 will set the company up with future-proof infrastructure in its fixed-line business as well. By harnessing its network advantage in both mobile and fixed services, A1 endeavours to offer customers content which flows seamlessly

between multiple devices such as smartphones, tablets and TVs. The focus on seamless connectivity extends into business and wholesale solutions also. Moreover, Telekom Austria Group sees it as its responsibility to enable the digitalisation of society in order to foster growth and create innovation and employment, thus contributing to the development of new services and industries.

Incorporated in this vision of Telekom Austria Group as a digital company are a number of core beliefs which the company views as part of its heritage and as central to its position today. These core beliefs are presented as the '7Cs' and include Convergence, Consolidation, Core business, Content, Capex, Compliance and CEE, and form the cornerstones of the company's strategy.

THE '7Cs' — CORE BELIEFS OF THE TELEKOM AUSTRIA GROUP

Most importantly, **CONVERGENCE**, or the ability to offer fixed and mobile services, is required to handle increasing data volumes. Telekom Austria Group also regards **CONSOLIDATION** within its markets as key to ensuring operating efficiency. Expansion into activities close to its **CORE BUSINESS** will differentiate it further from competitors. One of these is **CONTENT**, which will increase the value for customers across multiple devices (seamless content). Beyond this, **CAPEX** optimisation is required to ensure the maintenance and continuous improvement of the underlying infrastructure. **COMPLIANCE AND INTEGRITY** form the basic underlying principles of company conduct. And lastly, the Group's operations in the **CEE** region are a core concern, as the company continues to build on and benefit from its knowledge of diverse cultural environments.

In addition, management regards the alignment with the company's conservative financial strategy as key premise and framework for all strategic initiatives. Said strategy remains largely unchanged from prior years, with the protection of investment grade credit ratings of Baa2 by Moody's and BBB by Standard & Poor's respectively. This rating category serves to maintain the company's access to capital markets, to safeguard financing options and to guarantee the necessary financial flexibility for investments. Telekom Austria Group has also committed to paying a dividend of 5 Eurocents in 2014 and 2015 (proposal to respective AGMs). The company targets a sustainable pay-out level with the capacity to grow over time, if possible.

From this understanding of the strategy framework and core beliefs emanate the four building blocks of the Telekom Austria strategy pyramid.

- ✓ **Convergence and in-market consolidation** form the first integral element. The company's ability to offer customers product bundles set it apart from the competition and management intends to further consolidate Group operations with this in mind. In its mobile-only markets the Group continues to focus on growth to achieve sustainable market positions, while evaluating the potential to develop into convergent operations.
- ✓ The second building block of the strategy expresses management's desire to **extend the value chain** by offering new services and enhancing the customer experience.
- ✓ Management will also consider an **expansion of the existing footprint** in the context of its conservative financial strategy.
- ✓ Lastly, **excellence in operations** is the foundation of the Group strategy, in that operational success rests on the optimisation of all business processes and the efficient allocation of resources.

CONVERGENCE AND IN-MARKET CONSOLIDATION

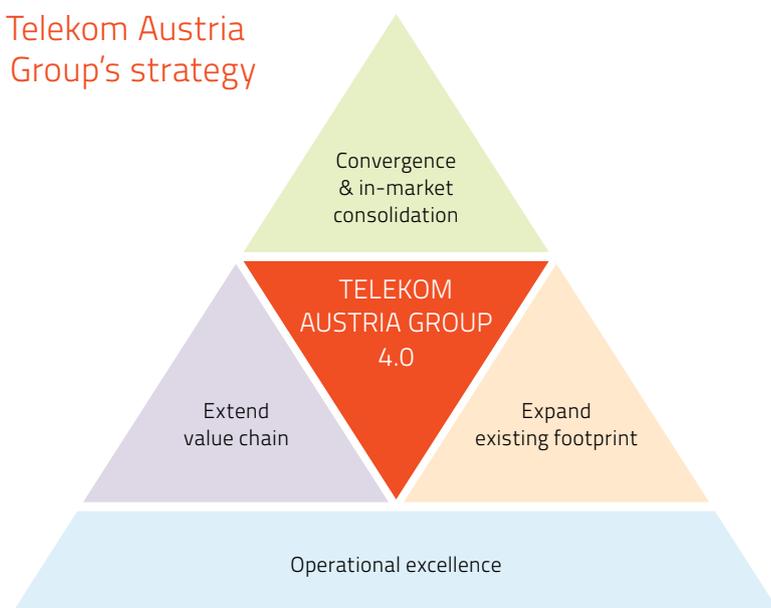
Telekom Austria Group will continue to leverage the potential for added-value in its core business through a focus on convergence and in-market consolidation. While its primary targets are revenue market share and profitability, the heterogeneity of the Group footprint requires a strategic approach tailored to each market. Each approach must take account of respective maturities, the

macro-economic and regulatory environments as well as the level of competition prevalent in each market.

In its home market Austria Telekom Austria Group has traditionally suffered from mobile price erosion, which it has addressed through a clear focus on high-value customers, while at the same time optimising the no-frills segment. Moreover, convergence has been key to stabilising the Austrian fixed business, which was in decline as a result of the fixed-to-mobile substitution. Not only is the average monthly revenue higher and the churn potential considerably lower for a customer subscribing to multiplay products, but convergence also results in the best overall customer experience. Customers can switch content between devices sourced through a single provider. As the demand for high bandwidths continues to rise, the planned investment of an additional EUR 400 mn into the smart-fibre expansion in Austria from 2015 to 2018 will create opportunities to monetise this data demand going forward.

Telekom Austria Group also believes that convergence offers potential benefits across all its markets. In its mature markets Bulgaria and Croatia Telekom Austria Group has been offering

Telekom Austria Group's strategy





convergent products since 2011. Mobiltel in Bulgaria is leveraging its position as the mobile market leader, especially in the area of mobile data. It aims to further grow its fixed-line business via attractive convergent products. In Croatia the growth in fixed-line is helping to stem competitive pressures facing Vipnet in mobile, with new tariffs as well as through up- and cross-selling tactics.

In the Republic of Macedonia Telekom Austria Group bought cable asset blizoo Macedonia in June 2014, and is now able to offer fixed voice, broadband and TV. By merging Vip operator and number three operator One, as planned, the company hopes to achieve synergies through in-market consolidation. In addition, the merger of mobilkom liechtenstein and Telecom Liechtenstein, the combined entity of which Telekom Austria Group now holds 24.9%, also created an operator with a convergent offering, which has so far been very well received.

In those of its markets which are currently mobile-only Telekom Austria Group will continue to

focus on generating growth. In addition, the company will continuously evaluate opportunities to develop its mobile-only markets into convergent operations.

EXTENDING THE VALUE CHAIN

As data and service demands increase, Telekom Austria Group sees opportunities to extend its value proposition to adjacent business areas such as wholesale, cloud and ICT, M2M as well as content and media.

In wholesale Telekom Austria Group is already a full-service provider offering voice, mobile, roaming, data, satellite and infrastructure. In cooperation with KPN and América Móvil Telekom Austria Group provides backbone services via 200 points of presence (PoP) in 47 countries. Wholesale is expected to grow in the coming years.

Telekom Austria Group also builds on its strengths in Cloud and ICT solutions. Cloud computing, i. e. the networking of large server groups to allow data storage and virtual access, is regarded as a dedicated growth area at Telekom Austria Group, with target marketplaces in Austria, Bulgaria, Croatia and Slovenia. Capturing these business opportunities will require the build-up of additional capabilities in the areas of IT consulting, business transformation and software development.

Machine-to-Machine (M2M) is another such area where Telekom Austria Group is building its capabilities. Across its service range Telekom Austria Group M2M already has more than 1 million SIM cards in service. Telekom Austria Group M2M

Growth areas extending the value chain



provides services such as managed connectivity, smart metering, 'integrated solutions', i. e. end-to-end solutions for enterprise customers, and 'connected life' services, which address the consumer market.

Telekom Austria Group's belief in convergence as a key industry driver also extends to the ambition to provide added content and media solutions. As the user viewing experience is shifting towards personalised services, new opportunities emerge. Traditional linear TV e. g. is becoming obsolete as customers shift their viewing habits towards video on demand and customised content. Internet OTT players are also gaining market share. To meet these shifts in customer demand, Telekom Austria Group is working on an entertainment content cooperation with América Móvil. Potential platform synergies include TV and music propositions as well as multiscreen capabilities. The Group is also evaluating how to position itself along the media value chain and whether to become involved in the origination of content, so as to generate additional revenue streams.

EXPANDING THE EXISTING FOOTPRINT

As part of its M&A strategy, Telekom Austria Group also considers expanding outside of its existing footprint. Any such moves are strictly vetted with regard to their strategic fit as well as their standalone value and the potential for synergies and diversification benefits. The overall objective of maintaining the current Baa2/BBB rating stands at the core of any decisions about M&A activities.

OPERATIONAL EXCELLENCE

Excellence in operations is the founding principle of all strategic elements, in the sense that improvements in efficiency and the optimisation of workflows provide the foundations for future business success. In 2014 the Group achieved its target of gross cost reductions (CAPEX and OPEX) of approximately EUR 100 mn. For 2015 management has set a new target of EUR 90 mn.

The company has also initiated a comprehensive transformation programme for cash flow growth, targeting market, procurement and technology transformation. With regard to market transformation and value-based management, Telekom Austria Group aims to maximise customer value throughout the customer lifecycle via tariff and subsidy initiatives. In the area of procurement, supply chain centralisation and vendor consoli-

ation are expected to help streamline the business. As regards technology, a variety of initiatives to enhance the Group's IT network are also in process, including network function virtualisation, billing and backbone transformations, as well as service centre centralisation.

In summary, in the medium term Telekom Austria Group endeavours to pull multiple levers to achieve an increase in operating revenues, cost savings and greater capex efficiency. This will ultimately be reflected in a substantial free cash flow increase. ✓



Examination of potentially value-accretive M&A

Prioritisation

1. In-market consolidation
2. Convergence
3. Growth in the CEE region

SELECTION CRITERIA AND VALUATION

When it comes to assessing individual opportunities, management diligently analyses all target companies as to their likely contribution to the achievement of the Group's overall strategic goals. The potential for synergies and full operational control are two necessary preconditions. Clearly defined assessment and selection criteria are then applied, including discounted cash flow valuation with country-specific weighted average costs of capital, as well as trading and transaction multiples for reference purposes.

INVESTOR RELATIONS

The transparent reporting of operational development, the takeover offer and the first capital increase in the history of the Telekom Austria Group were the focal points of investor relations activities in the eventful 2014 financial year.

TAKEOVER AND SHAREHOLDER STRUCTURE

In March 2014 América Móvil announced that it directly and indirectly held a 26.8% equity interest in the Telekom Austria Group. In April 2014 this was followed by the signature of a shareholders' agreement between Österreichische Industrieholding AG (ÖIAG) and América Móvil. The public takeover offer for all outstanding shares at an offer price of EUR 7.15 per no-par value share, which had already been stated in the shareholders' agreement, was launched on 9 May 2014; the acceptance period started on 15 May 2014 and ended on 10 July 2014. At this date, 50.8% of the Group's shares were already held by América Móvil. Following the end of the mandatory three-month additional sell-out period on 16 October 2014, América Móvil directly and indirectly held a 59.7% share in Telekom Austria AG.

ÖIAG continued to hold 28.42% of the Group's shares. The free float, including shares held by employees or the company itself, amounted to

11.88% at year-end 2014. As defined by the shareholders' agreement, América Móvil is obliged to restore a free float of at least 24% within a period of 24 months. More detailed information concerning the notifications on the shareholder structure, which were published in the year under review, can be found at www.telekom.austria.com/en/ir/shareholder-structure

CAPITAL INCREASE

The Extraordinary General Meeting on 14 August 2014 approved authorised capital as the basis for a capital increase. The issue of new shares corresponding to 50% of the existing share capital, i. e. up to 221,500,000 no-par value shares with voting rights, was authorised with the aim of generating net proceeds of up to EUR 1 bn. The new controlling majority shareholder América Móvil, as well as ÖIAG, pledged their full support for the transaction.

A discounted fixed-price transaction was chosen as the transaction structure. As well as being the international standard for capital increases, this structure allowed the optimal implementation of the various objectives: The aim was to realise the full potential volume of up to EUR 1 bn while at the same time minimising the impact on the Group's share price. In addition, a structure was required that would guarantee the full participation of both América Móvil and ÖIAG within their respective framework conditions. A further objective was to minimise the execution risk and to conduct a successful transaction from the perspective of all stakeholders.

Following intense preparations and the publication of the Telekom Austria Group's excellent results for the third quarter of 2014, the market situation on the morning of 7 November 2014 was regarded as positive and the transaction launched before market opening. The subscription price was set at EUR 4.57 per share, representing a discount of just 15.7% to the theoretical ex-rights price (TERP). This discount, which was very low by international standards, served to confirm that the aim of minimising the impact on the Group's share price had been achieved. The subscription ratio was set at 2:1 (stock : subscription right), making it easy and transparent for both institutional and retail investors to exercise their subscription rights.

Within the two-week subscription period the management of Telekom Austria Group successfully

SHAREHOLDER STRUCTURE¹⁾

as of 31 Dec 2014

Shareholders	Ordinary shares	Holdings in %
América Móvil (direct and indirect)	396,705,196	59.70
ÖIAG (Republic of Austria)	188,876,602	28.42
Free float incl. employee and treasury shares	78,918,202	11.88
Total number of shares	664,500,000	100.00

1) As per announcement on 24 November 2014

marketed the transaction with investors in Europe and North America as part of an intensive roadshow. The aim was to familiarise existing investors with the transaction and address new investors in order to further diversify the free float, which was highly concentrated following the takeover offer.

The use of proceeds was defined as securing the capital structure as expressed in the form of credit ratings of at least Baa2 from Moody's and BBB from Standard & Poor's. Other objectives included the accelerated expansion of the fibre network in Austria between 2015 and 2018 on the basis of the latest available technologies and financial flexibility for value-enhancing M&A transactions.

The transaction met with extremely strong interest which was not only reflected in the excess demand in subscription rights trading. In particular the fact that 99.7% of the transaction was subscribed for within the subscription period also stood testimony to the great success of the capital increase. This meant that the original plan to place shares not sold within the subscription period via an order book process was not required. The remaining 758,286 shares were placed via Deutsche Bank. The Telekom Austria Group succeeded in offering the shares placed by Deutsche Bank at a price of EUR 5.26 per share, representing a premium of 15.1% to the subscription price.

The transaction was supported by the banks Citigroup, Deutsche Bank, Erste Group, Raiffeisen Centrobank and UniCredit Bank Austria and the law firms White & Case LLP, Eisenberger & Herzog Rechtsanwälts GmbH, Clifford Chance Deutschland LLP and DORDA BRUGGER JORDIS Rechtsanwälte GmbH, as well as Deloitte Audit Wirtschaftsprüfungs GmbH.

SHARE PRICE PERFORMANCE AND SECTOR COMPARISON

Following a volatile first quarter characterised by mergers and acquisitions within the sector and the associated extensive processes relating to competition law, the Stoxx Telecom index remained largely stable until half way through the year at a slightly higher level than at the start. Reflecting developments in the European stock markets, it then fell to an annual low in October 2014. The index recovered strongly in the latter half of the fourth quarter and closed the year up 7.5%.

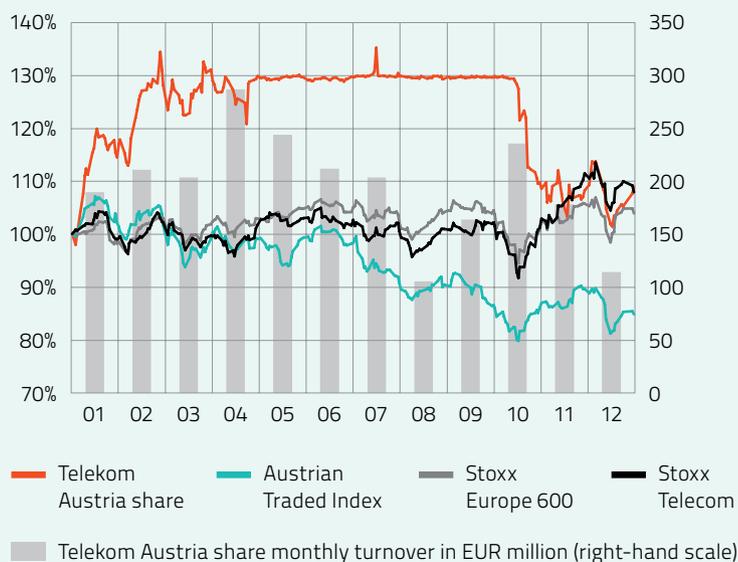
BASIC INFORMATION ABOUT THE TELEKOM AUSTRIA SHARE

ISIN	AT0000720008
Symbol	TKA
Reuters	TELA.VI
Bloomberg	TKA AV
CUSIP number (Germany)	588811
Listing	Vienna Stock Exchange
American Depositary Receipts (ADS)	1 ADS=2 ordinary shares

Following a similarly volatile first quarter of 2014, the European stock markets enjoyed a strong performance in the second quarter, achieving their highest level since 2008 in June. In the third quarter the Stoxx Europe 600 index slumped as a result of the crisis in the Middle East before recovering towards the end of the quarter in the wake of monetary policy measures enacted by the ECB. At the start of the fourth quarter markets started to move downwards in response to less favourable IMF forecasts on global economic growth and concerns about the recovery in the eurozone. The resulting losses were more than offset following further ECB measures, before the political uncertainty in Greece as well as the downturn in oil prices and the Rouble had a negative impact on

DEVELOPMENT OF TELEKOM AUSTRIA SHARE PRICE

Indexed from 1 Jan 2014



Financial strategy



The Telekom Austria Group pursues a conservative financial strategy. Solid investment grade ratings of Baa2 from Moody's and BBB from Standard & Poor's are the main priority with regard to ensuring financial flexibility and permanent access to the debt capital markets. This allows the company to act flexibly when making major investments and facing operational challenges.

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

the stock markets in December. Despite this, the Stoxx Europe 600 closed the year up 4.4%.

By contrast, the ATX — the benchmark index of the Vienna Stock Exchange — recorded continuous losses in 2014. While the European markets recovered in the second quarter, the ATX was more affected by the Ukraine crisis due to its

strong focus on the CEE region, as well as the crisis in Russia. All in all, the index closed the year down 15.2%.

DEVELOPMENT OF THE TELEKOM AUSTRIA SHARE

The share price performance of the Telekom Austria share was primarily driven by the takeover offer by América Móvil in 2014. In the first quarter the share price rose by 31.1% on the back of expectations of a recovery in the Austrian mobile market and takeover speculation. From the publication date of the shareholders' agreement and the announcement of the takeover offer, the share price remained stable at around the offer price of EUR 7.15 (before retrospective share price adjustment) throughout the acceptance period for the takeover offer and the subsequent additional three-month sell-out period. Following the end of the additional sell-out period, the share price fell away in anticipation of the preannounced capital increase until the publication of the subscription price of EUR 4.57 per share, but remained volatile thereafter. Following the successful completion of the capital increase, the shares resumed trading at EUR 5.40 on 27 November. The Telekom Austria share ultimately finished 2014 up 8.9% on the start of the year.

DEBT CAPITAL AND RATINGS

The Telekom Austria Group actively uses the local and international debt capital markets in order to ensure that its financing is broadly diversified both geographically and in terms of the investor base.

KEY FIGURES ABOUT THE TELEKOM AUSTRIA SHARE

	2014	2013
Share price low (in EUR) ¹⁾	4.93	4.35
Share price high (in EUR) ¹⁾	6.99	6.22
Share price as of 31 Dec (in EUR) ¹⁾	5.51	5.06
Market capitalisation as of 31 Dec (in EUR billion)	3.7	2.4
Average daily stock market turnover (in EUR million)	9.5	6.1
Number of shares of common stock as of 31 Dec	664,500,000	443,000,000
Number of shares outstanding as of 31 Dec	664,084,841	442,584,841
Share capital as of 31 Dec (in EUR)	966,183,000	966,183,000
ATX weighting as of 31 Dec (in %)	2.2	3.7

1) To ensure the comparability of share price information in case of discounted capital increases historic prices are adjusted retrospectively on the ex-rights date (10 November 2014 in the case of Telekom Austria Group) by the ratio between the ex-rights price and the last closing price before the ex-rights date (7 November 2014 in case of Telekom Austria Group).

TELEKOM AUSTRIA GROUP OUTSTANDING BONDS

as of 31 Dec 2014 (Issuer: Telekom Austria Finanzmanagement GmbH. Hybrid bond issued by Telekom Austria AG)

ISIN	Issue Date	Maturity	Volume (in EUR million)	Coupon
XS0210629522	13.01.05	27.01.17	500	4.250%
XS0409318309	19.01.09	29.01.16	750	6.375%
XS0767278301	26.03.12	04.04.22	750	4.000%
XS0877720986	25.01.13	perpetual ¹⁾	600	5.625%
XS0950055359	27.06.13	04.07.23	300	3.500%
XS0999667263	26.11.13	03.12.21	750	3.125%

1) Subordinated hybrid bond

Since its first bond transaction in 2003 the Telekom Austria Group has issued a total of eight benchmark bonds. In 2013 it placed the first hybrid bond in the European telecommunications sector.

A new revolving credit facility with a volume of EUR 1 bn was secured in 2014, which improved on the conditions of the Telekom Austria Group's expiring credit facility and significantly extended its term.

CREDIT RATINGS

Telekom Austria AG is regularly rated by Moody's Investors Service and Standard & Poor's Ratings Services. On 11 August 2014 Standard & Poor's upgraded its rating for Telekom Austria AG from BBB- to BBB as a result of the acquisition by América Móvil and the accompanying planned capital increase.

EXTERNAL RATINGS

	Moody's	S&P
Rating	Baa2	BBB
Company outlook	stable	stable

SPREAD DEVELOPMENT

The liquidity of corporate bonds generally declines significantly within a certain period following their issuance. As credit default swaps are not affected by this liquidity reduction, it is standard international practice to use five-year CDS when analysing spread development.

In 2014 the Telekom Austria Group's five-year CDS spread enjoyed a highly positive development. The spread narrowed from around 120 bps (basis points) to around 60 bps over the course of

the year, an improvement of 50%. This positive development reflects the more stable operational development of the company as well as the stronger capital structure following the successful completion of the EUR 1 bn capital increase. The narrowing of the credit spread can also be attributed to the generally strong level of demand for fixed income products. The Markit iTraxx Europe Index also declined by 8 bps in 2014, with a range of 30 bps between the low and the high values. ✓

FINANCIAL CALENDAR

Week of 20 April 2015	Results for the First Quarter 2015
27 May 2015	Annual General Meeting
1 June 2015	Dividend Ex Date
3 June 2015	Dividend Payment Date
Week of 20 July 2015	Results for the First Half 2015
Week of 19 October 2015	Results for the First Nine Months 2015

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EMPLOYEES

'We are developing a strong corporate culture with leadership standards to strengthen our employees' commitment and lead our business to success!' In accordance with this guiding principle from its 2014 HR strategy, the Telekom Austria Group again initiated a wide range of initiatives in the areas of training and further education, transfer of expertise, mobility, work-life balance and management development in the year under review.

HUMAN RESOURCES STRATEGY

- ✓ Identifying and fostering talent at an early stage to fill the most important positions with the best people and ensure value creation through state-of-the-art organisational structures and effective leadership standards
- ✓ Promoting a corporate culture in line with our brand and to drive employee engagement
- ✓ Measures to encourage efficiency as well as restructuring efforts in coordination with employee development to secure our competitiveness and earnings

ACTIVELY PURSUING NEW APPROACHES

At the Telekom Austria Group development means being open to new ideas and thinking in new dimensions. This includes actively breaking from the old routine. Some of the employees involved report on how they have gone about achieving this.



JOINING THE TELEKOM AUSTRIA GROUP AS A GRADUATE

Sonja Schneeberger participated in and completed the A1 Graduate Programme. Currently, she works in the Residential Mobile team. She believes that teamwork among the graduates is particularly important: 'As well as a fully-fledged job, the A1 Graduate Programme offers workshops and training to challenge participants professionally and help them to develop individually. Joint projects bring us together as a team — this encourages mutual exchange and the establishment of professional networks.'



HR strategy: One focal point of training at the Telekom Austria Group is supporting young talents right from the start of their professional life. A twelve-month Graduate Programme is available to university graduates, who are selected as part of the 'Top Talent Competition' and work on current tasks and projects in a given department. The Telekom Austria Group makes use of a combination of different learning tools: Face-to-face trainings and webinars in succession of which participants can transfer knowledge via a blended learning platform. This takes place on the basis of peer learning where the graduates can learn from each other, as well as mentoring, where the graduates can exchange ideas with more experienced colleagues in the company.

EMPLOYEE KEY FIGURES OF THE TELEKOM AUSTRIA GROUP

	2014	2013	Change in %
Full-time employees ¹⁾	16,240	16,045	1.2
in Austria	8,635	8,804	-1.9
international	7,424	7,076	4.9
Trainings (Business School)	64	62	n. m.
Spending on further education per employee	480	492	-2.4
Personnel costs (in EUR million)	876	846	3.6

1) Increase in number of full-time employees inter alia due to acquisition of blizoo Macedonia

REVERSE MENTORING

Mentoring, but different: Young employees pass on their knowledge to experienced managers. Their experience opens up new perspectives — and the company feels the benefit, actively breaking down hierarchical boundaries and creating an environment in which valuable impetus is generated for new ideas.

A good example is provided by Natascha Kantauer-Gansch, Head of Customer Service, and Stephan Wagner, Accounting. Stephan Wagner: 'At A1, we have a unique and vast resource at our disposal — our experiences. This means we can learn a lot from each other. Reverse mentoring means breaking up hierarchical routines and talking to each other on an equal footing.' Natascha Kantauer-Gansch: 'Stephan brings a fresh perspective with him, allowing me to appreciate different views and select new approaches.'



HR strategy: In reverse mentoring younger employees pass on their knowledge to mentees who are considerably more advanced in terms of their career status and professional experience. Their younger counterparts offer new perspectives and different approaches. They also form part of a generation that will have a significant influence on the company in future as customers. As such, their experience opens up important viewpoints for the company. Reverse mentoring actively breaks down routines and hierarchies, creating an environment that encourages a better mutual understanding, and where valuable impetus is provided for new ideas.

EXPAT PROGRAMME

Juliana Posch was in charge of the Customer Relationship Management team at Vip operator in the Republic of Macedonia for ten months. Commenting on her experience, Posch says: 'Vip operator is a relatively young and small company within the Telekom Austria Group that offers a great deal of creative freedom. That was precisely what appealed to me. The challenge is to identify the key factors that require adjustment for the local market.' Different values, patterns of decision-making and manners — as an expat, these are all things you have to get right. Since May 2013 Posch has headed a group at A1 that is responsible

for the sales side of product launches. The experience she gained as an expat is extremely valuable in her current work environment.



HR strategy: The Telekom Austria Group values the principle of employee mobility. International exchange within the Group, e.g. in the form of expatriation, is a central element of career development. This promotes the principles of exchange and learning from each other within the Group and facilitates the Group-wide implementation of best practices. The target group for expatriation is employees who demonstrate good performance, are willing to change location and who wish to gather experience at other Group subsidiaries as part of their career development plan.

eLEARNING

Andreas Lebesmühlbacher, Residential & Small Business Sales: 'eLearning has become an important and indispensable element of my professional life. I use it in different ways, from web-based training sessions at my computer and learning apps on my smartphone and tablet to online forums and chats. I can use eLearning whenever and wherever I want. And I appreciate the flexibility that comes with being able to organise my learning content myself, adjust the learning process to reflect my needs and review my success individually.'



HR strategy: The Telekom Austria Group offers various formats for employees to expand their knowledge: Traditional eLearning, videos, articles, podcasts and open online courses all support the process of personal and professional development. The benefit for employees: The freedom to choose when and where to learn.

BUSINESS SCHOOL IMPACT

Phat Huynh is Managing Director & Head of Marketing at Telekom Austria Group M2M. Phat Huynh says: 'Breaking the old routine is one of the most important factors in our success. Achieving this requires a suitable environment.

This is what we have established at M2M. And this corporate culture is a major driver for creativity and new ideas. This includes accepting that mistakes happen and not allowing fear to stop you from moving. We operate like a start-up within our Group. This ties in with the approach and spirit of our employees and managers in particular.'



HR strategy: Telekom Austria Group employees also benefit from the programme initiated by the Group-wide Business School with the aim

of creating an inspirational and motivational learning culture. The Business School Impact Event is held twice a year. It brings internal and external experts together and encourages both exchange and learning from well-known international personalities. The latest trends are discussed and new ideas are developed. Innovation workshops and cross-industry events also serve to ensure exchange with other companies.

SHARED LEADERSHIP

Two women who both work part-time, and one job that they share: Barbara Zumpfe-Göttinger and Birgitt Kleinschek are jointly in charge of the Internal Communications department. 'The opportunity to assume joint responsibility for this top job was something that appealed to us. We share traditional management tasks, such as target agreements, and divide up the content-related topics between us. Our strong networking ensures smooth cooperation.'



HR strategy: Enabling employees to achieve a healthy work-life balance is extremely important to the Telekom Austria Group. For example,

employees have the option of flexible working hours and can also telecommute in consultation with their managers. The Group believes that a family-friendly HR policy is a clear competitive advantage, as qualified employees are more likely to favour a company that seeks to meet their needs. The culture of a company is shaped by the commitment and enthusiasm of its employees. They are the best brand ambassadors for the Telekom Austria Group.

NEW MANAGER PROGRAMME

Doris Schönhart has been in charge of the Commercial & Data Protection Law department in the Legal division since summer 2013. Commenting on the New Manager Programme, she says: 'The direct exchange with colleagues within this programme allows us to obtain a clearer view of the minor and major challenges facing us in our day-to-day management work. I have made extensive use of this opportunity and have the impression that it has allowed me to further my development as a manager.'



HR strategy: The Telekom Austria Group supports managers who have taken up a new management role with the eight-month New Manager

Programme. Learning management expertise takes time. The programme provides them with the skills they need to master their day-to-day management tasks. The learning architecture of the New Manager Programme (NMP) offers various methods and learning options, as well as helping to shape personal development. Management principles are communicated in an experience-oriented manner at external seminars. Internal experts pass on their expertise, while reflection in learning groups, work on practical tasks and mutual peer group support within the Group provide a good set of tools for the challenges facing new managers.

INTERNAL MOBILITY CAMPAIGN

Alexander Hartmann, Business Sales A1: 'Because I wanted to further my development, I moved from Key Account Management to one of our Expert Sales teams a few months ago. This gave me the opportunity to progress and obtain technical expertise. I feel that every team is enriched by new personalities.'



HR strategy: When employees move to another area of the Group, they are supported by mobility coaches.

Having the right person in the right position is beneficial for all concerned: Employees contribute their expertise to the new area and provide impetus to their new team, while the company retains its knowledge carriers and enthusiastic employees. The aim is to employ talent and experience as optimally as possible. The Telekom Austria Group offers its employees the opportunity to take a new career path and supports cross-divisional moves with dedicated training measures. This requires employees to have the courage to make a change, and managers to have the mobility to support the desire for further development.

SUSTAINABILITY

The Telekom Austria Group's sustainability strategy is based on an extensive analysis and evaluation of social and ecological aspects along the value chain of its core business.

IN ADDITION TO internal perspectives, external stakeholders were included in this process ('materiality analysis'): More than 300 people responded to an online survey on the relevance of various social and ecological issues. The requirements of international standards, rankings and rating agencies and the sustainability activities of other telecommunication companies were also taken into account. At the next stage, the internal and external priorities were combined, the key topics for the sustainability strategy were summarised in a materiality matrix and four action areas and corresponding targets were developed on this basis.

TARGETS FOR 2015

- ✓ Ensuring Group-wide network coverage of at least 99% with 2G and at least 90% with 3G
- ✓ Maintenance of the highest possible data protection and information security standards
- ✓ Publication of an annual data protection report for A1 (starting in 2015)
- ✓ Maintenance of ISO 27001 certification
- ✓ Development of innovative solutions in the healthcare, education and administration sectors
- ✓ Promotion of climate-friendly products
- ✓ Increase in customer satisfaction

THE FOUR ACTION AREAS



PRODUCTS: PROVIDING RESPONSIBLE PRODUCTS

The Telekom Austria Group's network infrastructure forms the backbone of the knowledge-based digital society of the 21st century in its seven markets. Ongoing investment in innovative transmission technologies, the highest levels of data protection and fault tolerance as well as products and solutions that create clear added value for customers, society and the environment are the key pillars of this area. Absolute customer commitment and reliable services help to build up long-term customer relationships and ensure the Group's profitability.

SAMPLE PROJECT: Launch of a joint project between Telekom Austria Group M2M and Wüster power station in January 2014 aimed at rolling out a comprehensive smart metering solution for the measurement of electricity consumption in Ybbs an der Donau (Austria).



ENVIRONMENT: LIVING GREEN

Telecommunication networks, such as that of the Telekom Austria Group, can play a key role in mitigating climate change. With services such as videoconferencing, they help get traffic off the roads and onto the data highway or transform stacks of paper into resource-saving bits and bytes. And the Telekom Austria Group's infrastructure is also a key factor when it comes to setting up intelligent power grids. The energy-efficient design of these transmission networks, the increased use of renewable energies, climate-friendly mobility and the preservation of raw materials through optimised recycling and disposal processes are central to the Group's ecological responsibility.

SAMPLE PROJECT: A1's carbon-neutral network has been a reality since 2014, audited and confirmed by TÜV SÜD (PAS 2060 standard). This makes A1 the first and only communication provider in Austria to operate an entirely carbon-neutral network. This is made possible by targeted measures starting with a reduction in

'For us, responsibility means investing in the central infrastructure of today's knowledge-based society, pushing energy-efficient technologies and promoting media literacy for everyone.'

HANNES AMETSREITER

energy consumption and improved efficiency, as well as the use of power generated entirely from renewable sources. A proportion of CO₂ emissions (25%) is offset through support for national and international climate protection projects.

TARGETS FOR 2020

- ✓ 25% reduction in CO₂ emissions

TARGETS FOR 2015

- ✓ 20% increase in energy efficiency
- ✓ Expansion of projects relating to renewable energies
- ✓ 10% improvement in the recycling rate
- ✓ 10% reduction in the Group's paper consumption
- ✓ Increase in the number of old phones collected



Prize-winning Sustainability Report

For the second year in succession the Telekom Austria Group's Sustainability Report 2014 received the first prize in the Austrian Sustainability Reporting Award (ASRA) competition in the 'Large Enterprises' category.



EMPLOYEES: EMPOWERING PEOPLE

Skilled, committed employees are a key factor in the company's success. Accordingly, the Telekom Austria Group's HR strategy is based on identifying and fostering talent at an early stage, continuous further education and professional training and a balanced management, performance and feedback culture. The equal treatment of all employees and, in particular, gender equality are at the heart of all the Group's activities, as is ensuring a healthy work-life balance. The objectives of this action area seek to promote fair and attractive hiring conditions as well as active diversity within the Group.

SAMPLE PROJECT: In 2014 the Telekom Austria Group signed the Diversity Charter, an initiative aimed at promoting appreciation of all members of society — irrespective of their gender, age, origin, skin colour, sexual orientation, religion, political beliefs or physical/mental disability.

TARGETS FOR 2015

- ✓ 35% women in the Telekom Austria Group and in management positions
- ✓ Promotion of internal appointments
- ✓ Maintenance of a high engagement index
- ✓ Increase in international exchanges



SOCIETY: CREATING EQUAL OPPORTUNITIES

In today's knowledge-based society, the exchange of information, access to education and democratic participation are increasingly linked to the use of new media. At present, however, access to the internet and other digital information and communication channels are not spread equally and depend to a large extent on social and financial factors. The Telekom Austria Group firmly believes that the digital world should be open to everyone and is therefore actively participating in reducing the 'digital gap' and promoting media literacy skills.

In addition to targeted media literacy initiatives for young and old alike, the Telekom Austria Group is also promoting equality of opportunity in the digital society with its products and services. It offers a range of customised tariffs and services to help children, senior citizens and people with special needs use the internet safely and keep their costs under control. The subsidiaries of the Telekom Austria Group also support and initiate social projects that are adapted to the local requirements in each country.

SAMPLE PROJECTS: 2014 saw the start of the Group-wide rollout of the 'Internet for All' initiative. Every subsidiary is currently working on an initiative or a project aimed at promoting media literacy skills and helping to reduce the digital gap. For example, Vip mobile in the Republic of Serbia launched the first 'Vip Digital Workshop for Senior Citizens'. The course, which is offered free of charge, was arranged in conjunction with the Organisation for Intergenerational Cooperation 35+, the City of Belgrade Pensioners' Organisation and the Third Age Movement of the Republic of Serbia.

TARGETS FOR 2015

- ✓ 100,000 people participating in training to promote media literacy skills (by 2016)
- ✓ Increase in cooperation projects to promote media literacy skills in the Telekom Austria Group
- ✓ Implementation of social projects according to local needs
- ✓ Implementation and enhancement of cost control tools



CDP rating recognises the Telekom Austria Group as one of the best companies in the telecommunications sector:

Thanks to targeted measures, the Telekom Austria Group improved its disclosure score from 74 to 93 points and its performance score from C to B in 2014, making it one of the top three telecommunication companies in the DACH region.

Where do CO₂ emissions¹⁾ arise in the network of A1?



Energy



350 GWh is equivalent to the annual energy usage of all households in Salzburg

47,579 t CO₂

Fleet



44 million kilometres driven per year—or 1,100 times around the equator

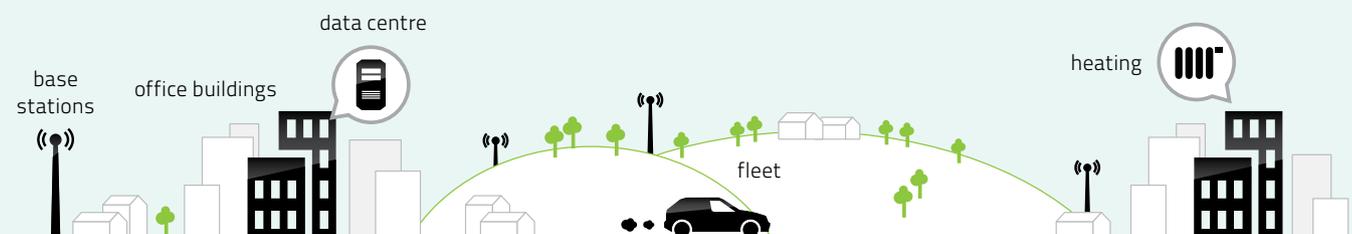
9,529 t CO₂

Heating

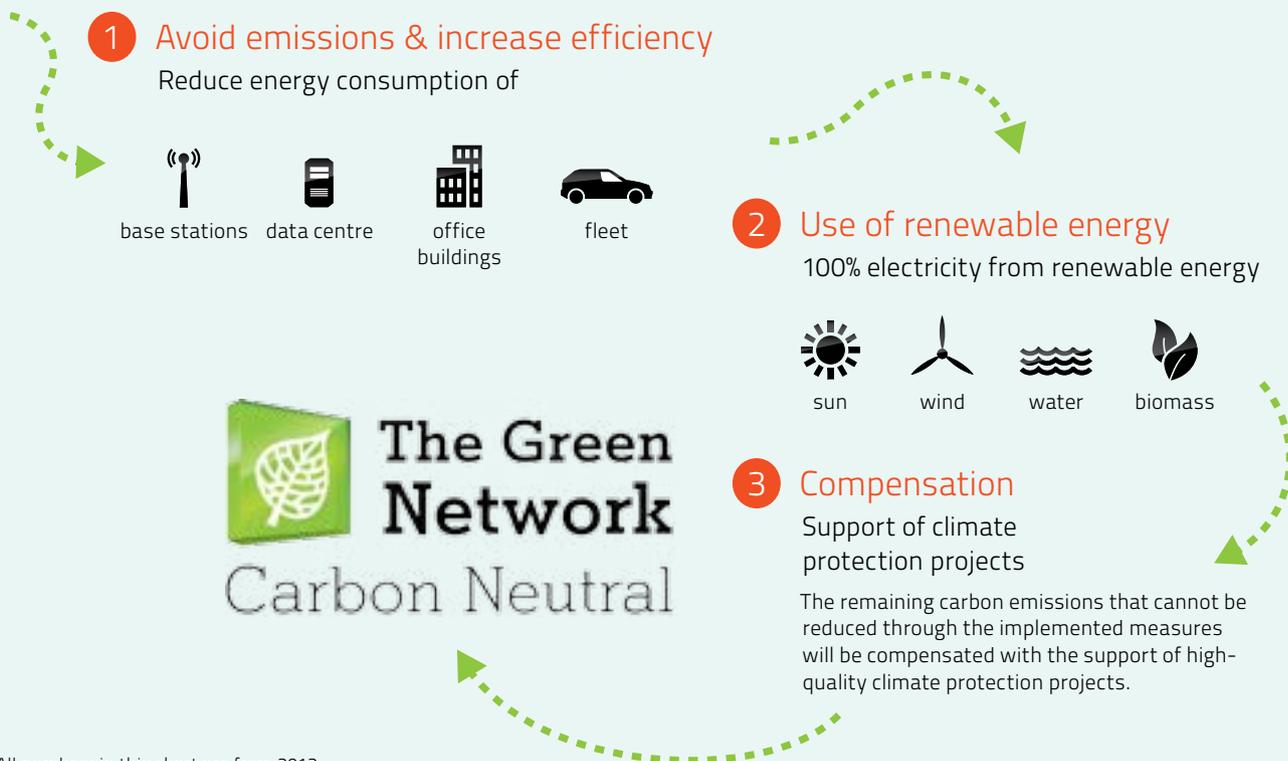


17.6 GWh—equivalent to the average usage of 3,509 households

6,719 t CO₂



The way to a carbon neutral network



1) All numbers in this chart are from 2012.

2) Network-relevant emissions

The carbon calculation was confirmed by 'TÜV SÜD', a technical testing organisation which operates globally.

Commissioned by/source: A1

WHOLESALE

In its Wholesale business area, the Telekom Austria Group offers high-quality products and services to other telecommunication operators and major business clients at a national and international level. The Telekom Austria Group's international wholesale footprint, which was significantly expanded in 2014 thanks to a wholesale cooperation with América Móvil, forms the basis for these innovative solutions.



Prize-winning

- Winner of the 'Global Telecoms Business Innovation Award 2014' in the 'Wholesale Service Innovation' category with the direct2home product
- Winner of the 'Eutelsat TV Awards 2014' in the 'innovation' category for offering SAT DTH as white-label business model
- Nomination as best pan-European wholesale network operator at the 'Global Carrier Award 2014'

TIE-UP WITH AMÉRICA MÓVIL CREATES ONE OF THE WORLD'S LARGEST FIBRE NETWORKS

One of the most important success stories in the Telekom Austria Group's Wholesale business area in 2014 was the expansion of its wholesale footprint for voice and data services thanks to a wholesale cooperation with its new majority shareholder, América Móvil. For the Telekom Austria Group, which is contributing its extensive technological expertise and its local presence in Europe in particular, the new cooperation represents an important further step towards a global presence in this segment. For customers, the cooperation means even more efficient solutions thanks to enhanced, end-to-end managed networks with a single point of contact.

Supplementing the cooperation with KPN International in Europe which has been in place since August 2013, the wholesale cooperation with

América Móvil means that the Telekom Austria Group has a shared infrastructure with 200 points of presence (PoP) in 47 countries.

THE FUTURE IS 'CONVERGENCE 2.0'

In addition to voice and data services, the Telekom Austria Group's wholesale product range includes satellite communication solutions based on the satellite infrastructure in Aflenz, Austria, which allows operators from all parts of Europe to offer convergent products. Thanks to the Telekom Austria Group's innovative solution, mobile operators will be able to become convergent providers within just a few months in future. It allows them to sell mobile, TV and internet packages to end customers, avoiding substantial infrastructure investments.

DIRECT2HOME SATELLITE PLATFORM WINS GTB AWARD 2014

The innovative solutions offered by the Telekom Austria Group as a result of the bundling of its infrastructure and expertise in the areas of satellite communications and TV content have also successfully been acknowledged in the form of the GTB Award. This renowned prize for innovation, which is awarded by the industry magazine 'Global Telecoms Business' (GTB), was given to the Wholesale business area in May 2014 in recognition of 'direct2home', a package with which the Telekom Austria Group is meeting the rising demand among end customers for convergent products and offering other providers a point of entry to the pay-TV market.

FIRST AUSTRIAN WHOLESALE PLATFORM FOR LTE ROAMING

In late 2013 the Telekom Austria Group became the first Austrian provider to launch a wholesale platform for LTE data roaming, thereby providing

The wholesale portfolio

Data
Voice
Mobile
Roaming
Satellite



the ideal basis for quick surfing when abroad. With the expansion of its existing signalling infrastructure to include LTE signalling based on the IPX (Internet Protocol Exchange) network, the Telekom Austria Group is perfectly equipped to meet the growth in LTE data traffic.

INDUSTRY GIANT VIMPELCOM GROUP COMES ON BOARD AS NEW SIGNALLING CUSTOMER

In October 2014 VimpelCom Group, one of the world's largest telecommunication providers with 221 million customers, selected the Telekom Austria Group as its signalling partner.

SUCCESSFUL FIELD TRIAL: DATA SPEEDS QUADRUPLED TO 400 GBPS

High-performance backbones are essential for international wholesale customers. This is why the Telekom Austria Group continuously performs field trials of new technologies at an early stage in order to test the performance of its networks between key international nodes. In spring 2014,

for example, the Group once again demonstrated its innovative strength with a field test between Zagreb, Croatia, and Ljubljana, Slovenia. In cooperation with its technology partner Alcatel-Lucent, the Group verified the potential for quadrupling the current data speeds of 100 Gbps to 400 Gbps using the existing fibre-optic cables.

FURTHER GROWTH IN SIGHT

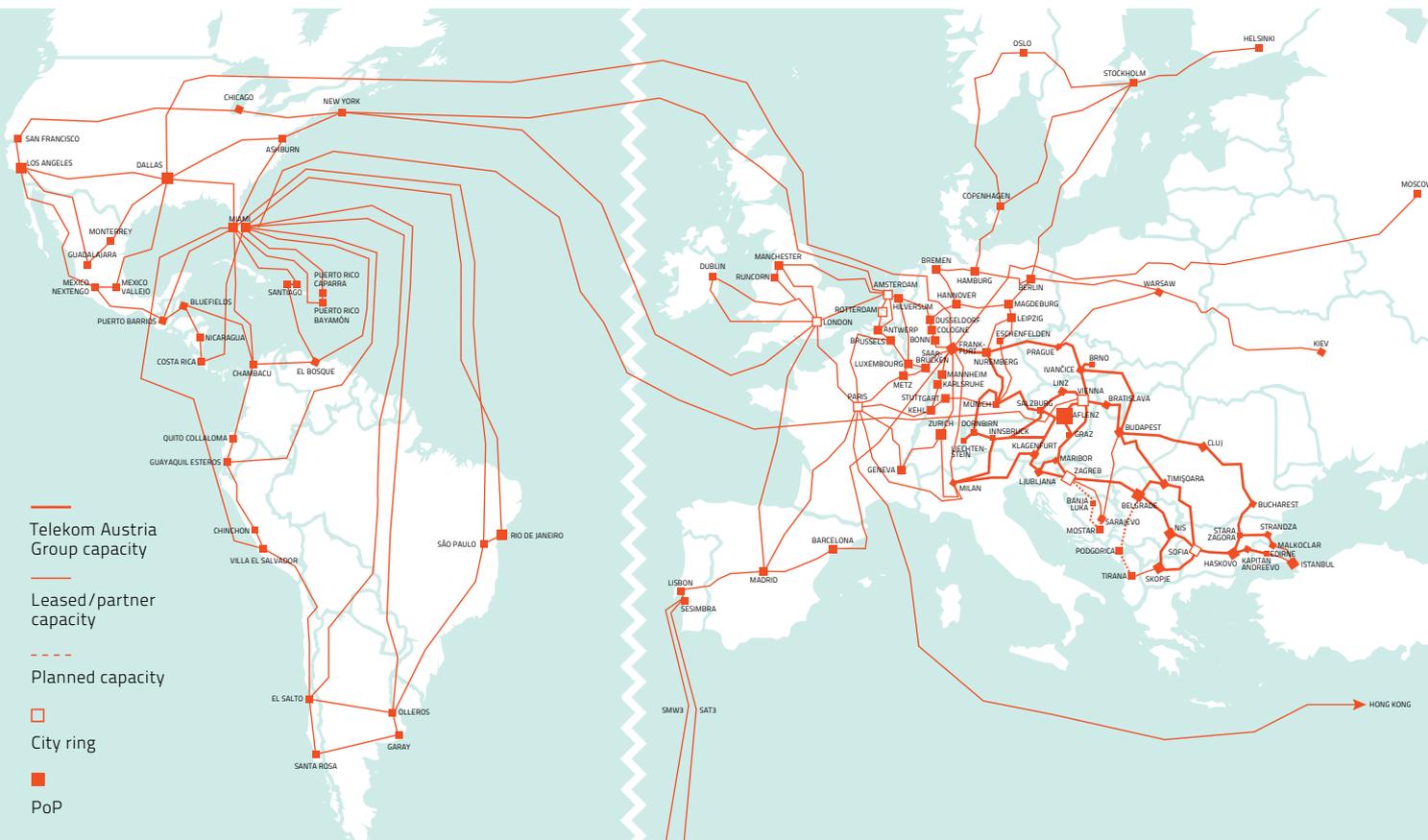
Thanks to the aforementioned partnerships with KPN International and América Móvil, the Telekom Austria Group already has one of the world's largest fibre networks at its disposal. However, the Group intends to even further expand its global footprint in the wholesale segment through additional partnerships and organic growth. It will achieve this by efficiently and effectively utilising synergies throughout the entire Group while simultaneously and continuously evolving its wholesale products in order to ensure that it remains a one-stop solution offering innovative products to its customers in future. 



Certified

The Telekom Austria Group became the first network operator to receive the important MEF CE 2.0 (Metro Ethernet Forum Certificate 2.0) certification for its Etherlink services throughout Central and Eastern Europe.

Global fibre network



MACHINE TO MACHINE — M2M

As competence centre for automated data transfer the Telekom Austria Group increases the connectivity of companies using tailor-made solutions.

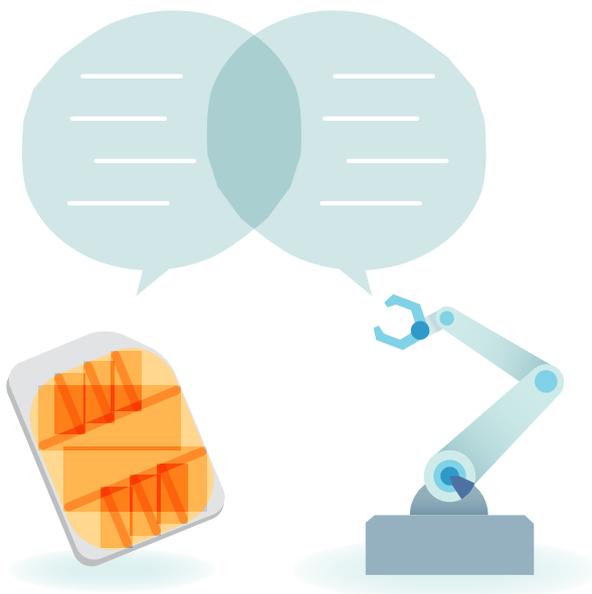
MACHINE TO MACHINE (M2M) describes the automated exchange of information between devices such as machines, vehicles and sensors or between these devices and a control centre. M2M solutions can be used to streamline workflows and improve productivity in a wide range of industries. One major area of application is the remote monitoring and maintenance of machinery, equipment and systems. M2M solutions ensure automated data transfer between the various devices on the basis of mobile technology. A growing number of companies are taking advantage of this offering in order to realise innovative, high-quality, service-oriented business models. The transportation and logistics, industrial automation, retail and wholesale, healthcare, education, finance and insurance, energy supply and

business services industries as well as authorities and governments are particularly well represented among those companies increasingly relying on M2M.

With an annual growth rate of 17%, the global M2M market is unquestionably a growth market. Experts are anticipating that the number of M2M connections will increase to over 500 million by 2019, more than double the current volume.¹⁾

Following on from fleet management, asset tracking and industrial automation, the Telekom Austria Group's M2M internet segment again launched a range of innovative solutions tailored to the respective target groups in 2014:

- ✓ **STARTify**: A one-stop shop for start-ups: A dedicated business enablement platform for network consumer products that start-up companies can use to get their products onto the market as quickly as possible. User management, device and SIM management, subscription management and payment, and a development environment for mobile apps are included.
- ✓ **SMARTify Meter Data Management**: A cloud-based smart metering platform enabling the efficient management of metering data from smart meters.
- ✓ **'Österreich Zähler'**: A GPRS and LTE based multi-vendor metering system for power grid operators that offers increased security of supply for the Austrian energy industry.



1) OVUM Cellular Machine-to-Machine Forecast 2014–2019

COMPLIANCE

For the Telekom Austria Group, achieving the defined business goals is not the only thing that matters — how it goes about doing so is also essential. The overriding principle is acting with integrity and responsibility towards customers, shareholders, external creditors, the public and employees. To ensure that this principle is upheld in day-to-day business in all of its divisions, the Telekom Austria Group defines clear rules for various topics. As well as naturally complying with all of the relevant statutory provisions, this objective is primarily served by the Code of Conduct and various Group guidelines.

PREVENTION AND REACTION

The Telekom Austria Group owes it to all of its stakeholders to ensure that its standards of integrity are realised as a key component of its corporate culture. Acting with honesty, fairness and transparency is the only way to secure the Group's economic success and reputation in the long term.

To achieve this, the Telekom Austria Group has a sophisticated compliance management system based on the central elements of prevention and reaction. To prevent potential misconduct, the Group has expressly included its standards of integrity in its code of values, established clear rules for acting ethically and with integrity in all business relationships, and integrated appropriate controls within its business processes.

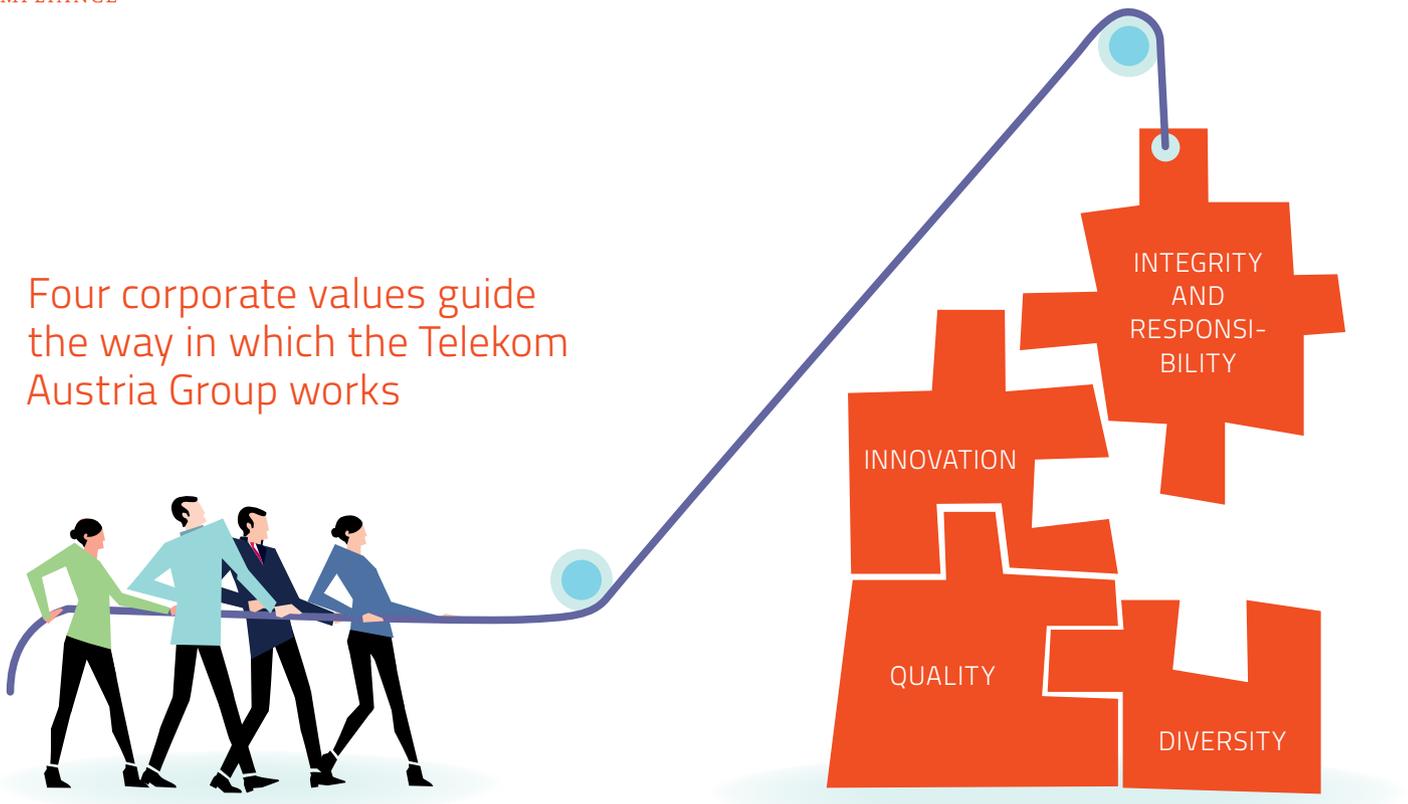
To enable an appropriate response to potential misconduct, indications and evidence are collected via a dedicated portal and addressed in strict confidentiality as part of a structured process. This allows the remediation of any weaknesses and the permanent improvement of the compliance management system. A risk assessment process has identified the following areas as key compliance topics: Corruption prevention and integrity, antitrust law, data protection and capital market compliance.

Group Compliance ensures the consistent implementation of the corresponding measures and instruments at all business units of the Telekom

Austria Group with the support of the local compliance managers at the international subsidiaries. The Telekom Austria Group's compliance management system is consistent with the internationally recognised standards issued by Transparency International and Institut Deutscher Wirtschaftsprüfer (Institute of Public Auditors in Germany). This was confirmed by an independent auditor in 2013.



Four corporate values guide the way in which the Telekom Austria Group works



ACTING WITH INTEGRITY AND RESPONSIBILITY

The Code of Conduct is a central instrument in the Telekom Austria Group's compliance management system. It is aimed at all employees and the entire management team of the Group and is intended to help prevent misconduct with regard to the various decisions that have to be taken every single day. It contains advice and regulations on fair conduct, gifts and personal benefits, confidentiality, conflicts of interest, protecting company assets, indications of violations, communicating the content of the Code of Conduct as well as the Group's whistleblowing principles. Accordingly, the Code of Conduct provides the elementary guidelines for the implementation of integrity as a value in day-to-day business practice.

This is supplemented by Group-wide guidelines providing detailed assistance on concrete topics, such as anti-corruption and conflicts of interest, gifts and invitations, management consulting and lobbying, sponsorship, donations and advertising, capital market compliance and antitrust law.

To ensure that the principle of integrity is sustainably embodied by all of the Group's units in Austria and all of its subsidiaries in Central and Eastern Europe, target group optimised training

on compliance topics takes place on a regular basis. To clarify any questions they may have, Telekom Austria Group employees can also contact the 'ask.me' compliance helpdesk, which dealt with around 350 questions in 2014.

A MATTER OF CORPORATE CULTURE

Systematic adherence to all rules and regulations in the course of the company's day-to-day work makes compliance a central element of the corporate culture. Key factors include, not least, the example set by senior management and the responsibility of all employees for their own actions. Employees and third parties can use the 'tell.me' whistleblower platform to anonymously report information on potential misconduct in order to sustainably prevent and identify potential risks within the Telekom Austria Group. In 2014, approximately 50 tips were submitted via this compliance instrument and carefully investigated by the Group.

The Telekom Austria Group responds to incidents with appropriate sanctions. If an actual case of misconduct is established, the potential consequences range from educational measures and process improvements via reprimands through to dismissals or the termination of business relationships. ✓

CORPORATE GOVERNANCE REPORT

COMMITMENT OF THE TELEKOM AUSTRIA GROUP TO THE AUSTRIAN CORPORATE GOVERNANCE CODE

The shares of Telekom Austria AG have been listed on the Vienna Stock Exchange since November 2000, where the Austrian Corporate Governance Code (ACGC) is generally accepted. The current version of this Code (January 2015) can be viewed at www.corporate-governance.at or www.telekomaustria.com.

The Austrian Corporate Governance Code pursues the goal of the responsible management and control of companies geared towards a sustainable and long-term creation of enterprise value. It aims to ensure a high degree of transparency for all stakeholders and to serve as an important guideline for investors. The Code is based on the provisions of Austrian stock company, stock exchange and capital market law, EU recommendations and the OECD Principles of Corporate Governance. The Telekom Austria Group has been committed to voluntary compliance with the ACGC since 2003. The Group complies with all the legal requirements set out by the ACGC in what are referred to as the 'L' rules.

To explain the deviations from the ACGC's 'C' rules, the Telekom Austria Group has made the following statement regarding Rules 28, 28a and 54 of the ACGC:

- ✓ Stock option plans and programmes for the beneficial transfer of shares, including the long-term and sustainable exercise criteria, are decided upon by the Supervisory Board to ensure optimal alignment with the business plan. The Annual General Meeting on 27 May 2010 introduced a long-term incentive programme which replaced the ESOP stock option programme previously in place as of the 2010

financial year. Details can be found in the Consolidated Financial Statements of the Telekom Austria Group.

- ✓ The company's free float has been less than 20% since 16 October 2014, which is why C Rule 54 is not applicable. The shareholder representatives on the Supervisory Board are appointed in line with the provisions of the shareholders' agreement between the controlling shareholder América Móvil and ÖIAG.

In accordance with Rule 62 of the ACGC, the Telekom Austria Group's compliance with the provisions of the ACGC and the accuracy of its public reporting in association with this are evaluated externally every three years. The most recent evaluation, carried out by Deloitte in early 2014, discovered no facts which conflicted with the declaration made by the Management Board and the Supervisory Board concerning observance of and compliance with the 'C' and 'R' rules of the Austrian Corporate Governance Code for the 2014 financial year.

The Telekom Austria Group participates in the Austrian Working Group for Corporate Governance and is involved in the ongoing development of the standards.

COMPOSITION OF EXECUTIVE BODIES OF THE COMPANY AND EXECUTIVE BODY REMUNERATION

THE MANAGEMENT BOARD

The members of the Management Board of Telekom Austria AG in the 2014 reporting year were Hannes Ametsreiter, CEO, Günther Ottendorfer, CTO, and, since 1 June 2014, Siegfried Mayrhofer, CFO. Siegfried Mayrhofer succeeded Hans Tschuden (CFO and Deputy CEO) as CFO, whose contract was terminated per 31 May 2014.

HANNES AMETSREITER — Member of the Management Board since 1 January 2009, CEO since 1 April 2009, reappointed/extended as of 1 January 2014 until 31 December 2016; the term of office will extend until 31 December 2018 unless the Supervisory Board informs the member no later than two years after his appointment that the latter will end after three years.

Board responsibilities of Hannes Ametsreiter

- ✓ Marketing (Group)
- ✓ Human Resources (Group)/ Personnel Office
- ✓ International Business Development/Corporate Strategy
- ✓ Mergers & Acquisitions
- ✓ Regulation & European Affairs
- ✓ General Secretariat
- ✓ Communication (Group)
- ✓ Internal Audit (Group)

Hannes Ametsreiter was born in Salzburg in 1967. After studying in Austria and the United States, he began his professional career as a brand manager at the international branded goods company Procter & Gamble. His career in the telecommunications sector began in 1996 at mobilkom austria. After holding various positions within the Group, he became Chief Marketing Officer of mobilkom austria AG in 2001.

Hannes Ametsreiter has been the Chairman of the Management Board and CEO of Telekom Austria AG since 1 April 2009. Since 2010 Hannes Ametsreiter has also been the CEO of A1 Telekom Austria AG, which was created by the merger of mobilkom austria AG and Telekom Austria TA AG. He has held supervisory board functions outside the Group since 2013 for Wind Hellas Telecommunications (Greece).

In 2008 Booz & Company awarded Hannes Ametsreiter the international marketing award 'CMO of the Year'. At the '40th Extel Awards' in 2013, the international news agency Thomson Reuters named him 'CEO of the Year' in Austria. In addition, he was a member of the international board of the GSM Association between 2009 and 2012.

SIEGFRIED MAYRHOFER — CFO since 1 June 2014, appointed until 31 May 2015.

Board responsibilities of Siegfried Mayrhofer

- ✓ Investor Relations
- ✓ Controlling (Group)
- ✓ Treasury (Group)
- ✓ Accounting (Group)
- ✓ Purchasing (Group)
- ✓ Legal/General Counsel
- ✓ Group Compliance*

* Reports to the entire Management Board but organisationally assigned to the CFO

Siegfried Mayrhofer, born 1967, studied industrial and mechanical engineering at the Graz University of Technology.

Siegfried Mayrhofer began his professional career in 1994 at Voest Alpine Eisenbahnsysteme in the international division for the acquisition of investments. From 1998 to 2000 he served as a consultant to Constantia Corporate Finance for Mergers & Acquisitions in various industries.

Siegfried Mayrhofer joined Telekom Austria AG in March 2000. After holding various management positions (including Head of Corporate Planning and Group Controlling, Fixed-line Controlling, Fixed-line Accounting), he became CFO of Telekom Austria TA AG in July 2009. Siegfried Mayrhofer has been the Chief Financial Officer of A1 Telekom Austria AG since 8 July 2010.

Siegfried Mayrhofer does not hold any supervisory board mandates outside the Telekom Austria Group.

GÜNTHER OTTENDORFER — CTO since 1 September 2013, appointed until 31 August 2016 — the term in office will extend until 31 March 2018 unless the Supervisory Board informs the member no later than two years after his appointment that the latter will end after three years.

Board responsibilities of Günther Ottendorfer

- ✓ Access & Transport (Group)
- ✓ Operations (Group)
- ✓ Service Network & IT (Group)
- ✓ Technology Strategy (Group)

Born in 1968, Günther Ottendorfer can look back on a successful career in the telecommunications industry going back more than 20 years. From 1987

to 1992 Ottendorfer studied Computer Sciences at the Vienna University of Technology and graduated with honours.

From 1996 Günther Ottendorfer played a key role in the development of the mobile telephony provider max.mobil in Austria. He gathered comprehensive management experience in positions including that of COO and CTO for T-Mobile Österreich, CTO for T-Mobile Deutschland and European Technology Director for T-Mobile International.

In 2011 Günther Ottendorfer was appointed to the Board of Optus Singtel, Australia's second-largest telecommunications provider, where he was responsible for the entire network infrastructure. He also headed the launch of LTE at Optus and initiated several successful efficiency and restructuring programmes.

Günther Ottendorfer does not hold any Supervisory Board mandates outside the Telekom Austria Group.

HANS TSCHUDEN — CFO and Deputy CEO until 31 May 2014.

Hans Tschuden was born in 1958 and is a graduate of the Vienna University of Economics and the International Executive Programme (INSEAD) in Paris. From 1989 Hans Tschuden worked for the Wienerberger Group. In 1999 he became a member of the Wienerberger Management Committee and, in May 2001, he was appointed Chief Financial Officer of Wienerberger AG.

Hans Tschuden was the Chief Financial Officer of Telekom Austria AG from 1 April 2007. He was appointed the Deputy Chairman of the Management Board of Telekom Austria AG on 1 January 2009. Hans Tschuden was named Austria's best CFO in the Thomson Reuters 'Extel Awards' report twice in a row in 2012 and 2013. In April 2014 Hans Tschuden was named 'CFO of the Year' for 2013 in the ATX Prime sector by Deloitte in cooperation with Börse-Express and the CFO Club Austria.

REPORT ON MANAGEMENT BOARD REMUNERATION

The Remuneration Committee is responsible for structuring the remuneration package awarded to the Management Board. In addition to basic remuneration (fixed salary including remuneration in kind), a variable performance-based component was agreed with the members of the Management Board. This performance-based

component is contingent upon the achievement of defined targets and is limited to 150% of the base remuneration. The targets for the reporting year consist of 75% financial figures (return on assets in excess of the costs of capital (weighting 25%), operating free cash flow (weighting 25%) and customer value (weighting 25%)), as well as strategic objectives. The Remuneration Committee decides about the degree of target achievement and the amount of the variable salary component on the basis of the Consolidated Financial Statements and the implementation of strategy. Performance-based remuneration becomes payable after the result for the financial year in question has been resolved, while for Hannes Ametsreiter and Günther Ottendorfer an advance in the amount of 60% of the fixed salary is paid in 14 instalments in the current financial year.

The multi-year share-based long-term incentive programme (LTI) introduced in 2010 continued in the 2014 reporting year with the issue of the 2014 tranche. The second tranche of the LTI programme (LTI 2011) was paid out in the amount of 28% in 2014, following the end of the three-year performance period and the determination by the Remuneration Committee of the degree of achievement. Detailed information about this can be found in the Notes to the Consolidated Financial Statements and the section on the remuneration of the individual members of the Management Board.

REMUNERATION OF THE INDIVIDUAL MEMBERS OF THE MANAGEMENT BOARD

Management Board remuneration in EUR '000	Basic remuneration (fixed salary incl. remuneration in kind)		Variable remuneration		Multi-year share-based remuneration (LTI)		Total remuneration ^{*,**}	
	2014	2013	2014	2013	2014	2013	2014	2013
Hannes Ametsreiter	549	493	631	495	43	55	1,224	1,043
Hans Tschuden ^{**}	205	472	412	474	43	55	660	1,001
Siegfried Mayrhofer ^{**}	268	—	—	—	—	—	268	—
Günther Ottendorfer ^{***}	462	154	330	380 ^{****}	—	—	793	534
Total^{*,**}	1,484	1,118	1,374	1,349	87	111	2,944	2,578

* Until 31 May 2014

** Appointed from 1 June 2014

*** Appointed from 1 September 2013

**** Upon commencing his role on 1 September 2013, Management Board member Günther Ottendorfer received a one-time payment of EUR 290,330 (EUR 114,334 in the form of 20,872 shares in the company) as compensation for the loss of benefits acquired under his former employment contract and for relocating from Australia to Austria). This payment is included in variable remuneration for 2013.

+ The agreement with Hans Tschuden, which was to run until 31 March 2015, was terminated early on 31 May 2014. The figures for 2014 shown in the table do not include termination benefits in connection with the dissolution of the agreement with Hans Tschuden and severance pay amounting to EUR 0.737 mn and EUR 0.850 mn respectively; a further EUR 0.213 mn was paid into the pension fund.

** Deviations in totals due to rounding; year-on-year comparisons make limited sense on account of the expansion of the Management Board from two to three members in September 2013.

The total expense for basic remuneration, including remuneration in kind, of members of the Management Board in 2014 amounted to EUR 1.484 mn (2013: EUR 1.118 mn), while variable remuneration amounted to EUR 1.374 mn (2013: EUR 1.349 mn). EUR 0.087 mn was spent on LTI 2011 in the 2014 reporting year (2013 for LTI 2010: EUR 0.111 mn). On account of the expansion of the Management Board in September 2013, year-on-year comparisons make limited sense. Termination benefits in connection with the dissolution of the contract with Hans Tschuden and severance pay amounted to EUR 0.737 mn and EUR 0.850 mn respectively; a further EUR 0.213 mn was paid into the pension fund.

On 100% attainment of their goals in the context of the new 2014 LTI tranche launched in July 2014, the members of the Management Board were provisionally allocated the following number of Telekom Austria shares: 51,348 shares for Hannes Ametsreiter, 37,650 shares for Siegfried Mayrhofer, 18,622 shares for Hans Tschuden and 43,722 shares for Günther Ottendorfer. Any actual allocation of these shares or cash settlement will occur after the end of the three-year performance period, i. e. not before 1 July 2017, commensurate with the level of achievement of objectives as determined by the Remuneration Committee.

In terms of old-age provisions, the members of the Management Board receive a contribution to their voluntary pension plan, which is paid into a corporate pension fund by the company and amounts to 20% of their respective fixed salary. Members will only receive an eventual pay-out from the corporate pension fund when they are over 55 years of age and no longer in a contractual relationship with the company.

The amount of the severance payment to be paid in the event of the termination of a Board member's appointment is based on the length of their employment and is capped at one year's total remuneration for Hannes Ametsreiter, Siegfried Mayrhofer and Hans Tschuden. The *Mitarbeiter- und Selbstständigenvorsorgegesetz* (BMSVG – Austrian Corporate Employee and Entrepreneur Pension Law) applies to Günther Ottendorfer.

Furthermore, the members of the Management Board are entitled to a company car, and casualty insurance provides cover in the event of death or invalidity. There is also supplementary health

insurance for Management Board members. The members of the Management Board are included in the D&O insurance policy concluded and paid for by Telekom Austria AG. Moreover, there is criminal defence insurance for administrative offences or violations of criminal law.

LONG-TERM INCENTIVE PROGRAMME

The Telekom Austria Group's multi-year share-based long-term incentive programme (LTI) introduced in the 2010 financial year continued in 2014. This incentive scheme, designed for Management Board members, executives and selected employees, has a term of three years for each tranche. The LTI is based on the performance-based allocation of shares. During the programme, participants must hold shares in Telekom Austria, the number of which is determined by the defined number of potential shares for each entitled beneficiary. Any payments are made in cash. The amount of the payment depends on the achievement of targets in the form of key figures defined by the Supervisory Board within a three-year performance period, ranging from 0% to more than 175% of the participant's investment.

The Telekom Austria Group's long-term incentive programme is consistent with the requirements of the Austrian Corporate Governance Code (C Rule 28). The relevant target performance indicators are based on the long-term development of the company. The targets and key performance indicators are determined by the Supervisory Board at the beginning of each tranche. Each performance period is three years long. Free cash flow (weighting 45%), total shareholder return (weighting 35%) and EBITDA (weighting 20%) were defined as the targets/key performance indicators for the 2010, 2011 and 2012 tranches. The targets for the 2013 and 2014 tranches were defined as net income (weighting 30%), EBITDA (weighting 35%) and relative total shareholder return (weighting 35%), which will be assessed versus a defined peer group of nine European telecommunication companies.

BENEFITS UNDER THE LTI PROGRAMME IN THE 2014 REPORTING YEAR

The second LTI tranche (LTI 2011) which had been granted on 1 June 2011 was distributed to the entitled employees of the Group in June 2014 after the end of the three-year performance period. The tranche was paid out in the amount of 28% in line with the level of performance

determined by the Remuneration Committee of the Supervisory Board, at a value of 124,260 bonus shares in total (measured using the average price for the fourth quarter of 2013 of EUR 6.04 and therefore EUR 0.751 mn (2013: EUR 0.936 mn)). Hannes Ametsreiter and Hans Tschuden each received 7,189 shares or an equivalent amount of EUR 0.043 mn (2013: EUR 0.055 mn each).

A detailed description of the long-term incentive programme can be found in the Notes to the Consolidated Financial Statements.

As at 31 December 2014, the members of the Management Board hold the following

shares, some of which serve to satisfy LTI programme participation requirements:

NUMBER OF TELEKOM AUSTRIA SHARES HELD AS AT 31 DEC 2014	of which for LTI participation	
Hannes Ametsreiter	25,674	25,674
Siegfried Mayrhofer	24,750	18,825
Günther Ottendorfer	21,872	21,861

In compliance with the relevant statutory provisions, transactions involving Telekom Austria shares conducted by executives, members of the Supervisory Board and related parties are reported to the Austrian Financial Market Authority (see www.fma.gv.at under 'Directors' Dealings').

REMUNERATION OF SUPERVISORY BOARD MEMBERS

Name	Supervisory Board remuneration awarded for 2013 and paid in 2014 (in EUR)	2014 attendance fees (in EUR)
Rudolf Kemler*	30,000	5,400
Carlos García Moreno Elizondo	–	1,200
Alfred Brogyányi**	8,917.81	2,700
Alejandro Cantú Jiménez	–	1,200
Elisabetta Castiglioni	8,917.81	3,000
Michael Enzinger**	13,376.71	3,000
Henrietta Egerth-Stadlhuber**	15,000	900
Carlos M. Jarque	–	1,200
Reinhard Kraxner	–	1,200
Günther Leonhartsberger*	–	1,200
Peter J. Oswald**	15,000	1,800
Stefan Pinter	–	900
Ronny Pecik	22,500	4,800
Wolfgang Ruttendorfer**	15,000	2,400
Harald Stöber***	15,000	900
Oscar Von Hauske Solís	15,000	3,000
Walter Hotz	–	5,100
Silvia Bauer	–	3,300
Werner Luksch	–	3,600
Alexander Sollak	–	4,500
Gottfried Kehrer****	–	2,400

* Supervisory Board remuneration and attendance fees are paid to ÖIAG.

** Left Supervisory Board on 14 August 2014. The reported remuneration relates to the remuneration awarded for 2013 and paid in the 2014 reporting year.

*** Harald Stöber passed away on 9 May 2014.

**** Name changed from Zehetleitner to Kehrer on 10 October 2014.

SUPERVISORY BOARD MEMBERS

Name (year of birth)	Profession
Rudolf Kemler, Chairman (1956)	Management Board of Österreichische Industrieholding Aktiengesellschaft
Carlos García Moreno Elizondo, Vice Chairman (1957)	CFO América Móvil, S.A.B. de C.V. (Mexico)
Alfred Brogyányi (1948)	Managing Director of OPIKA Wirtschaftsprüfungs- und Steuerberatungsgesellschaft mbH
Alejandro Cantú Jiménez (1972)	General Counsel América Móvil, S.A.B. de C.V. (Mexico)
Elisabetta Castiglioni (1964)	Business consultant
Henrietta Egerth-Stadlhuber (1971)	Managing Director of Österreichische Forschungsförderungsgesellschaft mbH
Michael Enzinger*** (1959)	Lawyer (law firm Lattenmayer, Luks & Enzinger Rechtsanwälte GmbH)
Carlos M. Jarque (1954)	Executive Director International Affairs, Government Relations and Corporate Affairs, América Móvil, S.A.B. de C.V. (Mexico)
Reinhard Kraxner (1970)	Assistant General Counsel Treasury/Finance Philip Morris International Management SA (Switzerland)
Günter Leonhartsberger (1968)	Director and Head of Investment Management and Privatisation Division, Österreichische Industrieholding AG
Peter J. Oswald (1962)	Member of the Boards of Mondi plc (UK) and Mondi Ltd (South Africa) CEO of Mondi AG and Mondi Services AG
Ronny Pecik**** (1962)	Businessman
Stefan Pinter (1978)	Member of Management, Philip Morris Austria GmbH
Wolfgang Ruttendorfer (1950)	
Harald Stöber***** (1952)	Business consultant
Oscar Von Hauske Solís (1957)	CEO Telmex Internacional (Mexico), Chief Fixed-Line Operations Officer América Móvil, S.A.B. de C.V. (Mexico)

Members of the Supervisory Board appointed by the Staff Council

Silvia Bauer (1968)	Member of the Central Works Council of A1 Telekom Austria AG
Walter Hotz (1959)	Chairman of the Central Works Council of A1 Telekom Austria AG
Werner Luksch (1967)	Vice Chairman of the Central Works Council of A1 Telekom Austria AG
Alexander Sollak (1978)	Chairman of the Staff Council Committee of Telekom Austria AG
Gottfried Kehrer***** (1962)	Member of the Central Works Council of A1 Telekom Austria AG

* Term of office ends at the Annual General Meeting dealing with the 2017 financial year (provisionally May 2018).

** Term of office ends at the Annual General Meeting dealing with the 2015 financial year (provisionally May 2016).

*** Second Vice Chairman until 14 August 2014

**** First Vice Chairman until 14 August 2014

***** Harald Stöber passed away on 9 May 2014.

***** Name changed from Zehetleitner to Kehrer on 10 October 2014

Other supervisory board mandates and similar functions at other listed companies (as per the ACGC)	First appointed	End of current term of office on Supervisory Board of Telekom Austria AG or date of departure	Independent as per Rule 53 of the ACGC
Österreichische Post AG (Chairman), OMV AG (Chairman)	01.11.2012	2018*	Yes
Royal KPN N.V. (Netherlands)	14.08.2014	2018*	Yes
	29.05.2013	14.08.2014	Yes
	14.08.2014	2016**	Yes
	29.05.2013	2016**	Yes
	20.05.2008	14.08.2014	Yes
	29.05.2013	14.08.2014	Yes
Grupo Carso S.A.B. de C.V. (Mexico)	14.08.2014	2018*	Yes
	14.08.2014	2016**	Yes
Österreichische Post AG	14.08.2014	2018*	Yes
	20.05.2008	14.08.2014	Yes
	23.05.2012	2018*	Yes
	14.08.2014	2016**	Yes
Flughafen Wien AG, CA Immobilien Anlagen AG (Chairman), RHI AG, NIS a.d.Novi Sad	27.05.2010	14.08.2014	Yes
	04.06.2003	09.05.2014	Yes
Royal KPN N.V. (Netherlands)	23.10.2012	2018*	Yes
	30.01.2009 to 03.11.2010, reappointed on 26.07.2012		
	Reappointed on 06.05.2011		
	03.08.2007 to 20.10.2010, reappointed on 11.01.2011		
	03.11.2010		
	27.10.2010		

SUPERVISORY BOARD

The Supervisory Board of the Telekom Austria Group comprises ten members elected by the Annual General Meeting. The Central Works Council of A1 Telekom Austria AG appoints four members and one member is appointed by the Staff Council of Telekom Austria AG. Employee co-determination on the Supervisory Board is a legally regulated aspect of the corporate governance system in Austria.

Harald Stöber, who had been a member of the Supervisory Board for a number of years, passed away in early May 2014.

All shareholder representatives resigned from office at the end of the Extraordinary General Meeting on 14 August 2014. At the Extraordinary General Meeting on 14 August, a new Supervisory Board was elected as a result of the implementation of the shareholders' agreement between América Móvil and ÖIAG.

INDEPENDENCE OF THE SUPERVISORY BOARD

The guidelines set out by the Supervisory Board in 2006 to determine the independence of its members were adjusted in 2009 to comply with the modified provisions of the Austrian Corporate Governance Code and are consistent with Annex 1 of the current version of the Code. According to these provisions, the members of the Supervisory Board are deemed to be independent if they have no business or personal relations with the company or its Management Board that could result in a material conflict of interest and thus influence the members' behaviour.

The shareholder representatives on the Supervisory Board are appointed in line with the provisions of the shareholders' agreement between the controlling shareholder América Móvil and ÖIAG; they represent the interest of the respective nominating shareholder. The company's free float has been below 20% since 16 October 2014, hence C Rule 54 is not applicable.

REPORT ON SUPERVISORY BOARD REMUNERATION

The Annual General Meeting on 28 May 2014 approved remuneration of EUR 30,000 for the Chairman of the Supervisory Board, EUR 22,500 for the Vice Chairs and EUR 15,000 for all other members for the 2013 financial year. The amount of remuneration was therefore unchanged from

the previous year. Remuneration for the Supervisory Board for 2013 was paid out following the approval of the actions of the Supervisory Board members by the Annual General Meeting in May 2014. Until further notice the attendance fee for meetings of the Supervisory Board is EUR 300 per member and meeting. Total remuneration including attendance fees of EUR 0.212 mn was paid to members of the Supervisory Board in the 2014 financial year (2013: EUR 0.220 mn). In addition, the members of the Supervisory Board are reimbursed for expenses actually incurred for travel and accommodation in connection with Supervisory Board meetings. This applies in particular to members of the Supervisory Board travelling from abroad.

The members of the Supervisory Board are included in the D&O insurance policy taken out and paid for by Telekom Austria AG; there is also criminal defence insurance for administrative offences or violations of criminal law.

In the year under review no member of the Supervisory Board personally attended fewer than 50% of the Supervisory Board meetings.

INFORMATION CONCERNING THE WORKING METHODS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The Telekom Austria Group complies with established principles to ensure sustainable, value-enhancing corporate development and is committed to the principles of transparency and a policy of open communication. The Group-wide areas of competence and responsibility are clearly regulated by the Articles of Association of Telekom Austria AG and the relevant statutory provisions. In addition, the duties, responsibilities and working methods are also described in greater detail in the Rules of Procedure for the Management Board and the Supervisory Board.

The Management Board defines the strategic focus of the Group in consultation with the Supervisory Board and provides the latter with regular reports on the company's current situation including its risk situation. Furthermore, the Supervisory Board is authorised to demand reports from the Management Board at any time on matters concerning the Telekom Austria Group.

The Management Board of Telekom Austria AG is supported by three Group Chief Officers who are responsible for Human Resources, Technology Development and Marketing.

The Supervisory Board has set up four committees, which provide effective support by carrying out preparatory work on selected tasks and issues on behalf of the Supervisory Board.

- ✓ Until 14 August 2014 the Chairing Committee and the Remuneration Committee consisted of Rudolf Kemler (Chairman), Ronny Pecik (first Vice Chairman) and Michael Enzinger (second Vice Chairman). The work of the Chairing Committee was discontinued on 14 August 2014. Rudolf Kemler, Carlos García Moreno (since 14 August 2014) and Oscar Von Hauske Solís (since 14 August 2014) now form the **Remuneration Committee**. This committee is responsible for regulating relationships between the company and the members of the Management Board, including granting approval for additional occupation. Resolutions concerning the appointment of Management Board members (or revocation thereof) and granting stock options in the company are resolved by the Supervisory Board as a whole.
- ✓ In line with the statutory provisions, the **Audit Committee** primarily deals with the audit of and preparation for the adoption of the Annual Financial Statements, the audit of the Consolidated Financial Statements, the proposal for the distribution of profit, the Management Report, the Group Management Report and the Corporate Governance Report. High priority was also given to monitoring the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system. Furthermore, it prepares the selection of the auditor and checks the independence of the auditor of the Annual and Consolidated Financial Statements, particularly with regard to the performance of additional services. As of the end of 2014 the Audit Committee consisted of Carlos García Moreno as its Chairman (since 14 August 2014, previously Rudolf Kemler), Ronny Pecik (since 14 August 2014, previously Alfred Brogyányi) as its financial expert, Elisabetta Castiglioni (since 14 August 2014), Carlos Jarque (since 14 August 2014), Rudolf Kemler, Oscar Von Hauske Solís and Silvia Bauer, Walter Hotz and Alexander Sollak (latter three as employee representatives).

- ✓ The **Staff and Nomination Committee** submits proposals to the Supervisory Board for appointments to positions on the Management Board that have become vacant and also deals with questions of succession planning. Its members are Oscar Von Hauske Solís (since 14 August 2014, Chairman, previously Rudolf Kemler), Alejandro Cantú (since 14 August 2014), Carlos García Moreno (since 14 August 2014), Rudolf Kemler, Ronny Pecik and Walter Hotz, Werner Luksch and Alexander Sollak (since 14 August 2014). In its two meetings the Staff and Nomination Committee drew up two recommendations for the Supervisory Board. These concerned ending the term of office of and employment relationship with Mr Hans Tschuden, and the appointment of Mr Siegfried Mayrhofer as a member of the Management Board for the duration of one year effective 1 June 2014.
- ✓ The **Frequency Committee**, which was created to assist in the Austrian frequency auction in summer 2013, dealt at length with the frequency auction in Slovenia in the first quarter of 2014. After the conclusion of this auction, the Frequency Committee discontinued its work. The Frequency Committee consisted of the following members: Rudolf Kemler (Chairman), Ronny Pecik, Harald Stöber, Michael Enzinger, Walter Hotz and Alexander Sollak.

In the 2014 financial year the Supervisory Board dealt in depth with the strategic orientation of the Telekom Austria Group and its business performance in ten meetings of the Supervisory Board — including one strategy workshop, three meetings of the Audit Committee, one meeting of the Remuneration Committee, two meetings of the Staff and Nomination Committee and two meetings of the Frequency Committee. The main activities of the Supervisory Board in 2014 are compiled in the Supervisory Board's report to the Annual General Meeting, which is also available on the company's website.

MEASURES TO SUPPORT WOMEN

On the Telekom Austria AG Supervisory Board, one of the ten shareholder representatives and one of the five members of the Staff Council are women. There are no women on the Management Board of Telekom Austria AG, though one of the three Chief Group Officers is a woman.

At the subsidiaries of the Telekom Austria Group 20 management positions and eight Supervisory Board positions are held by women.

The Telekom Austria Group has made a voluntary commitment to gradually increase the proportion of women in managerial positions to 35% by the end of 2015. This goal is to be achieved through several initiatives and measures, such as specific programmes for the advancement of women in technical professions, flexible working time models and childcare initiatives, the establishment of a women's network at A1 and, above all, a focus on women in the recruitment and talent management process.

DIRECTORS AND OFFICERS (D&O) INSURANCE

The Telekom Austria Group has concluded a directors and officers (D&O) insurance policy for the members of the Group's Management Board, executives and the members of the Supervisory Board. It also pays the associated costs.

AUDITOR'S FEES

Deloitte Audit Wirtschaftsprüfungs GmbH has credibly demonstrated its impartiality to the Audit Committee of the Supervisory Board, in particular regarding reporting in accordance with section 270 (1a) of the Austrian Business Enterprise Code ('UGB'). A detailed analysis by the Audit Committee revealed no legal obstacle to the appointment of Deloitte Audit Wirtschaftsprüfungs GmbH. The Annual General Meeting on 28 May 2014 appointed Deloitte Audit Wirtschaftsprüfungs GmbH as the auditor of the Annual and Consolidated Financial Statements for the 2014 financial year.

The expenses incurred by the Telekom Austria Group for the audit of the Annual and Consolidated Financial Statements by the Deloitte network amounted to EUR 1.2 mn in the 2014 financial year and were therefore stable year-on-year (2013: EUR 1.2 mn). A further EUR 2.0 mn was incurred for other assurance services by Deloitte in the 2014 financial year.

REPORT BY GROUP INTERNAL AUDIT AND RISK MANAGEMENT

Group Internal Audit is established as a staff unit of the CEO of Telekom Austria AG with a duty to report to the entire Management Board. There are also local Internal Audit units at all material operating subsidiaries of Telekom Austria AG which report to Group Internal Audit.

All companies, divisions and processes fall within the audit purview of Group Internal Audit without restriction. The associated rights and duties, in addition to the regulations for audit activities, are set out in a Group Internal Audit Charter.

Group Internal Audit performs independent and objective audits throughout the entire Group and reports to the Management Board of Telekom Austria AG. Audit subjects are specified as part of an annual audit plan, which is prepared according to risk criteria, and supplemented by ad hoc audit orders as required. After an initial joint evaluation by Group Compliance, reports received via the 'tell.me' whistleblowing system are examined by Internal Audit.

In accordance with C Rule 18 of the Austrian Corporate Governance Code, the head of Group Internal Audit reports to the Audit Committee of the Supervisory Board on the annual audit plan in addition to an annual report on the audits performed and its material findings. Furthermore, significant issues as well as whistleblowing information from the 'tell.me' system are reported by Group Internal Audit intra-year to the Audit Committee of the Supervisory Board.

The Telekom Austria Group's risk management system, which the auditor has reported on to the Audit Committee, enables the Group-wide, structured identification, assessment and processing of risks on the basis of a defined risk policy in addition to strategic and operational objectives. The Audit Committee monitors the functionality and suitability of risk management and the effectiveness of the internal control system.

The internal control system of the Telekom Austria Group serves to ensure the effectiveness and profitability of business activities, the integrity and reliability of financial reporting and compliance with all relevant laws and regulations. To prevent the passing on or misuse of confidential information that might affect the share price, a Group-wide capital market compliance guideline has been implemented and classified units have been defined within the company.

The Telekom Austria Group has also implemented a Group-wide information security policy that governs the use of confidential information such as customer data, traffic data, content data and business and trade secrets. This policy is supple-

mented by country-specific guidelines at a local level. Information security and data protection managers have been appointed at all Group subsidiaries. Regular internal and external audits in addition to staff training ensure the effective implementation of this corporate policy. Since 2005 A1 has been the only network operator in Austria to be certified according to the ISO 27001 standard. It was followed by Vipnet in 2007 and Mobiltel in 2012. The processes stipulated by this standard ensure the highest possible level of data security within the company. Furthermore, since 2014 A1 has also complied with the ISAE 3402 Type II standard, which attests to an effective internal control system for accounting and IT services.

CERTIFIED COMPLIANCE MANAGEMENT SYSTEM OF THE TELEKOM AUSTRIA GROUP

In recent years the Management Board of Telekom Austria AG has taken numerous measures to comprehensively develop the Group-wide compliance management system. The compliance management system of the Telekom Austria Group was audited according to the German audit standard IDW PS 980 in 2013. The audit and consulting company PwC issued Telekom Austria AG with a positive audit report with no comments, i. e. no suggestions for improvement. The audit report can be found here:

http://cdn1.telekomaustria.com/final/en/media/pdf/compliance_report_pwc_cms_en.pdf

The Management Board is regularly informed about activities in the area of compliance management and, in particular, the measures taken to prevent corruption; the Supervisory Board is informed annually. Moreover, the Supervisory Board is informed annually about the capital market compliance activities.

Martin Walter, Group Compliance Director, reports directly to the Management Board and is independent in his work. He is supported by experts in the Group Compliance division and the local compliance managers at the subsidiaries of the Telekom Austria Group. The Telekom Austria Group today has a compliance management system which essentially consists of the core elements of prevention and reaction. The compliance measures necessary for this are firmly established in all divisions of the company.

In 2014 more than 2,000 employees and managers were trained in the areas of corruption prevention and integrity, antitrust law, data protection and IT security and capital market compliance in classroom training sessions, while around 1,500 employees and managers received the same training via e-learning. The compliance helpdesk 'ask.me' is available to employees to answer any questions. 'ask.me' handled around 350 questions in 2014.

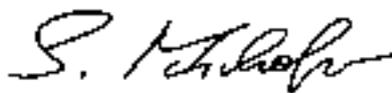
In 2012 the Telekom Austria Group established the whistleblowing platform ('tell.me') to enable employees and third parties to inform anonymously about cases of potential misconduct. Around 50% of the approximately 50 tips received in 2014 were substantiated and investigated further. In instances where misconduct was found to have occurred, consequences extended from individual training to the termination of employment, depending on the extent of the transgression.

Vienna, 22 January 2015

The Management Board



Hannes Ametsreiter
Chairman of the Management Board
Telekom Austria Group



Siegfried Mayrhofer
Chief Financial Officer
Telekom Austria Group



Günther Ottendorfer
Chief Technology Officer
Telekom Austria Group

REPORT BY THE SUPERVISORY BOARD

LADIES AND GENTLEMEN!

The Telekom Austria Group broke new ground and made substantial progress in the 2014 financial year. In terms of ownership, too, a number of important strategic steps were realised in order to ensure continued support for the future development of the Telekom Austria Group. Following the conclusion of the shareholders' agreement between ÖIAG and América Móvil in April 2014, the Telekom Austria Group has a new controlling majority shareholder in the form of América Móvil, which held 59.7% of the shares when the takeover offer was completed on 20 October 2014. Thanks to this stable ownership structure with a long-term focus, the company is well-equipped for the future. The EUR 1 bn capital increase that was implemented in November made an important contribution to the Group's ongoing strategic development, strengthening the capital structure and securing important investments for the future of the company such as the expansion of the fibre network in Austria.

At an operational level, our focus on high-value customer segments, the successful convergence strategy and targeted cost optimisation programmes allowed us to achieve a slight increase in EBITDA comparable in Austria following several years of negative development. In other words, we are moving in the right direction. The Group has also actively addressed the various challenges in its CEE markets. The Republic of Macedonia became the fourth country in which the Group successfully implemented its convergence strategy. The key selling point and requirement for success is the Group's high-quality, high-performance infrastructure, which is kept state of the art through continuous investment. Numerous awards for best network quality reflect the performance of our networks.

Harald Stöber, who had been a member of our Supervisory Board for a number of years, passed

away in early May 2014. He had been a member of the Supervisory Board of Telekom Austria AG since 2003, shaping the Group's development over many years with his extensive expertise as a proven and internationally recognised telecommunications expert.

In the 2014 financial year the Supervisory Board dealt in detail with the issues of strategic orientation, investment and financing decisions as well as the business development of the Telekom Austria Group and its subsidiaries in ten meetings of the Supervisory Board and numerous committee meetings, including a strategy workshop.

In addition, personnel changes in the executive bodies of the company were prepared and implemented. The contract with Chief Financial Officer Hans Tschuden was dissolved with effect from 31 May 2014. He was succeeded by Siegfried Mayrhofer with effect from 1 June 2014.

At the Extraordinary General Meeting on 14 August 2014, the shareholder representatives of the Supervisory Board were newly elected as a result of the implementation of the shareholders' agreement between ÖIAG and América Móvil. All of the elected Supervisory Board members stepped down from their positions with effect from the end of the Extraordinary General Meeting on 14 August. The Extraordinary General Meeting on 14 August 2014 therefore newly elected the members of the Supervisory Board. I would like to take this opportunity to thank the members of the Supervisory Board who have stepped down for their extraordinary commitment and many years of constructive cooperation.

The current general national and international conditions, strategic opportunities and challenges as well as the potential courses of action for optimising business performance were discussed in detail at the strategy workshop of the Supervisory Board, which was held in connection with a

Supervisory Board meeting. In addition to stabilising business performance in its more mature markets, the central objective of corporate strategy is to leverage all potential in the Group's growth markets. In Austria, Bulgaria, Croatia and, since 2014, the Republic of Macedonia, the strategy of advancing convergent communications solutions must be continued successfully. Efficiency enhancements to improve earnings power are also essential for all business units. The main focus of the Supervisory Board meeting in December 2014 was the budget for 2015.

The Supervisory Board of Telekom Austria AG is strongly committed to compliance with the Austrian Corporate Governance Code (ACGC) and to responsible corporate management and control aimed at generating sustainable enterprise value. All ten shareholder representatives have declared their independence within the meaning of Rule 53 of the ACGC. The Supervisory Board also analysed the effectiveness of its activities, organisation and working methods in accordance with Rule 36 of the ACGC.

As provided for by Rule 62 of the ACGC, the Telekom Austria Group's compliance with the provisions of the ACGC and the accuracy of its public reporting in association with this are assessed externally every three years. The most recent evaluation, which was performed by Deloitte Audit Wirtschaftsprüfungs GmbH in early 2014, found no facts that conflicted with the declaration made by the Management Board and the Supervisory Board in the 2014 financial year concerning observance of and compliance with the 'comply or explain' rules or the recommendations of the ACGC.

The Personnel and Nomination Committee prepared the above personnel changes in the Supervisory Board and the Management Board in two meetings.

The Frequency Committee, which was created to assist in the Austrian frequency auction in summer 2013, dealt at length with the frequency auction in Slovenia in the first quarter of 2014. After the conclusion of this auction, the Frequency Committee discontinued its work.

In 2014 the Audit Committee of the Supervisory Board dealt with financial reporting as part of the preparation of the Annual Financial Statements and the quarterly reports in addition to perform-

ing its duties to monitor the effectiveness of the internal control system, risk management and the internal audit system at three meetings. As part of its reporting, Deloitte Audit Wirtschaftsprüfungs GmbH credibly demonstrated its impartiality to the Audit Committee in accordance with section 270 (1a) of the Austrian Business Enterprise Code ('UGB'). The findings of the Audit Committee meetings were reported to the Supervisory Board on an ongoing basis.

The Annual Financial Statements of Telekom Austria AG and the Consolidated Financial Statements for the year ending 31 December 2014 were issued with unqualified audit opinions by Deloitte Audit Wirtschaftsprüfungs GmbH. The Management Report and the Group Management Report are consistent with the Annual Financial Statements and the Consolidated Financial Statements respectively. After prior consultation with the Audit Committee and following an extensive discussion and review, the Supervisory Board approved the Annual Financial Statements for 2014, which have therefore been adopted in accordance with section 96 (4) of the Austrian Stock Corporation Act. After prior consultation with the Audit Committee and following an extensive discussion and review, it also approved the Consolidated Financial Statements prepared in accordance with the IFRSs as prescribed by section 245a of the Austrian Business Enterprise Code, the Management Report, the Group Management Report and the Corporate Governance Report.

The Supervisory Board approved the Management Board's proposal for the appropriation of the net result, namely the distribution of a dividend of 5 Eurocents per eligible share for the 2014 financial year, with the remaining amount being carried forward to new account.

I would like to conclude by thanking the members of the Management Board and all our employees for the impressive commitment they have shown in the challenging 2014 financial year. I would also like to assure the shareholders of Telekom Austria AG that, going forward, the Supervisory Board will continue to actively support and press ahead with the strategic development of the Telekom Austria Group.

Rudolf Kemler
Chairman of the Supervisory Board
Vienna, January 2015

GROUP MANAGEMENT REPORT

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

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

GENERAL ECONOMIC ENVIRONMENT¹⁾

The recovery in the global economy continued in 2014. Despite this, the International Monetary Fund (IMF) cut its forecast for global economic growth to 3.3% in autumn, responding in particular to the slower than expected economic momentum in the first half of 2014. This forecast is 0.3 percentage points lower than in April 2014. The IMF experts are currently anticipating growth of 3.8% in 2015, although the risk of a slowdown has intensified.

While economic growth in the USA was stable year-on-year at 2.2% according to IMF estimates, the figure for China declined slightly from 7.7% to 7.4% in the 2014 financial year, although growth remained robust. According to a forecast published in early November, the European Union economy is set to record growth of 1.3% in 2014 following stagnation in the previous year (+/- 0%).

Based on European Commission estimates, economic growth in Austria improved from 0.2% in the previous year to 0.7% in 2014, and a further upturn of 1.2% is forecast for 2015. Bulgaria is expected to have recorded GDP growth of 1.2% in 2014, while economic growth in Belarus is set to remain unchanged year-on-year at 0.9%. According to EU estimates, GDP growth in the Republic of Macedonia will increase again to 3.3% in 2014. Following a 1.0% slowdown in economic output in the

previous year, Slovenia is expected to have returned to positive development with growth of 2.4% in 2014. By contrast, Croatia looks likely to have again recorded a negative growth rate of 0.7%. Following the floods in spring 2014, the Republic of Serbia is also expected to see a downturn in economic output of 1.0%.

While the US Federal Reserve has held its key interest rate at 0.00–0.25% since 2008 and has ceased its bond buying programme in 2014, the European Central Bank continued with its policy of monetary easing in the year under review. The further intensification of the low interest rate environment led to another two reductions of 10 basis points in June and September 2014 respectively, bringing the key interest rate to its current level of 0.05% as a consequence of the debate on a potential deflation in the eurozone. Further developments that shaped events on the international capital markets included the ongoing civil war in Syria and, in particular, the military conflict in eastern Ukraine and the economic sanctions imposed on Russia. By contrast, the budgetary crises in the peripheral European states have eased slightly, at least for the time being.

INDUSTRY TRENDS AND COMPETITION

The business performance of the Telekom Austria Group is significantly influenced by a number of external factors. In

DEVELOPMENT OF REAL GDP IN THE MARKETS OF TELEKOM AUSTRIA GROUP

in %

	2013	2014e	2015e
Austria	0.2	0.7	1.2
Bulgaria	1.1	1.2	0.6
Croatia	-0.9	-0.7	0.2
Belarus	0.9	0.9	1.5
Slovenia	-1.0	2.4	1.7
Republic of Serbia	2.6	-1.0	0.0
Republic of Macedonia	2.7	3.3	3.4

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

2014, the market environment in both the fixed-line and mobile communications markets again proved to be highly competitive, particularly in the mature markets. This led to sustained pressure on prices, although moderate price adjustments were possible during the course of 2014. Regulatory provisions continued to have a negative effect on revenues and earnings. This applies in particular to termination rates and roaming charges in mobile communications. Meanwhile, the uncertain political and economic situation in the CEE region affected consumer behaviour in many countries. The Telekom Austria Group counters these factors through the systematic implementation of its convergence strategy, a clear focus on high-value customers, innovative products and services as well as strict cost management.

In Austria, the Telekom Austria Group offers a comprehensive and convergent product portfolio comprising both fixed-line and mobile communications solutions under its A1 brand. The latest market report issued by the regulatory authority, which tracked the most recent market data in Austria up to the second quarter of 2014, underlines the high degree of maturity of the Austrian market and describes the following average trends across all operators:

- ✓ Average revenues generated per mobile customer increased slightly year-on-year from EUR 13.9 to EUR 14.3, while end customer revenues also rose marginally. Including wholesale revenues — which include termination rates and roaming charges — revenues in this segment declined by 7% compared with 2013.²⁾ While the number of voice minutes fell slightly compared with the second quarter of 2013 (–5%) and the number of text messages saw a further significant downturn (–26%), the data volume enjoyed significant growth once again, rising by 45%. As previously, the strongest stimulus for this trend came from smartphone tariffs, which rose by 10% to more than 3.42 million.
- ✓ In the Austrian fixed-line market, the trend of fixed-to-mobile substitution continued in the year under review. The number of fixed access lines in households (and the total number of fixed access lines) again declined slightly as against the previous year, whereas the figure for business customers increased slightly (+3%). The share of total voice minutes attributable to fixed lines also fell slightly year-on-year. While 14.5% of all voice minutes were on fixed lines in the second quarter of 2013, this figure amounted to just 14.0% in the same period of 2014. Average telephony revenues per month in the fixed-line segment also remained on a downward trend, declining by 9% for private customers and 7% for business customers. The strong demand for broadband solutions continued in 2014 and resulted in an overall rise of 5% to just over 7.8 million broadband connections. Fixed-line broadband grew by 5%, while mobile broadband (data tariffs and prepaid cards) declined by 2%.

According to Statistik Austria, the share of Austrian households with internet access of any kind remained stable between 2013 and 2014 at 81%. Household broadband lines remained largely unchanged at 79% (compared with 80% in the previous year), while business broadband lines increased further from 93% to 96%.³⁾ While the above indicators collectively suggest increased use of telecommunications solutions, telecom spending as a percentage of users' average income is generally declining at the same time. This is confirmed by the information and communications technology (ICT) price basket, which is published regularly by the International Telecommunication Union (ITU). It calculates spending on the basis of a defined basket of products comprising fixed-line telephony, mobile telephony and fixed broadband services as a percentage of average gross national income per capita. The index value for Austria declined from 1.1% in 2008 to 0.5% in 2013, the year of the most recent report.⁴⁾

In Bulgaria, the high level of competitive intensity and the difficult market environment continued to have a huge influence on pricing for mobile communications services as well as convergent product packages in the year under review. The internet penetration rate across all households increased from 53.7% in the previous year to 56.7% in 2014, with mobile broadband currently being used by 24.8% of all users.⁵⁾

- 1) Sources: GDP for World, USA, China, Belarus: IMF <http://www.imf.org/external/pubs/ft/weo/2014/02/pdf/text.pdf>, dated October 2014, pages 2, 60; European Union, Austria, Bulgaria, Croatia, Slovenia, Republic of Macedonia and Republic of Serbia: http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee7_en.pdf, dated 4 November 2014, pages 1, 116, 122
- 2) https://www.rtr.at/de/komp/TKMonitor_4_2013/TM4_2014.pdf
- 3) http://www.statistik.at/web_de/statistiken/informationsgesellschaft/index.html
- 4) <http://www.itu.int/en/ITU-D/Statistics/Pages/publications/mis2014.aspx>
- 5) <http://www.nsi.bg/en/content/6099/households-who-have-internet-access-home>

ICT SPENDING IN TELEKOM AUSTRIA GROUP MARKETS

in % of gross national income per capita

	2012	2013
Austria	0.7	0.5
Bulgaria	3.5	3.2
Croatia	1.5	1.5
Belarus	1.5	1.0
Slovenia	1.4	1.2
Republic of Serbia	2.9	2.8
Republic of Macedonia	3.0	2.7

The Croatian ICT market was also characterised by high competitive intensity and a strained general economic situation in the year under review. This led to a general reduction in the number of mobile customers in the third quarter of 2014, with the share of prepaid customers increasing within this. By contrast, there was a slight upturn in the number of broadband connections. Total mobile revenues declined significantly between 2013 and 2014⁶⁾, not least due to the heightened regulation that accompanied Croatia's accession to the EU in July 2013. The Croatian government also imposed a substantial increase in frequency fees in July 2014, thereby further significantly impacting operator profitability.

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.⁷⁾

In the Additional Markets segment of the Telekom Austria Group, Slovenia has the most developed ICT market. According to official statistics, there was further growth in user behaviour among mobile communications customers in Slovenia in the year under review, while fixed-line usage declined significantly. Mobile voice minutes increased by 3.6% year-on-year in the first nine months of 2014, with the number of text messages sent rising by 12.4%. By contrast, the number of fixed-line voice minutes fell by 10.6% year-on-year in the first three quarters. The number of mobile users increased compared with the previous year, with contract customers seeing considerably stronger growth (+3.9%) than prepaid customers (+0.9%).⁸⁾

In the Republic of Serbia, the catch-up process in mobile broadband, starting from a far lower level than in the other markets of Telekom Austria Group, continued in 2014. This development was supported by the general expansion in the network infrastructure. 90.6% of all Serbian households now own a mobile phone compared with the figure of 82.0% in 2010.⁹⁾

The ICT market in the Republic of Macedonia is only slowly approaching the standards of Western Europe in terms of user behaviour; both broadband penetration and average revenues are at significantly lower levels. According to the Statistical Office of the Republic of Macedonia, 68.3% of all Macedonian households had internet access in the first quarter of 2014, with broadband connections accounting for 99.1% of this figure. 55.2% of people with internet access used a mobile device to access the web.¹⁰⁾

REGULATION

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

FIXED-LINE TELECOMMUNICATION MARKETS

The Austrian regulatory authority made further rulings in the fourth round of the market review process in 2013 and 2014 as part of the statutory market analysis. It was guided among other things by the European Commission's recommendation pertaining to the regulation of fixed and mobile termination rates of May 2009. Generally, the goal is to harmonise and significantly lower these rates throughout Europe. The new cost accounting models developed under these guidelines provide the basis for the glidepaths which apply to fixed-line and mobile termination rates. In accordance with requirements, Austrian fixed-line and mobile termination rates were already reduced in the previous year with effect from 1 November 2013.

6) http://www.hakom.hr/UserDocsImages/2014/e_trziste/Croatian%20Quarterly%20electronic%20communications%20data,Q32014.pdf;
http://www.hakom.hr/UserDocsImages/2014/e_trziste/KVA%20ENG%20Q3%202014_prepaid%20and%20postpaid%20subscribers_mobile.pdf

7) <http://belstat.gov.by/en/ofitsialnaya-statistika/otrasli-statistiki/transport-i-svyaz/osnovnye-pokazатели-za-period-s-1995-po-2010-gody/main-indicators-of-general-use-communications-development/>

8) http://www.stat.si/eng/novica_prikazi.aspx?id=6722; http://www.stat.si/eng/novica_prikazi.aspx?ID=5959

9) <http://webzrs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indld%3d270101IND01%2662%3d1%2c2%2c3%2c4%2c5%2635%3d6%262%3d%23All%231%26sAr eald%3d270101%26dType%3dName%26lType%3dEnglish>; <http://webzrs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indld%3d270102IND03%262%3d%23All%23%2635%3d6%2c7%2c00%2c8%26sAreald%3d270102%26dType%3dName%26lType%3dEnglish>

10) http://www.stat.gov.mk/PrikaziSoopstenie_en.aspx?rbrtxt=77

GLIDEPATHS FOR MOBILE TERMINATION RATES

in EURc

	Jan 13	Jul 13	Nov 13	Jan 14	Jul 14	Sep 14	Jan 15	Jul 15
Austria	2.01	2.01	0.8049	0.8049	0.8049	0.8049	0.8049	0.8049
Bulgaria	2.35	1.18	1.18	1.02	1.02	1.02	0.97	0.97
Croatia	2.61	2.54*	2.54*	1.69*	1.69*	1.69*	0.83	0.83
Belarus	1.50**	1.50**	1.50**	1.50**	1.50**	1.50**	1.50**	1.50**
Slovenia	3.24	3.24	3.24	3.24	3.24	3.24	3.24	3.24
Republic of Serbia	4.20	4.20	3.72	3.46	3.46	3.46	3.01	3.01
Republic of Macedonia	6.50	6.50	1.95	1.95	1.95	1.46	1.46	1.46

* National mobile termination rates; international termination rates may differ.

** No changes in mobile termination rates in Belarus during the period shown; however, the prices converted into EUR may differ.

Besides British Telecommunications plc in the UK, A1 Telekom Austria AG is the only company in Europe to offer the innovative product of virtual unbundled local access (VULA) as part of its next-generation access (NGA) network expansion. This product has been confirmed by both the national regulatory authority and the European Commission as a central wholesale product for NGA expansion. The requirements of the latest rulings on the wholesale markets 'Physical access' and 'Wholesale broadband' were also formulated accordingly.

After the European Commission vetoed the draft ruling of the Austrian regulator, the Telecom Control Commission (TKK), on the wholesale market for 'Terminating segments of leased lines and Ethernet services', the market analysis was rolled out anew. Following approval by the European Commission in coordination proceedings, the wholesale market for 'Terminating segments of leased lines and Ethernet services' is now regulated by a new ruling of the TKK dated 28 July 2014. With this ruling, leased lines and Ethernet services with high bandwidths were deregulated within 359 Austrian municipalities. In exchange, A1 Telekom Austria AG is obliged for the first time to lease dark fibre to its wholesale customers in rural areas under certain conditions.

Business performance in the international markets of the Telekom Austria Group was influenced by the following regulatory provisions for fixed-line operations: In Bulgaria, termination rates were significantly reduced from 1 July 2013 in accordance with the aforementioned EU recommendation. Until that time, the regulator (CRC) had intended a two-stage path, which came into effect from 1 July 2012, defining prices for local and national termination regardless of whether calls originated domestically or abroad. Since Croatia joined the EU as at 1 July 2013, the same European stipulations on termination rates also apply to all Croatian operators.

MOBILE TELECOMMUNICATION 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 regulations apply in Austria, Bulgaria, Slovenia, Liechtenstein and, since 1 July 2013, Croatia. They define roaming charges and termination rates between individual market players. The regulatory frameworks in Belarus, the Republic of Serbia and the Republic of Macedonia are at different stages of development, but there are also signs of gradual harmonisation with EU regulations.

The EU's Third Roaming Regulation came into effect on 1 July 2012 and, unlike previous regulations, involved a structural solution from 2014. This enabled customers to choose an alternative provider for roaming services regardless of the national operator. This promotes the goal of further increasing competition between operators in Europe. Furthermore, new price caps were set for voice, messaging and data services. Besides the regulatory provisions already in place, the proposal of a uniform European telecommunications market, which has not yet been approved by the European Parliament and the Council of the European Union, would mean further significant market intervention.

While in Austria termination rates remained the same in 2014, they were again reduced in Bulgaria, Croatia and the Republic of Serbia.

International subsidiaries of the Group acquired additional frequency rights in 2014. In the coming years, further spectrum prolongation and auction processes will take place in markets of the Telekom Austria Group.

EU ROAMING GLIDEPATH

Retail (in EURc)	before	Jul 12	Jul 13	Jul 14
Data (per MB)	none	70.0	45.0	20.0
Voice-calls made (per minute)	35.0	29.0	24.0	19.0
Voice-calls received (per minute)	11.0	8.0	7.0	5.0
SMS (per SMS)	11.0	9.0	8.0	6.0
Wholesale (in EURc)	before	Jul 12	Jul 13	Jul 14
Data (per MB)	50.0	25.0	15.0	5.0
Voice (per minute)	18.0	14.0	10.0	5.0
SMS (per SMS)	4.0	3.0	2.0	2.0

INFORMATION ON FINANCIAL REPORTING

The Telekom Austria Group reports on five business segments: Austria, Bulgaria, Croatia, Belarus and Additional Markets.

The segment Corporate & Other performs strategic and management functions for all segments in addition to financing agendas.

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

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

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

APPLICATION OF IAS 29 'FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES'

Taking into account macroeconomic developments, Belarus was classified as a hyperinflationary economy in December 2011, which is why the provisions for financial reporting in hyperinflationary economies as per IAS 29 were then applied for the first time to the Telekom Austria Group's 2011 Consolidated Financial Statements. IAS 29 defines the following indicators of a hyperinflationary economy:

- ✓ Wealth is kept in non-monetary assets, and amounts of local currency held are immediately invested to maintain purchasing power.
- ✓ Prices are quoted in foreign currencies; sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period.
- ✓ Interest rates, wages and prices are linked to a price index.
- ✓ The cumulative inflation rate over three years approaches, or exceeds, 100%.

The provisions concerning 'Financial Reporting in Hyperinflationary Economies' affect several areas of the Consolidated Financial Statements of the Telekom Austria Group as at 31 December 2014, 2013, 2012 and 2011, in addition to — indirectly — those for subsequent periods. Further information can be found in Note (1) to the Consolidated Financial Statements.

REVENUE AND EARNINGS DEVELOPMENT¹¹⁾

In the 2014 financial year, the Telekom Austria Group continued to focus on counteracting revenue losses resulting from competitive price pressure and regulatory intervention through a clear value focus and strict cost management. In Austria, management followed the restructuring of the mobile tariff portfolio implemented in the previous year with measures aimed at existing mobile and fixed-line customers and a significant reduction in handset subsidies, thereby sustainably improving profitability compared with the previous year. In managing its market, A1 Telekom Austria AG primarily focussed on high-value, convergent offerings, the profitable high-value customer segment and the monetisation of rising data demand. To this end, management has also decided to use about EUR 400 mn from the capital increase that was successfully completed in November 2014 for the expansion of the fibre network in Austria between 2015 and 2018. This plan is subject to the announced government subsidy programme as well as annual budget approvals by the Supervisory Board.

KEY FINANCIALS

in EUR million

	2014	2013	Change in %
Revenues	4,018.0	4,183.9	-4.0
EBITDA comparable	1,286.1	1,287.4	-0.1
EBITDA comparable margin	32.0%	30.8%	-
EBITDA incl. effects from restructuring and impairment tests	850.8	1,182.8	-28.1
Operating income	-3.0	318.2	n. m.
Net result	-185.4	52.1	n. m.
Earnings per share (in EUR)	-0.46	0.07	n. m.
Free cash flow per share (in EUR)	0.34	-1.62	n. m.
Capital expenditure*	757.4	1,779.1	-57.4
Net debt	2,693.3	3,758.7	-28.3

Comparative period 2013 was adjusted in accordance with IAS 8 (please refer to Note (1) of the Consolidated Financial Statements).

* Excluding capital expenditure arising from asset retirement obligations

EXPENSES

in EUR million

	2014	2013	Change in %
Material expenses	497.3	547.3	-9.1
Employee costs	876.4	845.9	3.6
Other operating expenses	1,477.1	1,590.5	-7.1
Restructuring charges	89.6	45.2	98.2
Impairment charges	345.7	59.4	n. m.
Depreciation and amortisation	853.8	864.6	-1.2

Comparative period 2013 was adjusted in accordance with IAS 8 (please refer to Note (1) of the Consolidated Financial Statements).

In 2014 the Bulgarian segment suffered from pronounced macroeconomic pressure and an uncertain political situation with an adverse impact on customer behaviour. Changed medium-term macroeconomic expectations and the weak operative performance of Mobiltel in 2014 led to a change in the assessment of the development of the Bulgarian subsidiary Mobiltel. Thus management's previous expectation of a medium-term recovery of the region is no longer sustainable. Due to a change in the weighted average cost of capital (WACC) of the Bulgarian segment as well as changed expectations of the development of the Bulgarian subsidiary Mobiltel an impairment test had to be carried out in June 2014. This resulted in a reduction of the value in use of the cash-generating unit Bulgaria and led to a corresponding impairment of EUR 400 mn, of which EUR 59.4 mn were recognised in 2013 and EUR 340.6 mn in 2014.¹²⁾

REVENUES AND EBITDA COMPARABLE

in EUR million



11) Comparative period 2013 was adjusted in accordance with IAS 8 (please refer to the Notes to the Consolidated Financial Statements (1)).

12) The effects on the items concerned and the related deferred taxes are presented in the Notes to the Consolidated Financial Statements (1).

In Croatia, business operations were also negatively affected by the difficult economic environment, intense competition and regulatory intervention since the country's accession to the EU in July 2013. An increase in frequency usage fees in July 2014 led to tariff adjustments among all operators and additional churn; however, positive fixed-line trends helped to offset some of the losses in the mobile business. Despite the political crisis in Ukraine, velcom in Belarus showed strong operating results as a result of price increases through-

out the year and strong demand for smartphone tariffs as well as higher data volume. The high FX risks became visible again when the Belarusian Rouble devalued in January 2015, which however did not affect the 2014 consolidation. The Additional Markets segment continued to develop positively with the exception of Vip operator in the Republic of Macedonia, which suffered from significant reductions in mobile termination rates in November 2013 and September 2014.

KEY PERFORMANCE INDICATORS TELEKOM AUSTRIA GROUP

in EUR million

Revenues	2014	2013	Change in %
Austria	2,472.0	2,658.6	-7.0
Bulgaria	371.3	399.4	-7.1
Croatia	378.2	389.2	-2.8
Belarus	355.0	331.7	7.0
Additional Markets	481.1	453.5	6.1
Corporate & Other, Eliminations*	-39.6	-48.5	n. m.
Total	4,018.0	4,183.9	-4.0

EBITDA comparable	2014	2013	Change in %
Austria	755.4	745.3	1.4
Bulgaria	143.1	158.6	-9.8
Croatia	84.3	117.6	-28.3
Belarus	172.4	155.9	10.6
Additional Markets	137.0	138.5	-1.1
Corporate & Other, Eliminations*	-6.0	-28.5	n. m.
Total	1,286.1	1,287.4	-0.1

EBITDA incl. effects from restructuring and impairment tests	2014	2013	Change in %
Austria	665.8	700.1	-4.9
Bulgaria	-197.5	99.2	n. m.
Croatia	84.3	117.6	-28.3
Belarus	172.4	155.9	10.6
Additional Markets	131.9	138.5	-4.8
Corporate & Other, Eliminations*	-6.0	-28.5	n. m.
Total	850.8	1,182.8	-28.1

Operating income	2014	2013	Change in %
Austria	157.2	184.0	-14.6
Bulgaria	-284.9	4.6	n. m.
Croatia	15.9	51.8	-69.4
Belarus	82.2	71.6	14.9
Additional Markets	31.8	33.8	-5.8
Corporate & Other, Eliminations*	-5.2	-27.7	n. m.
Total	-3.0	318.2	n. m.

Comparative period 2013 was adjusted in accordance with IAS 8 (please refer to Note (1) of the Consolidated Financial Statements).

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

There were also a range of structural changes in the Additional Markets segment: The acquisition of blizoo Macedonia, which closed on 30 July 2014, will allow Telekom Austria Group to also offer bundled fixed-line and mobile services in the Macedonian market. Furthermore, the Telekom Austria Group and the Telekom Slovenije Group agreed to merge the Macedonian subsidiaries Vip operator and One in October 2014. The transaction requires approval by competition authorities, and the closing is expected for the first quarter of 2015. 2014 also saw the merger of mobilkom liechtenstein with Telecom Liechtenstein; the transaction closed on 27 August 2014. The Telekom Austria Group has a 24.9% interest in the merged entity. As of the third quarter of 2014 this interest has been reported using the equity method and mobilkom liechtenstein is thus no longer included in the Additional Markets segment.

In mobile communications, the Telekom Austria Group saw a slight downturn of 0.5% to approximately 20.0 million customers in the year under review. The Republic of Serbia enjoyed the strongest growth, with the customer base increasing by around 141,800. In Bulgaria the customer base also increased by 39,500. In contrast, A1 Telekom Austria AG in Austria lost around 290,500 customers due to lower gross additions despite the reduced churn. Vipnet in Croatia also lost 102,800 mobile subscribers. In the fixed-line business the company gained around 86,400 access lines at Group level, corresponding to growth of 3.3% to around 2.7 mn access lines. The growth stemmed primarily from the acquisition of blizoo Macedonia; access lines also rose in Austria and Croatia.

As a result of the developments described above, Telekom Austria Group saw a reduction in revenues of 4.0% to EUR 4,018.0 mn in 2014. Higher revenues in the Belarusian and Additional Markets segments were offset by declines in Austria, Bulgaria and Croatia. Negative regulatory effects amounted to EUR 128.2 mn. Revenues in Austria included negative extraordinary net effects from the second quarter in the amount of EUR 28.2 mn, primarily as a result of changes in revenue accounting estimates relating to the introduction of a new fixed-line billing system interface. Adjusted for these extraordinary and negative FX effects in the amount of EUR 46.0 mn, revenues declined by 2.2% compared with the previous year. The Telekom Austria Group's international segments accounted for 39.1% of total revenues in 2014 after 37.2% in the previous year (measured as total consolidated revenues of the international segments to total Group revenues not including Corporate & Other, Eliminations).

The Telekom Austria Group continued to focus on the ongoing optimisation of operating efficiency and strict cost management in 2014. In addition to the reduction in interconnection expenses due to lower mobile termination rates, the 9.1% reduction in material expenses to EUR 497.3 mn and lower marketing and sales expenses were the main factors in the 4.5% reduction in operating expenses to EUR 2,850.9 mn.

Employee costs increased by 3.6% to EUR 876.4 mn, largely as a result of a one-off provision for potential back-payments for civil servants in the amount of EUR 30.1 mn. This provision was the result of a European Court of Justice decision from 11 November 2014, which ruled that the legal framework for the years of service and consequently the term to promotion for Austrian civil servants was not in line with Union law.

Other operating income rose by 36.7% to EUR 119.0 mn in 2014 due to a one-off effect in the amount of EUR 26.8 mn relating to the merger of mobilkom liechtenstein and Telecom Liechtenstein, which was closed on 27 August 2014.

Despite the negative net effects from the above-mentioned one-offs, EBITDA comparable fell by only 0.1% to EUR 1,286.1 mn in the 2014 financial year, largely as a result of the reduction in operating expenses. The segments Austria and Belarus saw growth in EBITDA comparable of 1.4% and 10.6% respectively, thereby nearly offsetting declines of 9.8%, 28.3% and 1.1% in Bulgaria, Croatia and the Additional Markets segment. Excluding the extraordinary effects from the fixed-line business and employee costs in Austria as well as the one-off effect in Liechtenstein, and adjusted for negative foreign exchange effects in the amount of EUR 20.1 mn, EBITDA comparable increased by 3.9% compared with the previous year. All in all, the EBITDA comparable margin improved from 30.8% in the previous year to 32.0% in the year under review.

Restructuring expenses, which relate entirely to the Austrian segment, amounted to EUR 89.6 mn in the year under review after EUR 45.2 mn in the previous year. They include social plans for employees whose employment contracts are being terminated in a socially responsible manner, and future expenses for civil servants who no longer provide services to Telekom Austria Group, but whose employment contracts cannot be terminated due to their civil servant status. The cost savings from the fewer employees accepting social plans were insufficient to offset the negative effects of an interest rate adjustment affecting the valuation of the restructuring provision in the amount of EUR 42.6 mn as well as a provision for payments to civil servants in the amount of EUR 15.0 mn. In addition, a change in the weighted average cost of capital (WACC) of the Bulgarian segment and the revised expectations for the development of MobilTel led to the above-mentioned impairment charge. In the Republic of Macedonia Telekom Austria Group also booked an impairment of EUR 5.1 mn in the fourth quarter of 2014 as a result of changes in the weighted average cost of capital (WACC) for Vip operator.

Largely as a result of this impairment charge, EBITDA including the effects of restructuring and impairment testing declined by 28.1% to EUR 850.8 mn. Depreciation and amortisation fell slightly year-on-year by 1.2% to EUR 853.8 mn. Operating income declined from EUR 318.2 mn in the previous year to a negative EUR 3.0 mn.

COMPANY KEY FIGURES

	2014	2013	Change in %
Earnings per share (in EUR)	-0.46	0.07	n. m.
Dividend per share (in EUR)	0.05*	0.05	n. m.
Free cash flow per share (in EUR)	0.34	-1.62	n. m.
ROE	-10.1%	4.9%	-
ROIC	-0.1%	2.4%	-

Comparative period 2013 was adjusted in accordance with IAS 8 (please refer to Note (1) of the Consolidated Financial Statements).

* Proposal to the 2014 Annual General Meeting, which will take place on 27 May 2015

The Telekom Austria Group recorded a financial result of EUR 181.1 mn in the year under review, 6.1% lower than in the previous year. This was primarily attributable to the EUR 11.8 mn reduction in interest expenses due to the recognition of a net loss in connection with the forward starting interest rate swaps. Interest income also declined slightly to around EUR 14.6 mn. FX differences amounted to a negative EUR 1.9 mn after a negative EUR 4.3 mn in 2013 as a result of the higher level of FX gains in the year under review.

Tax expenses fell from EUR 73.1 mn in 2013 to EUR 1.3 mn in the year under review due to the higher capitalised deferred taxes.

Overall, the Telekom Austria Group reported a negative net income of EUR 185.4 mn in 2014 compared with a positive EUR 52.1 mn in the previous year.

NET ASSETS AND FINANCIAL POSITION

Total assets increased by 6.6% year-on-year to EUR 8,316.4 mn as at 31 December 2014 due to the higher level of cash and cash equivalents resulting from the capital increase that was concluded in November 2014.

Higher cash and cash equivalents were also the main reason for current assets rising by 67.6% to EUR 2,047.3 mn in the year under review. Accounts receivable fell by 12.3 % year-on-

BALANCE SHEET STRUCTURE

in EUR million	31 Dec 2014	As % of the balance sheet total	31 Dec 2013	As % of the balance sheet total
Current assets	2,047.3	24.6	1,221.2	15.7
Property, plant and equipment	2,246.1	27.0	2,308.1	29.6
Goodwill	1,189.5	14.3	1,522.5	19.5
Other intangible assets	2,570.1	30.9	2,590.3	33.2
Other assets	263.4	3.2	158.5	2.0
ASSETS	8,316.4	100.0	7,800.6	100.0
Current liabilities	1,537.5	18.5	1,442.3	18.5
Long-term debt	3,385.0	40.7	3,737.7	47.9
Employee benefit obligation	200.9	2.4	164.3	2.1
Non-current provisions	867.5	10.4	881.4	11.3
Other long-term liabilities	107.4	1.3	115.8	1.5
Stockholders' equity	2,218.0	26.7	1,459.1	18.7
LIABILITIES AND STOCKHOLDERS' EQUITY	8,316.4	100.0	7,800.6	100.0

Comparative period 2013 was adjusted in accordance with IAS 8 (please refer to Note (1) of the Consolidated Financial Statements).

year, as a result of lower revenues as well as a change in revenue accounting estimates relating to the introduction of a new fixed-line billing system interface. Non-current assets fell by 4.7% to EUR 6,269.1 mn, mainly due to a reduction in goodwill following the impairment at Mobiltel in Bulgaria. This was only partially offset by the increase in deferred taxes and investments in associations following the merger of mobilkom liechtenstein and Telecom Liechtenstein, in which the Telekom Austria Group now holds a 24.9% equity interest.

Current liabilities increased by 48.0% to EUR 340.8 mn in 2014, largely as a result of maturing loans. Long-term debt declined due to the reclassification of maturing loans as well as the early repayment of loans by 9.4% to EUR 3,385.0 mn. Employee benefit obligations increased by EUR 36.6 mn following the reduction in the interest rate applied in their valuation.

Dividend payments for the 2014 reporting year amounted to EUR 56.0 mn compared with EUR 22.2 mn in the previous year; this was due to first-time payments to the creditors of the EUR 600 mn hybrid bond. The rise in equity from EUR 1,459.1 mn to EUR 2,218.0 mn was primarily attributable to the successful completion of the capital increase in November 2014, which more than compensated the reduction in retained earnings. This also entailed an increase in the equity ratio as at 31 December 2014 to 26.7% after 18.7% as at 31 December 2013.

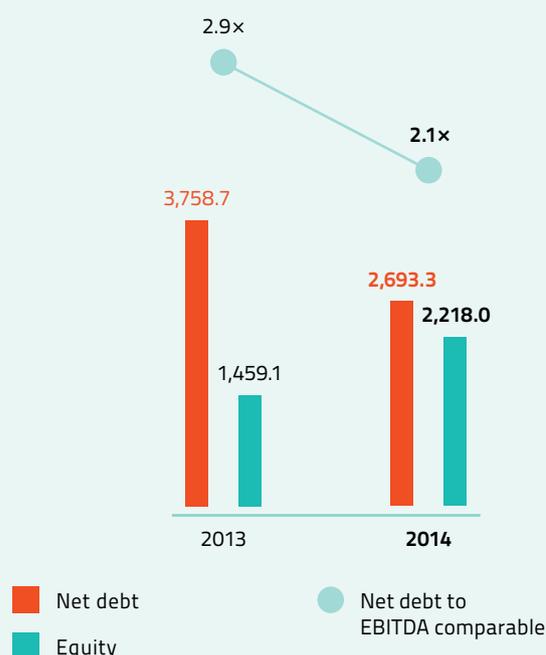
NET DEBT¹³⁾

Net debt of the Telekom Austria Group fell by 28.3% to EUR 2,693.3 mn in the year under review as a result of the lower level of long-term debt and the increase in cash and cash equivalents following the capital increase. Together with the stable EBITDA comparable, this resulted in an increase of the net debt to EBITDA comparable ratio from 2.9x in the previous year to 2.1x in 2014.

13) As of 31 December 2014 long-term financial investments, instalment sales receivables and financial leasing are no longer included in the calculation of net debt; comparative figures were restated accordingly.

NET DEBT AND EQUITY

in EUR million



NET DEBT*

in EUR million

	31 Dec 2014	31 Dec 2013
Long-term debt	3,385.0	3,737.7
Short-term borrowings	340.8	232.2
Cash and cash equivalents, short-term investments	-1,032.5	-211.2
Derivative financial instruments for hedging purposes	0.0	0.0
Net debt Telekom Austria Group	2,693.3	3,758.7
Net debt/EBITDA comparable	2.1x	2.9x

* As of 31 December 2014 long-term financial investments, instalment sales receivables and financial leasing are no longer included in the calculation of net debt; comparative figures were restated accordingly.

CASH FLOW

in EUR million

	2014	2013	Change in %
Cash flow generated from operations	901.4	1,051.6	-14.3
Cash flow used in investing activities	-781.6	-2,021.4	n. m.
Cash flow generated from (used in) financing activities	696.5	569.6	22.3
Effects of exchange rate changes	-0.1	1.8	n. m.
Loss of purchasing power on cash and cash equivalents	0.5	-1.0	n. m.
Change in cash and cash equivalents	816.7	-399.4	n. m.

CASH FLOW

The cash flow from operating activities fell by 14.3% in the reporting year to EUR 901.4 mn. As the gross cash flow rose by 4.7% for operational reasons, this downturn was attributable to the large increase in working capital. The higher working capital requirements were primarily due to the increase in prepaid expenses as a result of increased demand for instalment plans in Croatia, Austria, Belarus, Slovenia and the Republic of Serbia, as well as the continued utilisation of the restructuring provision. In addition, accounts payable declined particularly in Austria in the year under review due to the lower level of outstanding liabilities to suppliers.

The cash flow used for investing activities fell from EUR 2,021.4 mn in the previous year to EUR 781.6 mn in the year under review, consisting primarily of regular CAPEX and expenditure for spectrum acquisitions in Bulgaria and Slovenia as well as the acquisition of blizoo Macedonia. The year-on-year reduction was mainly due to the acquisition of mobile frequencies and intellectual property rights, frequencies and collocation rights for base stations from Orange Austria in 2013.

The cash flow from financing activities increased from EUR 569.6 mn in the previous year to EUR 696.5 mn in the year under review. Cash outflows for the repayment of liabilities and the increased dividend due to payments to owners of the hybrid bond were more than offset by the EUR 996.6 mn capital increase.

As a result, cash and cash equivalents increased to EUR 816.7 mn compared with a negative EUR 399.4 mn at year-end 2013.

Free cash flow, which includes income from the disposal of property, plant and equipment and intangible assets, increased from a negative EUR 716.7 mn in the previous year to a positive EUR 156.1 mn in the year under review. This was the result of the lower cash flow used for investing activities due to the acquisition of mobile frequencies in Austria in 2013.

CAPITAL EXPENDITURE

Capital expenditure declined significantly to EUR 757.4 mn in the year under review (2013: EUR 1,779.1 mn). This was primarily due to the high costs in connection with the Austrian multiband auction and the acquisition of intellectual property rights, frequencies and collocation rights for base stations from Orange Austria in 2013.

Tangible capital expenditure remained stable at EUR 488.6 mn, as reductions in Austria and the Republic of Serbia could not compensate stable or higher investments in the other markets and in Belarus in particular. In Austria, tangible capital expenditure declined due to the completion of the project introducing All-IP in the fixed-line business and due to reduced expenses for customer handsets and infrastructure. In Belarus, tangible capital expenditure increased mainly on the back of higher investment in the network and IT infrastructure. Tangible capital expenditure in the Republic of Serbia declined by EUR 14.8 mn largely as a result of a change in the revenue recognition for handsets; this was partially offset by increased network investments.

The reduction in intangible capital expenditure to EUR 268.8 mn (2013: EUR 1,292.1 mn) is largely due to the acquisition of mobile frequencies in the Austrian multi-band auction and intellectual property rights, frequencies and collocation rights for base stations from Orange Austria in the previous year. In Bulgaria intangible capital expenditure increased year-on-year following the prolongation of 900 MHz and 1800 MHz frequency bands for EUR 30.6 mn in April 2014. By contrast, intangible capital expenditure in Croatia declined due to the EUR 23.1 mn acquisition of mobile frequencies in 2013. In Slovenia the acquisition of mobile spectrum for EUR 63.9 mn in the year under review led to a further significant increase in intangible assets, while the lower intangible capital expenditure in the Republic of Macedonia was attributable to the acquisition of the LTE spectrum in 2013 for EUR 10.3 mn.

CAPITAL EXPENDITURE*

in EUR million

	2014	2013	Change in %
Tangible Austria	288.4	306.3	-5.9
Tangible Bulgaria	45.3	37.6	20.5
Tangible Croatia	57.7	51.5	12.1
Tangible Belarus	42.2	28.8	46.6
Tangible Additional Markets	55.0	62.7	-12.4
Total tangible	488.6	487.0	0.3
Intangible Austria	110.3	1,203.5	-90.8
Intangible Bulgaria	57.6	22.5	155.2
Intangible Croatia	12.2	30.9	-60.4
Intangible Belarus	6.2	5.2	20.3
Intangible Additional Markets	82.5	30.0	174.5
Total intangible	268.8	1,292.1	-79.2
Total capital expenditure*	757.4	1,779.1	-57.4

* Excluding capital expenditure arising from asset retirement obligations

SEGMENT ANALYSIS

SEGMENT AUSTRIA

For A1 Telekom Austria AG, 2014 was again dominated by the turnaround strategy and its focus on the premium customer segment, with the aim of counteracting the continued headwinds of competition and regulation. Following the fundamental changes to the tariff structure for new customers in the previous year, A1 Telekom Austria AG was able to generate important momentum for a sustainable improvement in profitability in the year under review by implementing tariff adjustments for existing customers and significantly reducing handset subsidies for new and existing customers. The tariff adjustments led to increased churn and negative net additions in the second quarter of 2014; however, these trends normalised in the third quarter of 2014. The Austrian mobile communications market was again characterised by intense competition in 2014, which intensified towards the end of the year with the entry or the announcement of the entry of additional mobile virtual network operators (MVNOs). Further reductions in roaming charges in July 2013 and July 2014 and mobile termination rates in November 2013 resulted in further pressure on revenues, which the company attempted to mitigate with extensive cost-cutting measures.

Convergent product packages remained a central element of the operational strategy in 2014, so as to counteract the ongoing substitution of fixed-line voice telephony with mobile

communications. In its fixed-line business, the company also focused increasingly on the development of broadband capacities and services in the year under review, with the aim of meeting the rising demand for data volume. Management team has allocated EUR 400.0 mn of the funds generated from the successful capital increase in November 2014 to the expansion of the fibre network in Austria between 2015 and 2018. This plan is subject to the announced government subsidy programme as well as annual budget approvals by the Supervisory Board.

In the year under review, A1 Telekom Austria AG saw a 5.1% decline in the number of mobile communication customers to approximately 5.4 million, with the significant reduction in churn failing to offset lower gross additions as a result of less market rotation compared with the previous year. Accordingly, A1 Telekom Austria AG's market share fell by 1.5 percentage points to 41.1%. The number of fixed access lines rose slightly by 3,200 lines year-on-year. Broadband and A1 TV enjoyed considerable year-on-year growth of 5.7% and 6.9% to 1,469.1 million and 251,800 customers respectively. The growth in broadband was driven by the increasing demand for 16 and 30 Mbps products. In contrast to the positive developments in broadband and TV, fixed-line voice minutes continued to fall by 12.8% (2013: -10.5%) resulting from the above-mentioned substitution of fixed-line telephony with mobile communications.

KEY PERFORMANCE INDICATORS AUSTRIA

Key financials (in EUR million)	2014	2013	Change in %
Revenues	2,472.0	2,658.6	-7.0
of which monthly fee and traffic	1,777.2	1,843.3	-3.6
of which data and ICT solutions	220.7	224.7	-1.7
of which wholesale (incl. roaming)	147.7	140.9	4.9
of which interconnection	191.8	260.5	-26.4
of which equipment	112.9	170.0	-33.6
of which other	21.6	19.2	12.3
EBITDA comparable	755.4	745.3	1.4
EBITDA comparable margin	30.6%	28.0%	-
EBITDA incl. effects from restructuring and impairment tests	665.8	700.1	-4.9
Operating income	157.2	184.0	-14.6
Capital expenditure	398.7	1,509.8	-73.6
Mobile communication*			
ARPU (in EUR)	16.2	16.1	0.5
Mobile communication subscribers (in '000)	5,424.1	5,714.5	-5.1
Share of contract customers	70.2%	69.4%	-
Market share	41.1%	42.6%	-
Mobile broadband subscribers (in '000)	714.9	816.4	-12.4
Penetration	155.1%	158.1%	-
Fixed line			
ARPL (in EUR)	30.4	31.3	-2.9
Total access lines (in '000)	2,287.1	2,283.9	0.1
of which fixed broadband lines	1,469.1	1,390.2	5.7
of which retail	1,433.1	1,352.2	6.0
of which wholesale	36.1	38.0	-5.1
Unbundled lines (in '000)	239.3	250.0	-4.3
Fixed line voice traffic (in million minutes)	1,821.9	2,090.1	-12.8
of which domestic traffic	1,138.1	1,342.2	-15.2
of which fixed-to-mobile traffic	483.5	521.5	-7.3
of which international fixed-line traffic	200.3	226.3	-11.5
Mobile and fixed broadband penetration in Austria in % of households	124.3%	121.2%	-
Employees (full-time equivalents as of 31 Dec)	8,635	8,804	-1.9

* The methodology for counting mobile subscribers has been changed with effect from the second quarter of 2013. The figures for the first quarter of 2013 were adjusted retrospectively.

OPERATING EXPENSES AUSTRIA

in EUR million

	2014	2013	Change in %
Material expenses	237.2	343.6	-30.9
Employee costs	704.2	683.7	3.0
Other operating expenses	861.7	973.5	11.5
Restructuring charges	89.6	45.2	98.2
Depreciation and amortisation	508.6	516.1	1.4

On the revenue side, the operational measures described above were not sufficient to offset the negative effects of competition and regulation in the year under review, with the result that the Austrian segment reported a drop in revenues of 7.0% to EUR 2,472.0 mn for 2014. Revenues in Austria included negative extraordinary net effects from the second quarter of 2014 in the amount of EUR 28.2 mn, primarily as a result of changes in revenue accounting estimates relating to the introduction of a new fixed-line billing system interface. This adversely impacted monthly fee and traffic revenues by EUR 39.4 mn and data and ICT solutions by EUR 7.8 mn. Among other things, the reversal of provisions and deferrals had a positive effect on wholesale revenues (incl. roaming) of EUR 17.0 mn and on other revenues of EUR 2.0 mn. Adjusted for these effects, revenues declined by 6.0% year-on-year.

The downturn in revenues is primarily attributable to interconnection revenues and revenues from the sale of equipment, as well as monthly fee and traffic revenues. Despite increased usage in the transit business, interconnection revenues declined by 26.4% to EUR 191.8 mn as a result of lower termination rates. All in all, regulatory effects negatively impacted revenues by EUR 77.0 mn. In addition, lower gross additions as a result of reduced subsidies meant that revenues from the sale of equipment declined by 33.6% to EUR 112.9 mn. Monthly fee and traffic revenues fell by 3.6% to EUR 1,777.2 mn; adjusted for the aforementioned extraordinary effects, however, the reduction fell to 1.4%. Increased monthly fixed fees could not offset lower customer roaming and airtime revenues. Declining voice minutes continued to negatively impact fixed-line revenues, but were partly compensated by gains in TV and broadband.

Average monthly revenues per mobile user (ARPU) rose from EUR 16.1 in 2013 to EUR 16.2 in the year under review, with the positive effects from increased fixed fees and the higher proportion of premium customers offsetting the negative impact of regulation and lower variable mobile revenues. Given the further decline in the fixed-line voice business, which was only partially mitigated by higher revenues from broadband and A1 TV, average monthly revenue per fixed access line (ARPL) fell to EUR 30.4 in 2014 (2013: EUR 31.3).

The reduction in material expenses and termination rates had a positive impact on operating expenses, which fell by 9.9% to around EUR 1,803.1 mn in the year under review. Material expenses fell by 30.9% to EUR 237.2 mn, largely as a result of the reduction in subsidies and reduced gross additions. Lower prices also meant that interconnection expenses declined sharply by 25.0% to EUR 180.0 mn. Further cost savings were generated in marketing and sales, maintenance, consulting, service and energy. By contrast, employee costs rose by 3.0% to EUR 704.2 mn. This was due to a one-off effect of EUR 30.1 mn as a result of a provision for potential subsequent payments to civil servants. This provision was the result of a European

Court of Justice decision from 11 November 2014, which ruled that the legal framework for the years of service and consequently the term to promotion for Austrian civil servants was not in line with Union law.

Despite lower revenues, the reduction in operating expenses resulted in an increase in EBITDA comparable by 1.4% to EUR 755.4 mn in the year under review. All in all, regulatory effects had a negative impact of EUR 19.5 mn on EBITDA comparable. Adjusted for the extraordinary effects in fixed-line and employee costs, EBITDA comparable increased by 9.2%. The EBITDA comparable margin also increased from 28.0% in the previous year to 30.6% in 2014.

Restructuring expenses of EUR 89.6 mn were recognised in the Austrian segment in the 2014 reporting year (2013: EUR 45.2 mn). These include social plans for employees whose employment contracts are being terminated in a socially responsible manner, and future expenses for civil servants who no longer provide services to the Telekom Austria Group, but whose employment contracts cannot be terminated due to their civil servant status. The cost savings from the fewer employees accepting social plans were insufficient to offset the negative effects of an interest rate adjustment affecting the valuation of the restructuring provision in the amount of EUR 42.6 mn as well as a provision for payments to civil servants in the amount of EUR 15.0 mn. As a result, EBITDA including the effects of restructuring and impairment testing declined by 4.9% to EUR 665.8 mn.

Depreciation and amortisation declined by 1.4% to EUR 508.6 mn, with lower depreciation for fixed-line infrastructure more than offsetting the increase in amortisation for the mobile spectrum acquired in October 2013. As a result of the developments described above, the operating income of the Austrian segment amounted to EUR 157.2 mn, 14.6% below the figure for the previous year.

SEGMENT BULGARIA

The market environment in Bulgaria was dominated by the weak economy and the uncertain political situation in 2014, with the associated negative impact on demand and the purchasing power of customers. The worsening of long-term macroeconomic expectations, which were the result of structural impediments and negatively affected economic development, resulted in a downgrade of Bulgaria's long-term sovereign credit rating by S&P to BBB- in June 2014 and to BB+ in December 2014. Furthermore, business performance was adversely affected by the intense competitive environment and harsh regulatory effects. Operationally, Mobiltel counteracted these challenges by focusing on value creation through up- and cross-selling, convergent product bundles and the retention of premium customers. Management also aimed to mitigate revenue pressure on profitability by way of strict cost management.

Despite massive price pressure, Mobiltel succeeded in slightly increasing its mobile customer base in the year under review, largely on the back of growth in the no-frills and business segments. Mobiltel's market share, however, declined further from 39.0% to 37.6%. The ongoing increase in the use of data

led to a further increase in mobile broadband customers by 29.0% to over 248,900. Moreover, the year-on-year number of smartphone customers using voice and data packages nearly doubled due to successful upselling. The number of fixed-line customers declined by 3.9% to around 153,600, largely as a result of the loss of business broadband customers. The number of broadband customers fell by 6.4% year-on-year. After the launch of a DTH offering the TV business saw substantial growth in its customer base of 8.2%.

Revenues in the year under review were impacted by negative effects in the form of a further reduction in prices and termination rates, declining by 7.1% year-on-year to EUR 371.3 mn despite positive momentum from the growing importance of mobile data traffic. Monthly fee and traffic revenues fell considerably as a result of price pressure in the retail and business segments. Higher fixed service revenues could not compensate for the weak trend in the mobile business. In addition, the reduction in termination rates with effect from 1 July 2013 and 1 January 2014 and roaming charges with effect from 1 July 2013 and 1 July 2014 had a negative impact on interconnection and roaming revenues.

KEY PERFORMANCE INDICATORS BULGARIA

Key financials (in EUR million)	2014	2013	Change in %
Revenues	371.3	399.4	-7.1
EBITDA comparable	143.1	158.6	-9.8
EBITDA comparable margin	38.5%	39.7%	-
EBITDA incl. effects from restructuring and impairment tests	-197.5	99.2	n. m.
Operating income	-284.9	4.6	n. m.
Capital expenditure	102.9	60.2	71.0
Mobile communication*			
ARPU (in EUR)	6.1	6.3	-4.2
Mobile communication subscribers (in '000)	4,221.0	4,181.5	0.9
Share of contract customers	78.7%	78.7%	-
Market share	37.6%	39.0%	-
Mobile broadband subscribers (in '000)**	248.9	192.9	29.0
Penetration	152.7%	144.8%	-
Fixed line			
ARPL (in EUR)	14.4	13.5	6.9
Total access lines (in '000)	153.6	159.9	-3.9
of which fixed broadband lines	145.1	155.0	-6.4
Employees (full-time equivalents as of 31 Dec)	2,527	2,647	-4.6

* The methodology for counting mobile and fixed-line subscribers has been changed with effect from the fourth quarter of 2013. The figures for the previous quarters of 2013 were adjusted retrospectively.

** The methodology for counting mobile broadband customers has been changed to exclusively include data-only tariffs with effect from the first quarter of 2013.

The developments described above were reflected in a reduction in average monthly revenue per mobile user (ARPU) to EUR 6.1 (2013: EUR 6.3). By contrast, average monthly revenue per access line (ARPL) increased to EUR 14.4 (2013: EUR 13.5) as a result of the higher ARPL for business customers. Fixed service revenues also rose by 1.4% to EUR 26.6 mn.

To counteract the difficult operating environment, Mobiltel's management team continued to focus on effective cost management in the year under review. Increased material expenses from the sale of higher-quality equipment due to increased subsidies for customer retention, among other things, were balanced by the reduction in expenses for fines and penalties. Interconnection and roaming expenses also declined as a result of the aforementioned regulatory effects. Employee costs were also reduced by means of restructuring, the optimisation of FTEs and outsourcing. As a result total operating expenses fell by 4.4% to EUR 241.7 mn.

The improved cost base helped to partly mitigate the negative impact of lower revenues on EBITDA comparable, which fell by 9.8% to EUR 143.1 mn in the year under review.

Depreciation and amortisation decreased by 7.7% year-on-year in 2014 as a result of lower monthly amortisation for mobile network infrastructure as well as for the prolonged GSM licence. In addition, a change in the weighted average cost of capital (WACC) of the Bulgarian segment and changed macroeconomic expectations for Bulgaria in the medium term as well as the resulting revised outlook for the development of the Bulgarian subsidiary led to an impairment charge. All in all, the impairment resulted in negative operating income of EUR 284.9 mn in the year under review compared with a positive figure of EUR 4.6 mn in 2013.

SEGMENT CROATIA

In Croatia the performance of the mobile business was again negatively affected by the difficult economic environment and intense competition in 2014. Earnings were impacted by regulatory intervention after Croatia's accession to the EU in July 2013, while the increase in frequency usage fees in July 2014 resulted in additional pressure. Subsequent tariff adjustments by all operators led to increased churn, which Vipnet counteracted in the third quarter of 2014 with higher subsidies. In contrast to the mobile segment, the fixed-line

KEY PERFORMANCE INDICATORS CROATIA

Key financials (in EUR million)	2014	2013	Change in %
Revenues	378.2	389.2	-2.8
EBITDA comparable	84.3	117.6	-28.3
EBITDA comparable margin	22.3%	30.2%	-
EBITDA incl. effects from restructuring and impairment tests	84.3	117.6	-28.3
Operating income	15.9	51.8	-69.4
Capital expenditure	70.0	82.4	-15.1
Mobile communication			
ARPU (in EUR)	11.1	11.6	-4.3
Mobile communication subscribers (in '000)	1,741.0	1,843.8	-5.6
Share of contract customers	46.8%	45.1%	-
Market share	36.0%	37.3%	-
Mobile broadband subscribers (in '000)*	144.2	168.8	-14.6
Penetration	112.6%	115.1%	-
Fixed line			
ARPL (in EUR)	21.4	22.7	-5.8
Total access lines (in '000)	219.9	193.1	13.9
of which fixed broadband lines	136.0	109.2	24.5
Employees (full-time equivalents as of 31 Dec)	1,151	1,138	1.1

* The methodology for counting mobile broadband customers has been changed to only include data-only tariffs with effect from the first quarter of 2013.

business continued to enjoy positive development, partially offsetting the decline in the mobile business once again in the year under review.

The total number of mobile communications customers declined by 5.6% to approximately 1.7 mn in the year under review. This was due to the reduction in the number of customers with multiple prepaid cards as a result of their migration to contract tariffs, as well as customer migration following tariff adjustments by all operators in June 2014. The proportion of contract customers increased to 46.8% over the course of the year (2013: 45.1%). Market share declined from 37.3% to 36.0% as a result of intense competition and the cleaning of the prepaid customer base for inactive customers. The number of fixed access lines rose by 13.9% to 219,900. The fixed broadband connections included in the total number of access lines climbed by 24.5% to around 136,000 in the year under review as a result of organic growth as well as acquisitions in 2013. The number of TV customers also increased by 6.8% to around 167,700.

Vipnet's revenues declined by 2.8% to EUR 378.2 mn in the year under review, including a negative foreign exchange rate effect of EUR 2.8 mn. The most significant negative factor by far was regulation, which served to reduce interconnection and roaming revenues by a total of EUR 18.9 mn. Monthly fee and traffic revenues also declined. This was attributable to lower variable mobile revenues due to the smaller number of prepaid customers and year-on-year price reductions, which could not be compensated by the increased revenues from mobile fixed fees and fixed-line services. Increased revenues from the sale of equipment, which were the result of the focus on contract customers, helped to partially offset some of the aforementioned losses.

The reduction in average monthly revenue per mobile user (ARPU) to EUR 11.1 (2013: EUR 11.6) was due to regulatory effects and price pressure in contract and prepaid business, with business ARPU coming under particular competitive pressure. Average monthly revenue per fixed access line (ARPL) also declined to EUR 21.4 (2013: EUR 22.7) as a result of developments in the business segment, as the customers acquired in 2013 generated lower average revenue per fixed access line than the rest of Vipnet's customer base. However, the reported growth in the number of fixed access lines led to a total increase in fixed service revenues of 8.9%.

Operating expenses rose by 8.7% to EUR 301.4 mn in the year under review. This was primarily due to the increase in frequency usage fees together with higher expenses for bad debt and outsourcing. In addition, material expenses increased as a result of higher demand for high-value equipment after the introduction of instalment sales, while the intensification of marketing activities in the year under review led to a higher level of marketing and sales expenses. These effects were only

partially offset by lower interconnection expenses due to the reduction in termination rates.

Vipnet's EBITDA comparable declined by 28.3% to EUR 84.3 mn in the year under review as a result of the negative revenue and cost developments. The margin also fell from 30.2% in the previous year to 22.3% in the year under review. Together with a slight increase in depreciation and amortisation, this resulted in operating income of EUR 15.9 mn, down 69.4% year-on-year.

SEGMENT BELARUS

Belarus was classified as a hyperinflationary country in December 2011, and it was resolved that accounting for hyperinflationary economies would be applied for the whole year 2011. Hyperinflation is determined, among other things, by the three-year cumulative inflation rate. As this amounted to around 108.7% for 2011, around 21.8% for 2012 and around 16.6% for 2013, hyperinflationary accounting continued to be applied in 2014. To what extent hyperinflation accounting will be applied in 2015 as a result of volatile market development after 1 January 2015 will be decided on the basis of the inflation development in the financial year 2015.

The macroeconomic environment in Belarus remained relatively stable in the year under review despite the political crisis in Ukraine. Following a weak first half of the year, the Belarusian Rouble lost 9.0% of its value over the year as a whole (2013: -13.3%). The currency devaluation shortly thereafter in January 2015 did not affect the consolidation in 2014. At 16.2% the 2014 rate of inflation remained at the level of the prior year.

In light of these developments, velcom's management team continued to concentrate on a tariff and equipment portfolio focussed on smartphones and tablets in 2014 with the aim of monetising the rising demand for data. Tariffs were also adjusted in the year under review to counteract currency and hyperinflationary effects. Furthermore, the company focused on optimising operating expenses and disconnecting them from currency effects.

velcom's customer base remained largely stable at 4.95 million in the year under review. The 15.2% increase in mobile broadband customers to around 284,100 reflects the continuous rise in demand for data as mentioned above. velcom's market share also remained broadly stable in the year under review.

After changes due to financial reporting in hyperinflationary economies and including negative currency effects in the amount of EUR 35.3 mn, revenues increased by 7.0% year-on-year to EUR 355.0 mn in 2014. Local currency revenues rose by 19.8%. Inflation-related price adjustments in 2013 and 2014, upselling effects and increased data usage were the main reasons for the growth in monthly fee and traffic revenues. Equipment revenues also climbed as a result of the increased

KEY PERFORMANCE INDICATORS BELARUS

Key financials (in EUR million)	2014	2013	Change in %
Revenues	355.0	331.7	7.0
EBITDA comparable	172.4	155.9	10.6
EBITDA comparable margin	48.6%	47.0%	–
EBITDA incl. effects from restructuring and impairment tests	172.4	155.9	10.6
Operating income	82.2	71.6	14.9
Capital expenditure	48.5	34.0	42.6
Mobile communication			
ARPU (in EUR)	5.1	4.8	6.4
Mobile communication subscribers (in '000)	4,949.9	4,947.4	0.0
Share of contract customers	80.6%	80.6%	–
Market share	42.4%	42.5%	–
Mobile broadband subscribers (in '000)*	284.1	246.5	15.2
Penetration	123.3%	123.0%	–
Employees (full-time equivalents as of 31 Dec)	1,881	1,749	7.5

* The methodology for counting mobile broadband customers has been changed to only include data-only tariffs with effect from the first quarter of 2013.

demand for smartphones as well as tablets. velcom also generated higher interconnection revenues, primarily as a result of increased international fees. As a result of the aforementioned developments, average monthly revenue per mobile user (ARPU) improved to EUR 5.1 (2013: EUR 4.8).

Operating expenses increased by 4.4% to EUR 188.6 mn in the year under review. In local currency, the increase was primarily due to higher maintenance, repair and rental expenses, as well as higher bad debt. In addition, inflation-related salary adjustments and growth-related employee recruitment led to increased employee costs. Material expenses also rose as a result of the high level of demand for smartphones and tablets; however the equipment margin remained positive. The reduction in interconnection expenses due to lower transit fees and the downturn in international usage were not sufficient to offset the aforementioned effects.

Thanks to the positive revenue development, EBITDA comparable increased by 10.6% to EUR 172.4 mn in the year under review, despite negative foreign exchange rate effects amounting to EUR 17.1 mn. The EBITDA comparable margin climbed to 48.6% in the year under review (2013: 47.0%), the highest margin in the Group yet again.

Despite increased depreciation and amortisation as a result of the faster depreciation of equipment, the increase in EBITDA

comparable translated into an increase in operating income of 14.9% to EUR 82.2 mn.

ADDITIONAL MARKETS SEGMENT

SLOVENIA

Si.mobil continued to successfully navigate a challenging macroeconomic and fiercely competitive environment by focusing on its multi-brand strategy also in 2014. The company also acquired around 50% of the mobile spectrum auctioned in the frequency auction in April 2014 for EUR 63.9 mn, thereby securing 2 × 10 MHz in the new 800 MHz band and modest gains in the other bands.

In the year under review Si.mobil slightly increased its customer base in Slovenia by 0.3% to around 681,500, largely on the back of positive momentum in the no-frills segment. This was accompanied by a further improvement in the proportion of contract customers to 79.4% (2013: 78.0%). Despite this, Si.mobil's market share declined slightly from 30.0% in the previous year to 29.2% in 2014 as a result of the aggressive pricing environment.

Revenues in Slovenia increased slightly by 0.4% to EUR 199.6 mn in the year under review, benefitting from strong growth in equipment revenues due to the sale of high-value equipment to new customers. This was partially offset by lower fee and

traffic revenues as a result of price pressure and reduced roaming revenues, as well as lower interconnection revenues following the reduction in mobile termination rates in September 2014. As a result of the increase in no-frills contract customers, the average monthly revenue per mobile user (ARPU) declined to EUR 19.1 (2013: EUR 19.9).

Demand for high-value equipment led to a sharp rise in material expenses in the year under review; however, this was partially offset by a reduction in interconnection expenses due to lower prices, as well as a reduction in marketing and sales expenses. All in all, operating expenses increased only slightly by 0.2% to EUR 139.2 mn. As a result EBITDA comparable rose by 1.2% year-on-year to EUR 63.6 mn. With depreciation and amortisation slightly lower, operating income increased by 2.8% to EUR 41.0 mn.

REPUBLIC OF SERBIA

In the Republic of Serbia, Vip mobile continued on its growth path in 2014 and increased the number of its mobile customers by 7.0% to just under 2.2 million. The successful focus on high-value customer segments was reflected in contract customer growth; at the same time the positive reaction to a no-frills product helped to increase the prepaid customer

basis. The company's market share climbed by 1.4 percentage points to 22.5%, although this was due in part to the cleaning of a competitor's customer base, resulting in a reduction in the total number of mobile customers in the market.

Despite negative FX effects of EUR 7.9 mn (2013: EUR 0.1 mn), resulting from the 3.6% decline of the Serbian Dinar versus the Euro, Vip mobile increased revenues by 16.8% to EUR 213.2 mn in the year under review. This was primarily driven by higher equipment revenues attributable to a change in the revenue recognition for handsets. Monthly fee and traffic revenues were slightly reduced due to FX effects. Operationally an increase in monthly fixed fees due to the higher proportion of contract customers was mostly offset by a decline in traffic and roaming revenues as well as the reversal of a deferral effect for equipment revenues. Lower termination rates also served to reduce interconnection revenues. Other revenues fell as a result of the change in handset revenue recognition. Average monthly revenue per mobile user (ARPU) declined to EUR 6.9 (2013: EUR 7.4) as a result of the lower level of variable mobile revenues as well as regulatory effects.

Higher material expenses resulting from the change in the revenue recognition for handsets were the main reason for

KEY PERFORMANCE INDICATORS SLOVENIA

Key financials (in EUR million)	2014	2013	Change in %
Revenues	199.6	198.9	0.4
EBITDA comparable	63.6	62.8	1.2
EBITDA comparable margin	31.8%	31.6%	–
EBITDA incl. effects from restructuring and impairment tests	63.6	62.8	1.2
Operating income	41.0	39.9	2.8
Capital expenditure	89.9	23.2	287.6
Mobile communication			
ARPU (in EUR)	19.1	19.9	–3.9
Mobile communication subscribers (in '000)	681.5	679.2	0.3
Share of contract customers	79.4%	78.0%	–
Market share	29.2%	30.0%	–
Mobile broadband subscribers (in '000)	24.3	20.8	16.8
Penetration	111.8%	108.5%	–
Employees (full-time equivalents as of 31 Dec)	399	396	0.7

KEY PERFORMANCE INDICATORS REPUBLIC OF SERBIA

Key financials (in EUR million)	2014	2013	Change in %
Revenues	213.2	182.6	16.8
EBITDA comparable	64.0	64.0	-0.1
EBITDA comparable margin	30.0%	35.0%	-
EBITDA incl. effects from restructuring and impairment tests	64.0	64.0	-0.1
Operating income	-2.9	-8.6	n. m.
Capital expenditure	37.8	52.7	-28.2
Mobile communication			
ARPU (in EUR)	6.9	7.4	-5.7
Mobile communication subscribers (in '000)	2,159.5	2,017.7	7.0
Share of contract customers	50.4%	50.8%	-
Market share*	22.5%	21.1%	-
Penetration	133.6%	133.1%	-
Employees (full-time equivalents as of 31 Dec)	933	918	1.6

* Changes are mostly due to an adjustment in the method for the calculation of the competitors' mobile customer base.

the 23.9% increase in operating expenses to EUR 158.0 mn. This was only partially mitigated by reduced interconnection costs due to the adjustment of termination rates in accordance with the glidepath.

All in all, the rise in revenues outweighed the increased operating expenses in the 2014 reporting year, leading to a stable EBITDA comparable of EUR 64.0 mn. The EBITDA comparable margin, however, fell as a result of higher operating expenses from 35.0% in the previous year to 30.0% in 2014. Earnings included negative foreign exchange effects in the amount of EUR 2.4 mn. Operating income improved from a negative EUR 8.6 mn in the previous year to a negative EUR 2.9 mn due to the lower level of depreciation for equipment.

REPUBLIC OF MACEDONIA

In a mobile market characterised by intense competition, Vip operator in the Republic of Macedonia maintained its focus on the growth of premium segments in the year under review. The acquisition of blizoo Macedonia, which closed on 30 July 2014, represents a significant step in the execution of the

Telekom Austria Group's convergence strategy and means that Telekom Austria Group can now also offer bundled fixed-line and mobile services in the Macedonian market.

Furthermore, the Telekom Austria Group and the Telekom Slovenije Group agreed the merger of their subsidiaries Vip operator and the third-largest mobile operator One in October 2014. Telekom Austria Group will have a 55% equity interest in and thus sole control over the newly created joint company; Telekom Slovenije Group will have an equity interest of 45%. The agreement includes options for the exit of the Telekom Slovenije Group within three years of the transaction closing date. The transaction requires approval by the Macedonian anti-trust authorities, which is expected for the first quarter of 2015.

The significant growth in the number of contract customers was not quite sufficient to mitigate the fall in prepaid customers resulting from the migration to bundled products in the year under review. Accordingly, the total number of mobile communications customers fell by 1.2% year-on-year to

KEY PERFORMANCE INDICATORS REPUBLIC OF MACEDONIA

Key financials (in EUR million)	2014	2013	Change in %
Revenues	62.0	64.9	-4.4
EBITDA comparable	12.6	14.7	-14.6
EBITDA comparable margin	20.3%	22.7%	-
EBITDA incl. effects from restructuring and impairment tests	7.5	14.7	-49.2
Operating income	-2.6	6.3	n. m.
Capital expenditure	9.4	16.1	-41.6
Mobile communication			
ARPU (in EUR)	6.9	7.9	-13.6
Mobile communication subscribers (in '000)	622.0	629.7	-1.2
Share of contract customers	52.4%	47.5%	-
Market share	28.2%	28.0%	-
Penetration	107.4%	109.2%	-
Employees (full-time equivalents as of 31 Dec)	535	214	149.8

622,000. The share of contract customers thus increased from 47.5% in 2013 to 52.4% in the year under review. Vip operator's mobile market share also increase to 28.2% (2013: 28.0%). Following the acquisition of blizoo Macedonia, the Telekom Austria Group also reported 62,600 fixed access lines in the Republic of Macedonia at year-end 2014.

Despite this, Vip operator's revenues fell by 4.4% year-on-year to EUR 62.0 mn. This was due to the lower level of interconnection revenues as a result of the cuts to national termination rates in November 2013 and September 2014. Operationally, earnings were also impacted by price pressure and lower prepaid revenues. The figures include revenues generated by blizoo Macedonia in the amount of EUR 4.4 mn, which explains the substantial rise in monthly fee and traffic revenues. Average monthly revenue per mobile user (ARPU) fell to EUR 6.9 (2013: EUR 7.9) as a result of the price pressure in the contract and prepaid segments.

On the cost side, the increase in material expenses due to higher equipment sales to contract customers was more than offset by the considerable reduction in interconnection expenses. In contrast, Vip operator saw higher costs for service, rental, maintenance and repair as well as transport. All in all, operating expenses however declined by 1.7% to EUR 49.7 mn.

Despite reduced operating expenses lower revenues led to a 14.6% reduction in EBITDA comparable to EUR 12.6 mn, of which EUR 1.4 mn were generated by blizoo Macedonia. The EBITDA comparable margin fell from 22.7% in the previous

year to 20.3% in the year under review. In addition, in the Republic of Macedonia Telekom Austria Group booked an impairment of EUR 5.1 mn in the fourth quarter of 2014 as a result of changes in the weighted average cost of capital (WACC) for Vip operator. Increased depreciation and amortisation due to the acquisition of blizoo Macedonia exacerbated the effect on operating income, which declined to a negative EUR 2.6 mn in the year under review.

LIECHTENSTEIN

The merger of mobilkom liechtenstein and Telecom Liechtenstein resulted in the Telekom Austria Group holding a 24.9% equity interest in the merged entity. The transaction closed on 27 August 2014. Following the closing, mobilkom liechtenstein is no longer consolidated in the Additional Markets segments and the 24.9% interest is reported using the equity method.

Last figures for mobilkom liechtenstein prior to the merger show approximately 6,500 mobile communications customers as of 31 July 2014 compared with 6,350 at 31 December 2013. mobilkom liechtenstein generated revenues of EUR 4.2 mn up until the end of July 2014 after EUR 6.5 mn in 2013. EBITDA comparable amounted to EUR 0.6 mn at the end of July 2014 compared with EUR 0.6 mn in 2013. Following negative operating income of EUR 0.2 mn in the 2013 financial year, the company reported negative operating income of EUR 0.2 mn as of the end of July 2014.

KEY PERFORMANCE INDICATORS LIECHTENSTEIN

Key financials (in EUR million)	per 31.07.2014*	2013	Change in %
Revenues	4.2	6.5	n. m.
EBITDA comparable	0.6	0.6	n. m.
EBITDA comparable margin	15.0%	9.9%	–
EBITDA incl. effects from restructuring and impairment tests	0.6	0.6	n. m.
Operating income	0.2	–0.2	n. m.
Capital expenditure	0.1	0.5	n. m.
Mobile communication			
ARPU (in EUR)**	40.0	40.7	n. m.
Mobile communication subscribers (in '000)	6.5	6.4	n. m.
Market share	16.3%	16.1%	–
Penetration	109.0%	108.1%	–
Employees (full-time equivalents as of 31 Dec)*	14	15	n. m.

* On account of the merger of mobilkom liechtenstein and Telecom Liechtenstein, which was closed on 27 August 2014, the data is shown as of 31 July 2014.

** As a result of a change in the calculation methodology, ARPU was changed retrospectively for 2013.

NON-FINANCIAL PERFORMANCE INDICATORS

CORPORATE SOCIAL RESPONSIBILITY

The Telekom Austria Group's corporate strategy is geared towards increasing enterprise value in a sustainable way, 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 of the requirements of the internal control system, the Code of Conduct and the compliance guidelines. An integrated corporate social responsibility (CSR) management system, defined standards and processes, Group-wide environmental management and compliance with the principles of the UN Global Compact ensure the ongoing development of strategies and goals and the involvement of all business units and hierarchies. Sustainability reporting is based on the guidelines of the Global Reporting Initiative (GRI) and is independently validated by an external auditor.

The sustainability strategy of the Telekom Austria Group was fundamentally revised in 2013. A materiality analysis was conducted with the help of various interest groups to identify the central sustainability issues. Four areas of activity were then derived which are considered material to the future development of the Telekom Austria Group. Specific targets, measures and performance indicators were defined for these areas of activity.

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

The environmental management of A1 Telekom Austria AG and Si.mobil in Slovenia are ISO 14001 certified and satisfy all EMAS requirements. The energy management of A1 Telekom Austria AG is also ISO 50001 certified. Compliance with the requirements of these standards is reviewed annually by an independent certification body. In 2014, A1 Telekom Austria AG introduced the first and, to date, only carbon-neutral network in Austria. The underlying CO₂ calculation was audited and validated by TÜV SÜD in accordance with the international standard PAS 2060.

EMPLOYEES

The Telekom Austria Group had 16,240 employees at year-end 2014, 1.2% more than one year previously. This development was primarily attributable to the acquisition of blizoo

EMPLOYEES

Employees at year-end*	2014	2013	Change in %
Austria	8,635	8,804	-1.9
Bulgaria	2,527	2,647	-4.6
Croatia	1,151	1,138	1.1
Belarus	1,881	1,749	7.5
Additional Markets	1,867	1,543	21.0
Corporate	181	165	9.4
Total	16,240	16,045	1.2

* Full-time equivalent employees

Macedonia. Headcount in the Austrian segment was reduced by 1.9% to 8,635 employees as part of the ongoing restructuring measures. Around 50% of these employees have civil servant status. The segments outside of Austria saw development of 4.9% to 7,424 employees.

With a view to maintaining its competitive capability and innovative drive, the Telekom Austria Group invests in extensive professional training for its employees on an ongoing basis. The Telekom Austria Group Business School functions as a central development platform. It developed and organised more than 64 training opportunities for 1,053 participants in the course of 2014. In addition to the training offered by this central institution, the Telekom Austria Group subsidiaries have also developed their own training programmes tailored to the needs of their respective markets. To meet future requirements for experts and managers, the Telekom Austria Group is particularly committed to apprenticeship training. In Austria, university and college graduates are offered a twelve-month graduate programme while school-leavers can experience on-the-job training with the A1 trainee programme.

Total spending on further education and professional training in the year under review amounted to EUR 7.8 mn (2013: EUR 7.9 mn). This corresponds to an average of EUR 480 per employee at year-end (2013: EUR 492).

Managers are faced with the challenge of getting more out of fewer resources while preventing burnout. The 'Healthy management' seminar, which will be rolled out for all managers in 2015, is aimed at helping managers to balance these priorities and learn how to motivate, encourage and relieve the burden on employees in the face of pressure to perform and scarcity of resources.

INNOVATION AND TECHNOLOGY

The Telekom Austria Group concentrates its extensive research and development activities on the development of market-oriented products and services and the ongoing technological development of its network infrastructure in order to ensure that it is well-equipped for the increasingly stringent demands of the future, namely the need to provide ever-larger data volumes more quickly and ideally irrespective of location.

With Vipnet, Mtel, Vip mobile and Vip operator, the Telekom Austria Group is one of the first European operators to have successfully tested the network function virtualisation (NFV) technology — providing for the virtualisation and automation of network functions — in four field trials in Croatia, Bulgaria, the Republic of Serbia and the Republic of Macedonia. NFV technology makes the network more efficient and flexible, and hence represents a paradigm shift for the entire telecommunications industry. Occupying a leading position in this area is a key element of the Group's innovation strategy.

In spring 2014, the Telekom Austria Group again demonstrated its innovative strength with a successful field trial of 400 Gbps high-speed technology between Zagreb and Ljubljana. In Austria, A1 Telekom Austria AG became the world's first operator to demonstrate the ultra-broadband transmission technology G.fast in live operation. Data speeds of several hundred Mbps per household were achieved using existing copper wires in a 19th-century building. In other words, G.fast makes it possible to offer ultra-broadband services via the existing copper network.

Following the acquisition of the necessary frequencies, the expansion of the mobile network is clearly focused on LTE. Si.mobil already offers coverage of more than 75% in Slovenia,

while A1 Telekom Austria AG offers coverage of more than 60% in Austria, Vip operator's coverage in the Republic of Macedonia is in excess of 42%, and Vipnet in Croatia offers coverage of more than 27%. The LTE networks are not only being expanded, however — they are also evolving. In June 2014, A1 Telekom Austria AG became the first operator in Austria to test voice telephony over 4G/LTE in its live network as part of a Voice over LTE (VoLTE) trial. The subsidiaries Si.mobil and A1 Telekom Austria AG also made an important step in advancing the development of the fourth generation of mobile telecommunications technology towards LTE Advanced with the implementation of LTE carrier aggregation in selected conurbations in November 2014. Instead of the previous maximum of 150 Mbps, suitable devices can now achieve speeds of up to 300 Mbps. Following the launch of 4G/LTE roaming in Switzerland in late 2013, A1 Telekom Austria AG has expanded its roaming partnerships to include a total of 21 countries in recent months.

In the period under review, A1 Telekom Austria AG expanded its central business areas to include Managed IT and E-Health Solutions. In the area of Managed IT, A1 Telekom Austria AG is already the market leader for desktop outsourcing with more than 55,000 managed workstations. A1's infotainment offering in the E-Health Solutions business area allows patients to access TV, radio, internet, telephone and medical records — the latter secured by using fingerprints.

Telekom Austria Group M2M realises M2M projects throughout the entire footprint of Telekom Austria Group. Starting from managed connectivity as the basic product, the range of services extends from complete solutions for asset tracking and fleet management in all countries of Telekom Austria Group via industrial automation through to smart metering. The connection of cash registers to the fiscal authorities in Bulgaria, Croatia and the Republic of Serbia was also successfully implemented. 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.

Thanks to the interconnection of its fibre footprint with América Móvil, the Telekom Austria Group can now offer its wholesale customers more than 200 points of presence (PoP) in 47 countries. The two companies are also cooperating in the area of voice services: with the interconnection in Miami, the Telekom Austria Group is one of the first operators to use the Latin America hub of América Móvil.

Through the cooperation with national and international institutions and application-based research partnerships with science and industry, Telekom Austria Group is pursuing different approaches for the integration of future information and communications technologies in order to allow it to permanently offer market and customer-oriented communications

solutions. The Telekom Austria Group currently has research partnerships with the Research Centre for Telecommunications in Vienna, the Vienna University of Technology, the Christian Doppler Laboratory for Wireless Technologies for Sustainable Mobility, the Josef Ressel Centre for User-friendly Secure Mobile Environments and the Technical University of Sofia. Beyond its own sphere of action, A1 Telekom Austria AG also promotes innovation by new companies with a start-up initiative that provides expertise and infrastructure to help make innovations a reality. As part of the stakeholder process for the Smart Grids Austria technology platform, the Telekom Austria Group is also participating in the debate on the future introduction of smart power grids.

DISCLOSURE IN ACCORDANCE WITH SECTION 243A OF THE AUSTRIAN BUSINESS ENTERPRISE CODE ('UGB')

SHAREHOLDER STRUCTURE AND CAPITAL DISCLOSURES

The shareholders' agreement between Österreichische Industrieholding AG ('ÖIAG'), América Móvil, S.A.B. de C.V. ('América Móvil') and Carso Telecom B.V. ('Carso Telecom') came into force on 27 June 2014 (see Note (29)). Under the terms of the shareholders' agreement, the parties have undertaken to jointly pursue a long-term policy with regard to the management of Telekom Austria Aktiengesellschaft by exercising their voting rights on a concerted basis. The shareholders' agreement also contains provisions on the joint exercise of voting rights in the committees of the company for the election of Supervisory Board and Management Board members and restrictions on the sale of shares. The Supervisory Board of the company consists of ten shareholder representatives, of which eight members are nominated by Carso Telecom and two by ÖIAG. ÖIAG has the right to appoint the Chairman of the Supervisory Board. Carso Telecom has the right to appoint the Deputy Chairman. The Management Board of the company consists of three members. Two members are nominated by Carso Telecom, while one member of the Management Board, namely the Chief Executive Officer (CEO), is nominated by ÖIAG. 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.

ÖIAG and Carso Telecom have agreed that at least 24% of the shares of the company should be in free float while the shareholders' agreement is in place. This minimum free

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

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

With respect to the loans still outstanding as of 31 December 2014 which are designated to the 'change of control' clauses, the lenders did not demand early repayment in the course of the financial year 2014.

At the end of 2014, a total of 59.70% or 396,705,196 shares of the Telekom Austria AG were directly or indirectly held by América Móvil. The Republic of Austria holds 28.42% via ÖIAG, while the remaining 11.88% is attributable to free float. 0.1% or 0.4 million of these shares were held by the company itself. América Móvil has more than doubled its equity interest compared with the figure of 23.67% at the end of the previous year. On 23 April 2014, América Móvil and ÖIAG entered into the aforementioned shareholders' agreement that triggered a public takeover offer. During the acceptance and additional acceptance period from 15 May 2014 to 16 October 2014, a total of 142,414,783 shares (32.15%) of the Telekom Austria AG were sold to América Móvil for a price of EUR 7.15 per share. The first capital increase in the history of the Telekom Austria AG was undertaken in November 2014. Between 10 and 24 November 2014, a total of 221,500,000 new shares

were offered for subscription at a price of EUR 4.57 per share. Around 99.7% of the new shares were placed, with the remaining 0.3% subscribed by Deutsche Bank at a price of EUR 5.26 per share. As a result, the number of shares in circulation increased to 664,500,000.

The voting rights attached to shares held by Telekom Austria AG employees, which are held in a collective custody account, are exercised by a custodian (notary).

The main changes in the shareholder structure were as follows:

On 14 January 2014, Carso Telecom, in which América Móvil indirectly holds a controlling interest, concluded a conditional share purchase agreement with Inmobiliaria Carso, S.A. de C.V and Control Empresarial de Capitales, S.A. de C.V for a total of 13,901,000 Telekom Austria AG shares, corresponding to 3.14% of the share capital. When the transaction comes into force, Carso Telecom holds a total of 110,841,174 ordinary shares of Telekom Austria AG, corresponding to 25.0206% of the voting rights in Telekom Austria AG, and therefore exceeds the threshold of 25% of the voting rights of the issuer; América Móvil holds directly (section 91 (1) of the Austrian Stock Exchange Act ('BörseG')) and indirectly (section 92 (Z 4) of the Austrian Stock Exchange Act) a total of 118,776,874 ordinary shares of Telekom Austria AG, corresponding to 26.8119% of the voting rights in Telekom Austria AG, and therefore exceeds the threshold of 25% of the voting rights of the issuer.

Following this transaction, Carso Telecom holds a total of 110,841,174 ordinary shares of Telekom Austria AG as of 13 March 2014, corresponding to 25.0206% of the voting rights in Telekom Austria AG, and therefore exceeds the threshold of 25% of the voting rights of the issuer; América Móvil directly (section 91 (1) of the Austrian Stock Exchange Act) and indirectly (section 92 (Z 4) of the Austrian Stock Exchange Act) holds a total of 118,776,874 ordinary shares of Telekom Austria AG, corresponding to 26.8119% of the voting rights in Telekom Austria AG, and therefore exceeds the threshold of 25% of the voting rights of the issuer.

On 23 April 2014, América Móvil announced that it had concluded a shareholders' agreement with ÖIAG concerning its equity interest in Telekom Austria AG via its wholly-owned subsidiary Carso Telecom.

On 25 April 2014, América Móvil and ÖIAG announced that the conditional shareholders' agreement in accordance with sections 91, 91a and 92 (Z 1) of the Austrian Stock Exchange Act encompassed the voting rights for 244,694,609 shares of Telekom Austria AG, corresponding to an equity interest of 55.2358%. When the shareholders' agreement went into effect, América Móvil and ÖIAG exceeded the thresholds of 30%, 35%, 40%, 45% and 50% of the votes in Telekom Austria AG

in accordance with section 92 (Z 1) in conjunction with section 91 of the Austrian Stock Exchange Act.

On 30 June 2014, Carso Telecom announced that, following the conclusion of a conditional shareholders' agreement with ÖIAG on 15 May 2014, it had submitted a voluntary public takeover offer with the aim of effecting a change of control in accordance with section 25a of the Austrian Takeover Act ('ÜbG'). The takeover offer to the shareholders of Telekom Austria AG related to the acquisition of all no-par value shares not already held by the bidder, the América Móvil Group, ÖIAG or Telekom Austria AG. The offer price was EUR 7.15 ex dividend 2013 per no-par value share of Telekom Austria AG. The offer could have been accepted between 15 May 2014 and 10 July 2014, 5:00 p.m, Vienna time.

On 30 June 2014, Carso Telecom and ÖIAG announced that all of the conditions precedent of the shareholders' agreement had been met by 27 June 2014. The shareholders' agreement came into force with the fulfilment of all of the conditions precedent. In accordance with sections 91, 91a and 92 (Z 1) of the Austrian Stock Exchange Act, the shareholders' agreement encompassed the voting rights for 246,218,158 shares of Telekom Austria AG, corresponding to an equity interest of 55.58% at this point in time.

On 15 July 2014, América Móvil and ÖIAG announced that Carso Telecom had received 103,978,115 shares during the acceptance period of the public takeover offer for all of the shares of Telekom Austria AG, corresponding to approximately 23.47% of the voting rights in Telekom Austria AG. In accordance with sections 91, 91a and 92 (Z 1) of the Austrian Stock Exchange Act, the shareholders' agreement encompassed the voting rights for 351,002,957 shares of Telekom Austria AG, corresponding to an equity interest of 79.23% at this point in time. The acceptance period ended on 10 July 2014. Following the payment of the purchase price and the transfer of the shares, América Móvil held directly and indirectly 225,085,222 shares, corresponding to around 50.80% of the share capital of Telekom Austria AG. Under the conditions of the offer document, every shareholder who did not accept the offer was offered a sell-out period of an additional three months.

On 18 July 2014, América Móvil and ÖIAG submitted the following notification: The 125,917,735 ordinary shares of Telekom Austria AG held by ÖIAG corresponding to 28.4239% of the voting rights of the issuer, are attributable in accordance with section 92 of the Austrian Stock Exchange Act. Furthermore, a total of 103,978,115 ordinary shares of Telekom Austria AG were delivered under the terms of the takeover offer by Carso Telecom up until 14 July 2014, corresponding to 23.4713% of the voting rights in Telekom Austria AG. Directly and indirectly and taking into account the shares held by ÖIAG and the delivered shares, América Móvil therefore held a total

of 351,002,957 ordinary shares of Telekom Austria AG, corresponding to 79.2332% of the voting rights in Telekom Austria AG.

On 21 October 2014, América Móvil announced that its subsidiary Carso Telecom had received 38,436,668 shares during the additional acceptance period of the public takeover offer for all of the shares of Telekom Austria AG, corresponding to approximately 8.68% of the voting rights in Telekom Austria AG. The additional acceptance period ended on 16 October 2014.

On 21 October 2014, América Móvil announced that, following the purchase of additional ordinary shares of Telekom Austria AG by Carso Telecom on the OTC market and the settlement of the shares acquired during the additional acceptance period in accordance with section 19 (3) of the Austrian Takeover Act, América Móvil held 264,470,131 ordinary shares of Telekom Austria AG directly and indirectly via Carso Telecom, corresponding to 59.6998% of the voting rights in Telekom Austria AG. The 125,917,735 ordinary shares of Telekom Austria AG held by ÖIAG, corresponding to 28.4239% of the voting rights of Telekom Austria AG, are attributable in accordance with section 92 of the Austrian Stock Exchange Act and section 20 of the Austrian Banking Act. Directly and indirectly and taking into account the ordinary shares held by ÖIAG, América Móvil therefore held a total of 390,387,866 ordinary shares of Telekom Austria AG, corresponding to 88.1237% of the voting rights in Telekom Austria AG.

On 7 November 2014, the Management Board of Telekom Austria AG, with the approval of the Supervisory Board of Telekom Austria AG, resolved to implement a capital increase with the aim of generating net proceeds of up to EUR 1 bn from the issue of up to 221,500,000 new no-par value shares with voting rights.

On 24 November 2014, the Telekom Austria AG announced the end of the subscription period and the completion of the capital increase announced on 7 November 2014. As a result, the number of shares of the Telekom Austria AG increased by 221.5 million, from 443.0 million to 664.5 million. The net proceeds from the transaction amounted to EUR 996.6 mn.

On 28 November 2014, the Telekom Austria AG announced that the share capital of Telekom Austria AG had increased from EUR 966,183,000 to EUR 1,449,274,500 as a result of the capital increase, which was entered in the commercial register on 27 November 2014. At the same time, the number of no-par value shares in circulation increased from 443,000,000 to 664,500,000.

CHANGES TO THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Harald Stöber, who had been a member of the Supervisory Board for a number of years, died in early May 2014.

All of the Supervisory Board members elected until 14 August 2014 stepped down from their positions with effect from the end of the Extraordinary General Meeting on 14 August. The Extraordinary General Meeting on 14 August 2014 newly elected the members of the Supervisory Board following the implementation of the shareholders' agreement.

Siegfried Mayrhofer was appointed as Chief Financial Officer for one year with effect from 1 June 2014 to replace Hans Tschuden, whose contract expired on 31 May 2014.

CASH-USE POLICY

Maintaining its solid investment grade rating is the top priority of Telekom Austria Group's cash-use policy. While the Moody's rating of Baa2 (outlook stable) remained unchanged in 2014, Standard & Poor's upgraded its rating from BBB- (outlook stable) to BBB (outlook stable) in August 2014 in view of the upcoming capital increase. These ratings by Moody's and Standard & Poor's ensure the required financial flexibility for strategic projects. Following the successful completion of the capital increase in November 2014, the Telekom Austria Group plans to invest approx. EUR 400 mn in addition to its regular CAPEX in an accelerated fibre rollout in Austria between 2015 and 2018. This plan is subject to the announced government subsidy programme as well as annual budget approvals by the Supervisory Board. In addition, the Group

TELEKOM AUSTRIA AG: MEMBERS OF THE SUPERVISORY BOARD

Name (year of birth)	Date of first appointment	End of current term of office/ leaving date
Alfred Brogyányi (1948)	29.05.2013	14.08.2014
Elisabetta Castiglioni (1964)	29.05.2013	2016*
Henrietta Egerth-Stadlhuber (1971)	20.05.2008	14.08.2014
Carlos García Moreno Elizondo, first Deputy Chairman (1957)	14.08.2014	2018**
Michael Enzinger (1959)***	29.05.2013	14.08.2014
Carlos M. Jarque (1954)	14.08.2014	2018**
Alejandro Cantú Jiménez (1972)	14.08.2014	2016*
Rudolf Kemler, Chairman (1956)	01.11.2012	2018**
Reinhard Kraxner (1970)	14.08.2014	2016*
Günther Leonhartsberger (1968)	14.08.2014	2018**
Peter J. Oswald (1962)	20.05.2008	14.08.2014
Ronny Pecik (1962)****	23.05.2012	2018**
Stefan Pinter (1978)	14.08.2014	2016*
Wolfgang Ruttenstorfer (1950)	27.05.2010	14.08.2014
Harald Stöber (1952)*****	04.06.2003	09.05.2014
Oscar Von Hauske Solís (1957)	23.10.2012	2018**

Members of the Supervisory Board appointed by the Staff Council

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

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

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

*** Second Vice Chairman until 14 August 2014

**** First Vice Chairman until 14 August 2014

***** Harald Stöber passed away on 9 May 2014.

***** Name changed from Zehetleitner to Kehrer on 10 October 2014

may capitalise on value accretive M&A opportunities with a primary focus on in-market consolidation as well as the implementation of its convergence strategy within the current footprint. Expansion into new markets is the third priority of the Group's M&A strategy.

The Telekom Austria Group's dividend policy is based on a minimum dividend of EUR 0.05 per share and is aimed at achieving a sustainable distribution level with upside potential. The planned dividend is announced at the start of each financial year. After the end of each financial year, additional payments to the shareholders may be defined depending on the Group's actual results taking into account free cash flow and the Group's planned capital structure and investment requirements in particular.

RISK MANAGEMENT

PRINCIPLES AND METHODS

As one of the leading telecommunications companies in Austria and Central and Eastern Europe, the Telekom Austria Group is exposed to a wide range of risks and changes in market circumstances. The risk management system of the Telekom Austria Group anticipates these developments at an early stage in order to allow an effective response. It essentially consists of four areas: Market and business risks which may arise in the respective countries due to competition, regulatory intervention or an unclear legal situation are monitored and analysed throughout the Group by a central risk manager. Risks which may influence the guaranteed availability and security of the services offered, such as technical and 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 listed 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 exploit these. The effects of deviations from planning are evaluated using scenario and probability calculations. The overall risk situation is derived from the sum of the individual risks. In addition to the Austrian fixed-line and mobile communications market, the Telekom Austria Group also holds leading positions internationally in six other telecommunication markets as at 31 December 2014, which ensures broad diversification in terms of both sectors and geographical regions. The risk sets of the respective markets vary, which is why risk management is the responsibility of the local operational units. Risk management is controlled by the holding company. Structured interviews are conducted with the respective top managers in order to identify and assess risks and summarise them in an overall risk report. Building on this, measures to reduce and avoid risk are prepared,

implemented and subsequently analysed. A risk catalogue forms the basis for risk management. The close integration of business planning and risk management also ensures appropriate risk control.

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

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

RISKS

MARKET AND COMPETITION RISKS

High competitive intensity, which is also being observed in the Telekom Austria Group's international markets, is leading to sharp price reductions in both mobile communications and data traffic. Accordingly, there is a risk that growth in traffic volumes will not be sufficient to offset these price declines. 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 foreign markets. The trend towards smartphones is being exploited to make higher-value tariffs more attractive, thereby increasing sales potential in the medium term. The focus remains on convergent products.

The telecommunications sector is facing the challenge of having to be able to offer new services and products at faster and faster rates. Shorter innovation cycles also entail innovation risks that are countered with different measures. One example of this is 'future.talk', a series of events created by the Telekom Austria Group to discuss global challenges to the industry.

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, and its foreign subsidiaries are also subject to equivalent regulatory frameworks. Regulation at both retail and wholesale levels restricts operational flexibility with regard to products and product bundles. There is also an obligation to provide access to infrastructure and fixed-line services for alternative

providers. Additional regulatory rulings such as a reduction in mobile and fixed-line termination rates due to the European Commission's recommendation on termination rates could negatively affect the Telekom Austria Group's earnings development.

In 2011, the European Union decided to introduce additional comprehensive regulatory measures for roaming rates within the community as part of its Roaming III regulation, which came into effect on 1 July 2012. In contrast to the previous system, this includes a structural solution that is intended to allow customers a choice of provider for roaming services regardless of the national operator. This measure led to additional competition between operators in Europe from mid-2014 onwards. Price regulation also continued for voice, messaging and data services. Furthermore, the European Commission has issued a proposal entitled 'Digital Single Market' with the aim of lowering roaming charges for consumers to a national level. These regulations would affect the mobile communications companies of the Telekom Austria Group in the EEA member states Austria, Bulgaria, Croatia and Slovenia.

Telekom Austria Group and its subsidiaries are party to a number of legal proceedings both in and out of court with authorities, competitors and other parties. An ongoing dialogue with the stakeholders involved and a regular exchange of information on controversial issues that could pose a threat to the company enable the Group to identify problems at an early stage and develop measures to counteract them in a targeted manner if need be. Telekom Austria Group has joined the ongoing proceedings in connection with past misconduct as a private party. While some of the proceedings have already been concluded in the court of first instance, a final ruling has not yet been imposed.

COMPLIANCE RISKS

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

FINANCIAL RISKS

The Telekom Austria Group is exposed to liquidity, default, currency, transfer and interest rate risks (see Note (33) 'Financial instruments' in the Notes to the Consolidated Financial Statements).

INVESTMENT RISKS

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

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. The risk of losing key employees is counteracted by means of forward-looking 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 development is provided as part of a 360° feedback programme. An internal business school develops employees' skills and abilities and serves as a platform for the Group-wide transfer of expertise. A regular Group-wide survey, 'TAGisfaction', is used to obtain employee feedback. Every year, the results of TAGisfaction lead to a number of effective improvement measures and are also incorporated into strategic planning for the subsequent year. In addition to business plan-oriented cost planning, human resources planning includes measures aimed at encouraging employee mobility.

Around 50% of employees in the Austrian segment have civil servant status. This corresponds to 27% 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. The verdict by the European Court of Justice in November 2014 concerning the remuneration and other rights of civil servants required the Telekom Austria Group to recognise additional provisions in the amount of EUR 30.1 mn for personnel costs as well as EUR 15.0 mn for restructuring costs in the 2014 financial year, and hence served to increase the level of expenditure for periods subsequent to the 2014 financial year; this could have an adverse effect on the Group's financial position and results of operations.

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 fault tolerance, and efficient organisational structures for operations and security serve to secure high standards of quality. Furthermore, dedicated Group guidelines guarantee uniform methods for the recognition and management of the most important risks to operational processes. In 2014, operational risk provisioning was required to demonstrate its effectiveness following the serious flooding that hit the Republic of Serbia and parts of Croatia. Thanks to good technical and organisational preparations, the crisis was managed superbly by the local contingency management team with support from the Group.

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

Since delisting from the New York Stock Exchange in 2007, the Telekom Austria Group has retained the internal control system (ICS) for financial reporting as was required by law up until that time. The ICS is intended to provide reasonable assurance regarding the reliability and accuracy of external financial reporting in compliance with international and national 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 has a risk and control matrix to ensure that its financial reporting is correct and complete. The effectiveness of this system 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 business units. Based on the findings of this assessment and the defined criteria, the management declared the internal control system to be effective as at 31 December 2014.

SUBSEQUENT EVENTS

In October 2014 Telekom Austria Group reached an agreement with Telekom Slovenije Group to merge its subsidiaries Vip operator and One, both operating in the Republic of Macedonia. Telekom Austria Group will hold 55% and have sole control over the newly created company whereas Telekom Slovenije Group will hold 45%. Furthermore, the agreement also includes call and put options for the exit of Telekom Slovenije Group within three years of the closing of the merger. The closing of the merger is subject to merger control clearance in the Republic of Macedonia, which is expected for the first quarter 2015. One is the third largest mobile network operator in the Republic of Macedonia and achieved revenues of approximately EUR 75.5 mn and EBITDA of approximately EUR 14.4 mn in 2013.

Since 31 December 2014, the Belarusian Rouble lost approximately 20% of its value compared to the Euro. The effect of the devaluation on the inflation rate in Belarus remains to be seen (see Note (1)).

On 21 January 2015, a condition of the agreement subject to conditions precedent between Telekom Slovenije and

Si.mobil was fulfilled. Thereupon, Si.mobil withdrew its lawsuit and already received a first payment of EUR 20 mn (see Note (34)).

In its judgement of 11 November 2014, the European Court of Justice (ECJ) decided at the request of the Austrian Administrative Court that the Austrian law determining the reference date for salary increments for Austrian civil servants is not in conformity with European Union law (see Note (22)). To compensate the resulting burden on the federal budget the National Assembly passed a law on 21 January 2015, which has not yet entered into force as it still needs to be enacted by the Austrian Federal Assembly and published in the Austrian Federal Law Gazette. Telekom Austria Group will further examine the accounting of this fact based on the judgement by the Austrian Administrative Court as well as the assessment of the existing wording of the law regarding EU conformity.

OUTLOOK 2015

The past financial year saw the implementation of a number of important strategic measures for the future development of the Telekom Austria Group. The support provided by the new majority shareholder América Móvil and the additional flexibility following the successful conclusion of the capital increase in November 2014 serve to strengthen the management's confidence in reinforcing the stabilisation that was initiated in the past financial year and returning to growth.

Challenges such as macroeconomic headwind, regulatory intervention and severe price pressure are expected to remain in place in all markets for the time being. In 2014, however, the increasingly positive impact of the strategic measures initiated by the management in response to these challenges has been confirmed.

In order to further support these developments an extensive transformation programme has been initiated. A range of measures relating to market activities, costs and technology is intended to generate growth in revenues as well as in EBITDA comparable. This will be accompanied by an increase in free cash flow.

Particularly, in the Group's home market Austria, the expansion of LTE coverage and its fibre network will allow the growing monetisation of demand for data, and hence the more intensive marketing of new products and services. However, the introduction of new services from mobile virtual network operators (MVNOs) entails additional risks in Austria.

The return to growth will depend to a large extent on the recovery of the strained economic situation in the CEE region. Operationally, the Telekom Austria Group will pursue continued growth in the mobile-only markets of Belarus, Slovenia and the Republic of Serbia and the successful continuation of its convergence strategy in Bulgaria, Croatia and the Republic

of Macedonia. Regulatory cuts will have a negative impact also in the coming year. Furthermore, management expects the Belarusian Rouble to decline against the Euro (approximately 20% for 2015). As the devaluation which took place in early 2015 fully reflected the assumptions for the full year 2015, a potential further decline of the Belarusian Rouble presents an additional risk factor.

In order to continue to grow margins, management targets extensive cost-cutting activities in 2015, with the aim of achieving total gross savings of around EUR 90 mn. In order to achieve this, planned activities include measures to further optimise market-related costs as well as structural efficiency improvements in areas such as procurement and technology in particular. Restructuring costs for civil servants in Austria are expected to amount to approximately EUR 40 mn.

Following the completion of the capital increase, the Telekom Austria Group is planning to invest approximately EUR 400 mn in the accelerated expansion of the fibre network between 2015 and 2018, in addition to its regular CAPEX investments. The investment volume is expected to increase throughout the ramp-up phase in 2015 and 2016, with the majority of investment taking place in 2017 and 2018. This plan is subject to the announced government broadband subsidy programme as well as annual budget approvals by the Supervisory Board. Accordingly, the accelerated expansion of the fibre network in Austria will lead to a higher level of investment despite further CAPEX efficiency improvements.

Frequency purchases are expected for Bulgaria, Slovenia and the Republic of Serbia in 2015. Frequencies in the 1800 MHz spectrum are expected to be sold in Bulgaria, while the sale of the 700, 1400, 1800, 2100, 2300, 3500 and 3700 MHz bands is scheduled in Slovenia. In the Republic of Serbia the sale of the 1800 MHz band is planned for mid-March 2015; sales of the 800 and 900 MHz band (digital dividend frequencies) are also expected in 2015.

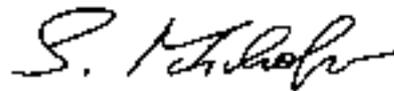
The Telekom Austria Group is committed to maintaining its ratings of Baa2 (stable outlook) with Moody's and BBB (stable outlook) with Standard & Poor's in line with its conservative financial profile, in order to secure the Group's financial flexibility. The Telekom Austria Group still intends to pay a dividend of EUR 0.05 per share for each of the 2014 and 2015 financial years.

Vienna, 22 January 2015

The Management Board



Hannes Ametsreiter
Chairman of the Management Board
Telekom Austria Group



Siegfried Mayrhofer
Chief Financial Officer
Telekom Austria Group



Günther Ottendorfer
Chief Technology Officer
Telekom Austria Group

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

TELEKOM AUSTRIA AG – Consolidated Statements of Profit or Loss

Notes	in TEUR	2014	2013
(4)	Operating revenues	4,017,964	4,183,949
(5)	Other operating income	119,035	87,079
	Material expenses	-497,336	-547,302
	Employee expenses, including benefits and taxes	-876,409	-845,872
(6)	Other operating expenses	-1,477,149	-1,590,496
	Operating expenses	-2,850,894	-2,983,669
	EBITDA comparable	1,286,105	1,287,359
(22)	Restructuring	-89,565	-45,185
(17) (18) (19)	Impairment and reversal of impairment	-345,700	-59,400
	EBITDA incl. effects from restructuring and impairment tests	850,840	1,182,774
(18) (19)	Depreciation and amortisation	-853,826	-864,606
	OPERATING INCOME	-2,986	318,168
(7)	Interest income	14,562	16,123
(7)	Interest expense	-194,545	-206,333
(7)	Foreign exchange differences	-1,921	-4,278
(7)	Other financial result	105	-137
(15)	Result from investments in affiliates	668	1,697
	Financial result	-181,131	-192,927
	EARNINGS BEFORE TAXES	-184,117	125,241
(30)	Income taxes	-1,281	-73,111
	NET RESULT	-185,398	52,130
	Attributable to:		
	Owners of the parent	-210,900	28,977
	Non-controlling interests	190	60
(29)	Hybrid capital holders	25,313	23,093
(29)	Basic and fully diluted earnings per share	-0.46	0.07

See accompanying Notes to the Consolidated Financial Statements.

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

The 2013 comparison period was adjusted according to IAS 8 (see Note (t)).

TELEKOM AUSTRIA AG – Consolidated Statements of Comprehensive Income

Notes	in TEUR	2014	2013
	Net result	-185,398	52,130
(8) (16)	Unrealised result on securities available-for-sale	-51	19
	Income tax (expense) benefit	5	-5
(7)	Realised result on securities available-for-sale	14	217
	Income tax (expense) benefit	-3	-54
(33)	Unrealised result on hedging activities	0	448
	Income tax (expense) benefit	0	-112
(33)	Realised result on hedging activities	5,840	8,688
	Income tax (expense) benefit	-1,460	-2,172
(29)	Foreign currency translation adjustment	-18,354	-4,234
	Items that may be reclassified to profit or loss	-14,010	2,795
(27)	Re-measurements of defined benefit obligations	-26,115	1,365
	Income tax (expense) benefit	6,433	-370
	Items that are not reclassified to profit or loss	-19,682	994
	Other comprehensive income (loss)	-33,692	3,790
	Total comprehensive income	-219,090	55,920
	Attributable to:		
	Owners of the parent	-244,593	32,766
	Non-controlling interests	191	61
(29)	Hybrid capital holders	25,313	23,093

See accompanying Notes to the Consolidated Financial Statements.

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

The 2013 comparison period was adjusted according to IAS 8 (see Note (t)).

TELEKOM AUSTRIA AG – Consolidated Statements of Financial Position

Notes	in TEUR	31 December 2014	31 December 2013	1 January 2013
ASSETS				
Current assets				
	Cash and cash equivalents	1,018,065	201,334	600,763
(8)	Short-term investments	14,433	9,882	85,123
(9)	Accounts receivable – trade, net of allowances	600,068	683,843	751,102
(10)	Receivables due from related parties	1,255	58	7
(11)	Inventories	140,124	127,273	152,942
(12)	Prepaid expenses	125,418	101,684	106,692
(30)	Income tax receivable	27,373	22,162	21,140
(13)	Non-current assets held for sale	413	962	881
(14)	Other current assets	120,137	73,995	90,602
	Total current assets	2,047,288	1,221,193	1,809,252
Non-current assets				
(15)	Investments in associates	38,253	4,979	3,661
(16)	Long-term investments	7,400	5,247	7,872
(17)	Goodwill	1,189,481	1,522,506	1,289,501
(18)	Other intangible assets, net	2,570,106	2,590,269	1,522,577
(19)	Property, plant and equipment, net	2,246,115	2,308,127	2,426,436
(20)	Other non-current assets	46,859	25,243	30,767
(30)	Deferred tax assets	170,895	123,006	167,083
	Total non-current assets	6,269,110	6,579,379	5,447,896
	TOTAL ASSETS	8,316,397	7,800,572	7,257,148
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
(21)	Short-term borrowings	-340,813	-230,284	-1,049,424
(23)	Accounts payable – trade	-522,344	-573,836	-590,783
(22)	Current provisions and accrued liabilities	-337,297	-301,369	-301,789
(10)	Payables due to related parties	-7,058	-5,891	-7,775
(30)	Income tax payable	-33,448	-34,658	-37,158
(23)	Other current liabilities	-132,703	-137,098	-171,454
(24)	Deferred income	-163,877	-159,134	-163,710
	Total current liabilities	-1,537,539	-1,442,271	-2,322,093
Non-current liabilities				
(25)	Long-term debt	-3,384,984	-3,737,702	-2,831,983
(27)	Employee benefit obligations	-200,916	-164,332	-161,642
(22)	Non-current provisions	-867,518	-881,355	-923,146
(30)	Deferred tax liabilities	-90,804	-99,324	-115,176
(28)	Other non-current liabilities and deferred income	-16,595	-16,441	-84,014
	Total non-current liabilities	-4,560,818	-4,899,154	-4,115,961
Stockholders' equity				
(29)	Common stock	-1,449,275	-966,183	-966,183
(29)	Treasury shares	7,803	7,803	8,196
(29)	Additional paid-in capital	-1,100,148	-582,618	-582,896
(29)	Hybrid capital	-591,186	-591,186	0
(29)	Retained earnings	418,032	190,208	236,128
(29)	Available-for-sale reserve	50	15	191
(29)	Hedging reserve	37,227	41,607	48,459
(29)	Translation adjustments	460,649	442,296	438,062
	Equity attributable to equity holders of the parent	-2,216,846	-1,458,058	-818,042
	Non-controlling interests	-1,195	-1,089	-1,052
	TOTAL STOCKHOLDERS' EQUITY	-2,218,041	-1,459,147	-819,094
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	-8,316,397	-7,800,572	-7,257,148

See accompanying Notes to the Consolidated Financial Statements.
 The use of automated calculation systems may give rise to rounding differences.
 The 2013 comparison period was adjusted according to IAS 8 (see Note (1)).

TELEKOM AUSTRIA AG – Consolidated Statements of Cash Flows

Notes	in TEUR	2014	2013
	Net result	-185,398	52,130
	Adjustments to reconcile net result to cash flow		
(18) (19)	Depreciation, amortisation,		
(17)	impairment and reversal of impairment	1,199,526	924,006
(27)	Employee benefit obligation – non-cash	20,806	11,861
(6)	Bad debt expenses	48,645	43,989
(30)	Change in deferred taxes	-41,614	22,568
(15)	Result from investments in affiliates	1,056	-1,419
(31)	Share-based compensation	662	-378
(22)	Change in asset retirement obligation – non-cash	6,209	7,839
(22)	Provision for restructuring – non-cash	99,017	54,836
(7)	Result on sale of investments	-53	218
(6)	Result on disposal/retirement of equipment	1,041	8,538
(7)	Gain on monetary items – non cash	841	-1,062
(32)	Other	39,649	14,090
	Gross cash flow	1,190,390	1,137,217
(9)	Accounts receivable – trade	-11,584	36,311
(10)	Receivables due from related parties	-1,274	-72
(11)	Inventories	-11,318	25,878
(12) (14)	Prepaid expenses and other assets	-105,962	1,189
(23)	Accounts payable – trade	-49,555	-28,708
(27)	Employee benefit obligation	-7,840	-7,902
(22)	Provisions and accrued liabilities	-107,214	-92,513
(23) (24)	Other liabilities and deferred income	4,151	-18,013
(10)	Payables due to related parties	1,608	-1,822
	Changes in assets and liabilities	-288,989	-85,652
	Cash flow from operating activities	901,401	1,051,564
(18) (19)	Capital expenditures	-757,419	-1,779,085
(2) (15)	Acquisitions of subsidiaries, net of cash acquired	-25,173	-330,932
(2) (15)	Sale of subsidiaries, net of cash disposed	-4,458	-25
(18) (19)	Sale of property, plant, equipment, intangible assets	12,136	10,772
(8) (16)	Purchase of investments	-16,132	-564,155
(8) (16)	Sale of investments	9,463	642,057
	Cash flow from investing activities	-781,582	-2,021,368
(25)	Proceeds from issuance of long-term debt		1,040,274
(25)	Principal payments on long-term debt	-246,170	-932,223
(21)	Change in short-term borrowings	4,008	-10,126
(29)	Issuance of hybrid bond	0	588,248
(29)	Capital increase	996,570	0
(29)	Dividends paid	-55,963	-22,152
(33)	Settlement of derivative financial instruments		-65,142
(2)	Deferred consideration paid for business combinations	-1,904	-29,323
	Cash flow from financing activities	696,542	569,555
	Effect of exchange rate changes	-114	1,803
	Monetary loss on cash and cash equivalents	485	-983
	Change in cash and cash equivalents	816,731	-399,429
	Cash and cash equivalents at beginning of the year	201,334	600,763
	Cash and cash equivalents at end of the year	1,018,065	201,334

See accompanying Notes to the Consolidated Financial Statements. The 2013 comparison period was adjusted according to IAS 8 (see Note (t)).

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

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

in TEUR	Common stock Par value	Treasury shares at cost	Additional paid-in capital	Hybrid capital	Retained earnings
At 1 January 2013	966,183	-8,196	582,896	0	-236,128
Net result	0	0	0	0	52,071
Other comprehensive income (loss)	0	0	0	0	993
Total comprehensive income	0	0	0	0	53,064
Distribution of dividends	0	0	0	0	-14,430
Hyperinflation adjustment	0	0	0	0	7,286
Issuance of hybrid capital	0	0	0	591,186	0
Issue of treasury shares	0	392	-278	0	0
At 31 December 2013	966,183	-7,803	582,618	591,186	-190,208
Net result	0	0	0	0	-185,588
Other comprehensive income (loss)	0	0	0	0	-19,682
Total comprehensive income	0	0	0	0	-205,269
Distribution of dividends	0	0	0	0	-47,442
Hyperinflation adjustment	0	0	0	0	24,887
Capital increase	483,092	0	517,530	0	0
At 31 December 2014	1,449,275	-7,803	1,100,148	591,186	-418,032

See accompanying Notes to the Consolidated Financial Statements.

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

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

The 2013 comparison period was adjusted according to IAS 8 (see Note (1)).

Available-for-sale reserve	Hedging reserve	Translation reserve	Total	Non-controlling interests	Total stockholders' equity
-191	-48,459	-438,062	818,042	1,052	819,094
0	0	0	52,071	60	52,130
177	6,852	-4,234	3,789	1	3,790
177	6,852	-4,234	55,859	61	55,920
0	0	0	-14,430	-24	-14,454
0	0	0	7,286	0	7,286
0	0	0	591,186	0	591,186
0	0	0	114	0	114
-15	-41,607	-442,296	1,458,058	1,089	1,459,147
0	0	0	-185,588	190	-185,398
-36	4,380	-18,354	-33,692	-0	-33,692
-36	4,380	-18,354	-219,279	190	-219,090
0	0	0	-47,442	-84	-47,526
0	0	0	24,887	0	24,887
0	0	0	1,000,622	0	1,000,622
-50	-37,227	-460,649	2,216,846	1,195	2,218,041

TELEKOM AUSTRIA AG – Notes to the Consolidated Financial Statements
Consolidated Segment Reporting

2014 (in TEUR)	Austria	Bulgaria	Croatia
External revenues	2,452,215	368,624	369,365
Intersegment revenues	19,767	2,636	8,869
Total revenues	2,471,983	371,260	378,234
Other operating income	86,497	13,541	7,502
Segment expenses	-1,803,110	-241,736	-301,406
EBITDA comparable	755,370	143,065	84,331
Restructuring	-89,565	0	0
Impairment and reversal of impairment	0	-340,600	0
EBITDA incl. effects from restructuring and impairment tests	665,805	-197,535	84,331
Depreciation and amortisation	-508,590	-87,333	-68,464
Operating income	157,214	-284,868	15,866
Interest income	2,376	1,256	225
Interest expense	-42,836	-497	-9,784
Equity in earnings of affiliates	571	0	0
Other financial income	644	-44	-1,137
Earnings before income taxes	117,969	-284,152	5,170
Income taxes			
Net result			
Segment assets	4,814,359	881,609	596,438
Segment liabilities	-2,650,203	-95,041	-421,255
Capex other intangible assets	110,330	57,552	12,208
Capex property, plant and equipment	288,359	45,340	57,747
Total capital expenditures	398,689	102,891	69,955
Cost to acquire property, plant, equipment and intangible assets	404,478	103,341	70,301
Other non-cash items	211,392	4,536	13,327
EBITDA comparable margin	30.6%	38.5%	22.3%

2013 (in TEUR)	Austria	Bulgaria	Croatia
External revenues	2,637,497	395,720	377,487
Intersegment revenues	21,081	3,729	11,708
Total revenues	2,658,578	399,449	389,194
Other operating income	87,501	11,897	5,834
Segment expenses	-2,000,792	-252,754	-277,389
EBITDA comparable	745,287	158,592	117,640
Restructuring	-45,185	0	0
Impairment and reversal of impairment	0	-59,400	0
EBITDA incl. effects from restructuring and impairment tests	700,102	99,192	117,640
Depreciation and amortisation	-516,059	-94,587	-65,836
Operating income	184,043	4,605	51,803
Interest income	2,411	1,054	916
Interest expense	-38,972	-2,766	-10,999
Equity in earnings of affiliates	1,697	0	0
Other financial income	-527	-58	-2,116
Earnings before income taxes	148,652	2,835	39,604
Income taxes			
Net result			
Segment assets	4,926,958	1,222,759	544,657
Segment liabilities	-2,695,242	-146,488	-366,134
Capex other intangible assets	1,203,488	22,550	30,850
Capex property, plant and equipment	306,327	37,616	51,532
Total capital expenditures	1,509,815	60,165	82,382
Cost to acquire property, plant, equipment and intangible assets	1,515,020	60,270	82,747
Other non-cash items	96,006	4,766	4,419
EBITDA comparable margin	28.0%	39.7%	30.2%

For further information on segments, see Note (3). The 2013 comparison period was adjusted according to IAS 8 (see Note (1)). The use of automated calculation systems may give rise to rounding differences.

Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
354,962	472,797	0	0	4,017,964
16	8,295	0	-39,583	0
354,978	481,091	0	-39,583	4,017,964
5,966	11,888	54,500	-60,859	119,035
-188,578	-355,966	-60,025	99,927	-2,850,894
172,366	137,013	-5,525	-515	1,286,105
0	0	0	0	-89,565
0	-5,100	0	0	-345,700
172,366	131,913	-5,525	-515	850,840
-90,168	-100,068	0	797	-853,826
82,198	31,846	-5,525	282	-2,986
9,457	1,308	35,295	-35,354	14,562
-2,015	-2,449	-172,325	35,361	-194,545
0	0	97	0	668
454	-1,118	-662,075	661,461	-1,816
90,095	29,586	-804,533	661,749	-184,117
				-1,281
				-185,398
568,810	807,660	7,701,935	-7,054,416	8,316,397
-68,228	-198,071	-4,270,118	1,604,559	-6,098,357
6,208	82,483	0	0	268,780
42,243	54,951	0	0	488,639
48,451	137,433	0	0	757,419
52,104	138,713	0	0	768,936
4,232	5,142	-21,742	0	216,886
48.6%	28.5%	n.a.	n.a.	32.0%
Belarus	Additional Markets	Corporate & Other	Eliminations	Consolidated
331,676	441,569	0	0	4,183,949
55	11,918	0	-48,490	0
331,731	453,487	0	-48,490	4,183,949
4,866	12,359	23,908	-59,288	87,079
-180,712	-327,353	-52,371	107,703	-2,983,669
155,886	138,493	-28,463	-75	1,287,359
0	0	0	0	-45,185
0	0	0	0	-59,400
155,886	138,493	-28,463	-75	1,182,774
-84,332	-104,679	0	887	-864,606
71,554	33,814	-28,463	812	318,168
8,160	800	21,602	-18,820	16,123
-1,823	-768	-169,828	18,822	-206,333
0	0	0	0	1,697
810	-135	326,308	-328,696	-4,415
78,702	33,711	149,619	-327,882	125,241
				-73,111
				52,130
572,539	751,667	7,723,350	-7,941,357	7,800,572
-58,261	-126,911	-4,435,668	1,487,279	-6,341,425
5,158	30,046	0	0	1,292,093
28,813	62,706	0	0	486,993
33,971	92,752	0	0	1,779,085
34,152	95,543	0	0	1,787,731
7,854	5,414	5,817	0	124,277
47.0%	30.5%	n.a.	n.a.	30.8%

Table of Other Intangible Assets

in TEUR	Licenses	Brand names	Software	Customer base	Advances/ construction in progress	Other	Total
Cost							
At 1 January 2013	1,041,083	549,820	1,093,913	1,099,088	76,630	182,584	4,043,118
Hyperinflation adjustment	974	967	629	3,444	60	42	6,117
Additions	75,893	10,000	98,719	333	1,088,052	19,095	1,292,093
Disposals	-95	0	-51,763	-22,682	-61	-20,254	-94,854
Transfers	19,792	0	67,879	0	-82,498	810	5,983
Translation adjustment	-2,329	-295	-941	-566	-109	-707	-4,947
Changes in reporting entities	0	12,950	-3,024	42,168	0	6,695	58,788
At 31 December 2013	1,135,319	573,442	1,205,413	1,121,786	1,082,074	188,264	5,306,298
Hyperinflation adjustment	5,645	5,603	3,729	19,954	523	279	35,733
Additions	95,874	0	87,438	0	73,504	11,964	268,780
Disposals	-44	0	-161,204	0	-45	-3,403	-164,696
Transfers	456,499	325	75,709	-51	-522,113	23,377	33,746
Translation adjustment	-12,145	-104	-1,935	-257	-146	-3,420	-18,006
Changes in reporting entities	-116	-386	-709	2,633	-1	-116	1,305
At 31 December 2014	1,681,032	578,881	1,208,440	1,144,064	633,796	216,947	5,463,160
Accumulated amortisation and impairment							
At 1 January 2013	-667,750	-27,493	-792,572	-904,621	0	-128,105	-2,520,541
Hyperinflation adjustment	-295	0	-534	-2,010	0	-40	-2,878
Additions	-54,391	-5,753	-152,119	-53,699	0	-16,548	-282,510
Disposals	95	0	51,164	22,682	0	12,897	86,837
Transfers	0	0	-118	0	0	1,090	972
Translation adjustment	776	20	764	341	0	592	2,493
Changes in reporting entities	0	0	1,462	0	0	-1,863	-401
At 31 December 2013	-721,564	-33,227	-891,954	-937,306	0	-131,977	-2,716,029
Hyperinflation adjustment	-2,075	0	-3,317	-13,859	0	-238	-19,489
Additions	-87,278	-8,401	-149,425	-54,941	0	-13,649	-313,694
Disposals	37	0	160,740	0	0	1,856	162,633
Transfers	0	-325	-1,519	51	0	-14,443	-16,236
Translation adjustment	4,266	13	1,397	163	0	3,108	8,947
Changes in reporting entities	68	0	625	0	0	121	814
At 31 December 2014	-806,546	-41,940	-883,453	-1,005,892	0	-155,223	-2,893,054
Carrying amount at							
31 December 2014	874,486	536,941	324,987	138,172	633,796	61,724	2,570,106
31 December 2013	413,755	540,215	313,459	184,479	1,082,074	56,287	2,590,269

For further information on other intangible assets, see Note (t8).

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

Table of Property, Plant and Equipment

in TEUR	Land, buildings & leasehold improvements	Communications network and other equipment	Finance leases	Advances/ construction in progress	Total
Cost					
At 1 January 2013	892,542	10,480,897	390	153,421	11,527,250
Hyperinflation adjustment	393	3,702	0	204	4,299
Additions	13,515	365,467	0	116,657	495,639
Disposals	-8,938	-773,756	-390	-2,309	-785,394
Transfers	4,926	113,680	0	-126,982	-8,376
Translation adjustment	-673	-8,559	0	-272	-9,504
Changes in reporting entities	81	11,627	0	0	11,708
At 31 December 2013	901,845	10,193,058	0	140,719	11,235,622
Hyperinflation adjustment	2,306	25,324	0	1,761	29,391
Additions	9,306	316,482	0	174,369	500,156
Disposals	-17,359	-545,079	0	-374	-562,812
Transfers	2,724	88,583	0	-124,551	-33,244
Translation adjustment	-662	-15,926	0	-1,016	-17,604
Changes in reporting entities	-968	17,488	0	288	16,808
At 31 December 2014	897,191	10,079,929	0	191,197	11,168,317
Accumulated depreciation and impairment					
At 1 January 2013	-573,357	-8,527,213	-244	0	-9,100,814
Hyperinflation adjustment	-36	-2,631	0	0	-2,667
Additions	-33,255	-548,810	-30	0	-582,095
Disposals	7,742	748,824	274	0	756,840
Transfers	1,985	-914	0	0	1,071
Translation adjustment	272	6,242	0	0	6,514
Changes in reporting entities	-13	-6,329	0	0	-6,343
At 31 December 2013	-596,664	-8,330,831	0	0	-8,927,495
Hyperinflation adjustment	-275	-17,218	0	0	-17,493
Additions	-30,324	-509,808	0	0	-540,132
Disposals	14,739	527,450	0	0	542,189
Transfers	-204	16,219	0	0	16,015
Translation adjustment	327	10,584	0	0	10,911
Changes in reporting entities	897	-7,094	0	0	-6,197
At 31 December 2014	-611,505	-8,310,697	0	0	-8,922,202
Carrying amount at					
31 December 2014	285,686	1,769,232	0	191,197	2,246,115
31 December 2013	305,182	1,862,226	0	140,719	2,308,127

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

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

(1) The Company and Significant Accounting Policies

Description of business and relationship with the Federal Republic of Austria

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

The parent company of Telekom Austria Group is América Móvil, S.A.B. de C.V. (“América Móvil”), which is located in Mexico. The Federal Republic of Austria, through Österreichische Industrieholding AG (“ÖIAG”), is a significant shareholder of Telekom Austria Group. América Móvil’s and ÖIAG’s stake in Telekom Austria Group is disclosed in Note (29).

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

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

Basis of presentation

Telekom Austria Group prepared the accompanying Consolidated Financial Statements as of 31 December 2014 in compliance with the International Financial Reporting Standards (“IFRS/IAS”), issued by the International Accounting Standards Board (“IASB”), the interpretations of the IFRS Interpretations Committee (“IFRIC”) and the interpretation of the former Standards Interpretation Committee (“SIC”), effective as of 31 December 2014 and as endorsed by the European Union.

The following amendments to and revisions of existing IFRS as well as new IFRS and IFRIC are effective as of 1 January 2014.

IAS 32	Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
IFRS 10.12; IAS 27	Investment Entities – Amendments to IFRS 10, 12 and IAS 27
IAS 36	Amendment IAS 36 Recoverable Amount Disclosures
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21*	Levies

* Applicable to financial years starting on or after 17 June 2014 according to EU endorsement.

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

The following standards and interpretations were issued by the IASB, but were not effective for the financial year 2014. Telekom Austria Group has not early adopted these standards and interpretations and is currently evaluating their impact on its Consolidated Financial Statements and disclosures.

		Effective *	Effective**
IAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014	not endorsed
all IFRSs	Annual Improvements 2011–2013	1 July 2014	1 July 2015
all IFRSs	Annual Improvements 2010–2012	1 July 2014	not endorsed
IFRS 14	Regulatory Deferral Accounts	1 January 2016	not endorsed
IFRS 11	Amendments Accounting for Acquisitions of Interests in Joint operations	1 January 2016	not endorsed
IAS 16.38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	not endorsed
IAS 41	Agriculture: Bearer Plants	1 January 2016	not endorsed
IFRS 15	Revenue from Contracts with Customers	1 January 2017	not endorsed
IFRS 9	Financial Instruments	1 January 2018	not endorsed
all IFRSs	Annual Improvements 2012–2014	1 January 2016	not endorsed
IAS 27	Equity Method in Separate Financial Statements	1 January 2016	not endorsed
IFRS 10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016	not endorsed

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

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

Changes in Accounting Estimates and Errors

Prior period errors are accounted for retrospectively. The Consolidated Financial Statements including all comparative amounts for prior periods are reported as if the prior period error had never occurred. Changes in accounting estimates are recognised prospectively.

Due to a random sample of Österreichische Prüfstelle für Rechnungslegung (OePR), the Austrian Financial Reporting Enforcement Panel, the Consolidated Financial Statements 2013 as well as the half-year financial statements 2014 of Telekom Austria Group were audited. By letter dated 14 January 2015, Telekom Austria Group was informed that of the total amount of TEUR 400,000 of the impairment of goodwill in Bulgaria, which was recognised in the second quarter of 2014, TEUR 59,400 should already have been recognised in 2013, the recognised amount of goodwill itself at 30 June 2014 was not challenged (see Note (17)). The audit finding of OePR having an impact on value in use relates to the planning period (the period of five years stipulated in IAS 36.35 was exceeded), to allow for effects of future improving or enhance the asset's performance (IAS 36.44 (b)) and to the use of estimates regarding the expected reduction in country risk premiums (convergence) when setting the discount rate (IAS 36.54).

Furthermore, a part of the loss of the forward-starting-interest rate-swap contracts (pre-hedges) amounting to TEUR 5,768 should have been recognised in interest expense in July 2013, at the time of the issuance of the bond representing the hedged item. Thus interest expense relating to the release of the hedging reserve between July and December 2013 was reduced by TEUR 288 (see Note (7)).

The effects on the items concerned and the related deferred taxes are presented in the following table.

31 December 2013	as previously reported	adjustment	adjusted
in TEUR			
Goodwill	1,581,906	-59,400	1,522,506
Deferred tax liabilities	-105,264	5,940	-99,324
Retained earnings	132,638	57,570	190,208
Hedging reserve	45,717	-4,110	41,607
Impairment and reversal of impairment	0	-59,400	-59,400
Interest expense	-200,853	-5,480	-206,333
Income taxes	-80,421	7,310	-73,111
NET RESULT	109,700	-57,570	52,130
Attributable to:			
Owners of the parent	86,547	-57,570	28,977
Basic and fully diluted earnings per share	0.20		0.07

The retrospective adjustment does not have any impact on the information provided in the statement of financial position at the beginning of the previous period (1 January 2013).

The Consolidated Financial Statements contain a change in accounting estimate relating to accounts receivable – trade (see Note (9)).

Principles of consolidation

On 31 December 2014 and 2013, the Consolidated Financial Statements of Telekom Austria Group include 25 subsidiaries in Austria and 29 respectively 31 subsidiaries abroad which Telekom Austria Group controls. Control is defined as the rights to variable returns and the ability to affect those returns through power over an investee.

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

Investments in companies in which Telekom Austria Group has significant influence, but no control of the investee, are accounted for using the equity method. The Consolidated Financial Statements include two investments (2013: one) accounted for using the equity method. Under the equity method, only Telekom Austria Group's investments in as well as receivables due from and liabilities due to these equity investees are included in the consolidated statements of financial position. Telekom Austria Group's share of the investee's earnings is included in the consolidated statements of profit or loss. In the consolidated statements of cash flows only dividends, loans or cash received from or paid to the investee are included.

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

The subsidiaries included in the Consolidated Financial Statements are listed in Note (38).

Foreign currency translation

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

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

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

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

	Exchange rates at 31 December		Average exchange rates for the period ended 31 December	
	2014	2013	2014	2013
Bulgarian Lev (BGN)	1.9558	1.9558	1.9558	1.9558
Croatian Kuna (HRK)	7.6580	7.6265	7.6348	7.5787
Czech Koruna (CZK)	27.7350	27.4270	27.5361	25.9734
Hungarian Forint (HUF)	315.5400	297.0400	308.7371	296.9530
Serbian Dinar (CSD)	120.9583	114.6421	117.2601	113.0943
Swiss Franc (CHF)	1.2024	1.2276	1.2146	1.2308
Rumanian Leu (RON)	4.4828	4.4710	4.4445	4.419
Turkish Lira (TRY)	2.8320	2.9605	2.9073	2.5311
Macedonian Denar (MKD)	61.4814	61.5113	61.6224	61.5826
Belarusian Rouble (BYR)*	14,380.0000	13,080.0000	14,380.0000	13,080.0000
US Dollar (USD)	1.2141	1.3791	1.3284	1.3278
Great Britain Pound (GBP)	0.7789	0.8337	0.7930	0.8491
Bosnian convertible mark (BAM)	1.9558	1.9558	1.9558	1.9558
Polish Zloty (PLN)	4.2732	4.1543	4.1859	4.1968

*Year-end rates are used for the translation of revenues and expenses as IAS 29 "Financial Reporting in Hyperinflationary Economies" is applied.

Financial reporting in hyperinflationary economies

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

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

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

Monthly inflation in %	2014	2013
January	1.6	3.0
February	2.0	1.2
March	1.3	1.1
April	1.6	0.5
May	2.2	0.7
June	1.2	0.3
July	0.9	1.0
August	0.8	0.1
September	1.2	1.7
October	1.2	1.9
November	0.6	1.6
December	0.6	2.3

Assets and liabilities as well as the revenues and expenses of these foreign subsidiaries are translated using the year-end exchange rates for the purpose of consolidation.

Until 31 December 2014, hyperinflation accounting according to IAS 29 is applied to Belarus. Due to the volatile market development since 1 January 2015, Telekom Austria Group will assess on the basis of the further development of inflation in 2015 if hyperinflation accounting has to be reapplied in 2015. In case hyperinflation accounting is discontinued, all amounts expressed in the measuring unit at 31 December 2014 are treated as the basis for the carrying amounts in 2015.

Format of the consolidated statements of profit or loss

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

Revenue recognition

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

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

Fixed-line services include access fees, domestic and long distance services including internet, fixed-to-mobile calls, international traffic, voice value-added services, interconnection, call centre services and public payphone services.

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

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

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

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

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

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

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

Certain prepaid services are billed in advance resulting in deferred revenues. These fees are deferred and recognised over the period the service is provided. Cash discounts and rebates are accounted for as a reduction in revenues when granted. Customer acquisition costs are recognised pro-rata over the contract period as marketing expenses when a service contract exists. In the case of customer loyalty programmes, under which the customers can redeem mobile handsets or accessories against bonus points (award credits) granted to them as part of the sales transactions, revenue is deferred at the time of the granting of the award credits until the goods are redeemed or the awards expire.

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

Research and development costs

In accordance with IAS 38, research costs, defined as costs of original and planned research performed to gain new scientific or technical knowledge and understanding, are expensed as incurred. Development costs are defined as costs incurred to achieve technical and commercial feasibility.

If development costs cannot be separated from research costs or do not meet the relevant recognition criteria, the development costs as well as research costs are expensed as incurred according to IAS 38. In 2014 and 2013, research and development expenses of TEUR 17,136 and TEUR 18,301, respectively, are recognised based on their origination as employee expenses, depreciation and amortisation as well as other operating expenses in the consolidated statements of profit or loss.

Interest, royalties and dividends

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

Earnings per share

Basic and diluted earnings per share are calculated by dividing the net income or loss by the weighted average number of common shares outstanding for the year. The Management Board determined to settle all shares granted in the course of the long-term incentive program in cash. Thus, no related dilutive effect has been considered in 2014 and 2013 for current share-based compensation plans.

Cash and cash equivalents

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

Marketable securities and other long-term investments

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

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

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

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

Receivables

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

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

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

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

Inventories

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

Assets held for sale

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

Goodwill and other intangible assets

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

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

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

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

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

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

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

The growth rates in the business plans reflect the weighted average growth rates based on macroeconomic forecasts and are specific for different markets.

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

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

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

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

* See also terms in Note (18).

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

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

Internally developed software

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

Property, plant and equipment

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

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

The useful lives are:

	Years
Transmission equipment	3–10
Cables and wires	4–20
Communications equipment	4–20
Furniture, fixtures and other	2–10
Buildings and leasehold improvements	3–50

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

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset.

Government grants

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

Impairment of property, plant and equipment and intangible assets

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

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

Financial liabilities

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

Other liabilities

Other liabilities are carried at amortised cost.

Provisions

A provision is recorded when an obligation to a third party exists, the payment is probable and the amount can be reasonably estimated. Long-term provisions relating to personnel and social costs, restructuring provisions and asset retirement obligation are recorded at their net present value. Provisions for restructuring contain onerous contracts in accordance with IAS 37 as well as provisions for social plans in accordance with IAS 19.

Leases

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

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

Employee benefit obligations

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

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

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

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

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

Changes in existing decommissioning, restoration and similar liabilities

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

Income taxes

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

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

Share-based payments

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

Financial instruments

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

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

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

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

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

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

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

Fair value of financial instruments

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

Concentration of risks

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

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

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

Use of estimates

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

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

- a) Employee benefit plans: The measurement of the various pension and other post-employment benefit plans as well as service awards is based on a method that uses various parameters, such as the expected discount rate, rate of compensation increase, rate of employee turnover and pension and salary increase. Changes in these parameters could result in higher or lower expenses (see Note (27)).
- b) Impairments: The impairment test for goodwill, other intangible assets and property, plant and equipment (PPE) is generally based upon discounted estimated future net cash flows from the continuing use and ultimate disposal of the assets. Changes in the discount rates used, in the development of revenues, in cost drivers as well as in asset additions could lead to impairments or, to the extent permitted, to reversals of impairments (see Note (17)). For more information on the carrying amounts of goodwill, other intangible assets and property, plant and equipment, see Notes (17), (18) and (19).

- c) The estimated useful lives of property, plant and equipment and intangible assets subject to depreciation and amortisation represent the estimated periods during which the assets will be in use. With respect to changes in depreciation and amortisation resulting from changes in the useful lives, see Note (19).
- d) Share-based compensation: Obligations under the long-term incentive program are measured based on the fair value, which depends on expected target achievement and the expected share price at vesting date. Compensation expense and liabilities could materially differ from the estimated amount as of the reporting date if the underlying parameters were to change (see Note (31)).
- e) Deferred taxes: In assessing the recoverability of deferred tax assets, Management considers whether it is probable that all the deferred tax assets will be realised. The ultimate realisation of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. If Telekom Austria Group does not generate sufficient taxable income, deferred tax assets cannot be realised and therefore will not be recognised (see Note (30)).
- f) Restructuring (includes provisions for onerous contracts according to IAS 37 as well as provisions for social plans according to IAS 19): The provision is based on various parameters such as discount rate, salary increase, employee turnover and the probability of the acceptance of termination offers. Changes in these parameters could result in higher or lower expenses (see Note (22)).

(2) Business Combinations

In June 2014, Telekom Austria Group signed an agreement for the merger of its subsidiary mobilkom liechtenstein into Telecom Liechtenstein AG ("Telecom Liechtenstein") to form a convergent market leader in Liechtenstein. Closing of this non-cash transaction was carried out on 27 August 2014 and resulted in Telekom Austria Group holding a stake of 24.9% and the Principality of Liechtenstein 75.1% in Telecom Liechtenstein. As a result of Telekom Austria Group's significant influence, Telecom Liechtenstein is accounted for under the equity method and reported in Corporate & Other (see Note (15)). Telecom Liechtenstein offers bundled products consisting of fixed line, mobile communications, internet and TV services. The fair value corresponds to the entity value determined and mutually agreed upon by both parties to the contract in the course of the valuation. The fair value of Telekom Austria Group's stake in the Telecom Liechtenstein is TEUR 34,330 and the transaction resulted in a gain of TEUR 26,785 which was recognised in other operating income in the consolidated statements of profit or loss (see Note (5)).

Due to the merger, Telekom Austria Group lost control of mobilkom Liechtenstein. The following table shows the assets and liabilities disposed of.

Dispose of mobilkom liechtenstein
in TEUR

Property, plant and equipment	1,612
Intangible assets	1,345
Trade and other receivables	3,167
Cash and cash equivalents	4,458
Liabilities	-2,976

On 30 July 2014, Telekom Austria Group acquired 100% of blizoo DOOEL, Macedonia ("blizoo"). The fair values of the assets acquired and liabilities assumed at the acquisition date were determined based on the allocation of the consideration transferred and are shown in the following table:

Acquisition of blizoo in TEUR	Fair values on acquisition date
Property, plant and equipment	12,223
Intangible assets	3,008
Other assets and receivables	1,021
Cash and cash equivalents	321
Short-term borrowings	-7,454
Accounts payable – trade and other liabilities	-8,236
Net assets acquired	883
Goodwill	12,952
Total purchase consideration	13,835
Cash paid for receivable acquired	11,165
Cash and cash equivalents acquired	-321
Net cash outflow	24,679

Blizoo is the leading cable operator in the Republic of Macedonia, offering TV services, broadband and fixed voice. The acquisition represents a significant step in fulfilling Telekom Austria Group's convergence strategy and enables Vip operator and blizoo to offer bundled fixed and mobile services in Macedonia. The factors contributing to the recognised goodwill are expected future earnings from the positive development of the market share (including increase in customer benefit by usage of Vip operator's network) and expected synergies in cost. The cash paid for a receivable acquired relates to a receivable of the seller, which was additionally acquired.

Acquisition-related costs recognised in other operating expenses in profit or loss amount to TEUR 551. Since the acquisition date blizoo has contributed revenues in the amount of TEUR 4,377 and a net loss of TEUR 255. Since the effect of the acquired entity on the Consolidated Financial Statements of Telekom Austria Group is not considered significant, no pro-forma information is presented.

On 15 September 2014, Telekom Austria Group acquired 100% of Dastin d.o.o., Bjelovar ("Dastin") in Croatia. The fair values of the assets acquired and liabilities assumed at the acquisition date were determined based on the allocation of the consideration transferred and are shown in the following table:

Acquisition of Dastin in TEUR	Fair values on acquisition date
Intangible assets	457
Other assets and receivables	40
Cash and cash equivalents	4
Deferred tax liabilities	-91
Accounts payable – trade and other liabilities	-47
Net assets acquired	363
Goodwill	135
Consideration transferred	498
Cash and cash equivalents acquired	-4
Net cash outflow	494

Acquisition-related costs recognised in other operating expenses in profit or loss amount to TEUR 16. In December 2014, Dastin was merged into Vipnet, which did not have any effect on the Consolidated Financial Statements of Telekom Austria Group.

In June 2014, the remaining deferred consideration for the acquisition of SOBS Base Stations GmbH ("SOBS") in the amount of TEUR 1,904 was paid. SOBS was the company into which the base stations of Orange Austria had been demerged and which was merged into A1 Telekom Austria AG in 2013. As of 31 December 2013, this outstanding consideration was recorded in other current liabilities (see Note (23)).

(3) Operating Segments

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

Telekom Austria Group has aligned its management structure and the resulting segment reporting due to the demand for convergent products. As a result, operating segments are based on geographical markets. Telekom Austria Group reports separately on its five operating segments: Austria, Bulgaria, Croatia, Belarus and Additional Markets. The “Extended Board”, which regularly convenes in Extended Board Meetings, is Telekom Austria Group’s chief operating decision maker. It consists of the Management Board (Group CEO, Group CFO and Group CTO) as well as the Group Officers of Telekom Austria AG who represent human resources and marketing. The Extended Board focuses on EBITDA comparable as well as EBITDA including effects from restructuring and impairment tests.

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

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

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

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

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

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

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

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

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

In 2014 and 2013, other non-cash items mainly consist of restructuring expenses, pension and severance expense, interest expense on restructuring provisions and asset retirement obligations, bad debt expenses and the net monetary gain in the segment Belarus resulting from the application of hyperinflation accounting as well as accrued interest in Corporate & Other. Additionally in 2014, this item contains the gain on the merger of mobilkom Liechtenstein in Corporate & Other (see Notes (2) and (5)) as well as non-cash changes in provisions (see Note (22)) and the one-time effect relating to the deferral of revenues (see Note (9)) in the segment Austria. In 2013, this item contains the gain on bargain purchases in the segment Croatia as well as the loss from the sale of the stake in Airwin Entertainment GmbH in the segment Austria.

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

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

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

(4) Revenues

in TEUR	2014	2013
Services	3,673,851	3,852,555
Equipment	344,113	331,394
Operating revenues	4,017,964	4,183,949

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

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

in TEUR	2014	2013
Monthly fee and traffic	2,939,940	3,021,376
Data and ICT Solutions	222,507	225,462
Wholesale (incl. Roaming)	168,567	167,744
Interconnection	315,253	408,823
Equipment	344,113	331,394
Other revenues	27,584	29,150
Total revenues	4,017,964	4,183,949

(5) Other Operating Income

in TEUR	2014	2013
Rental revenue	14,847	16,240
Own work capitalised	40,061	38,356
Other	64,127	32,483
Other operating income	119,035	87,079

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

In 2014 and 2013, other operating income includes research and educational tax credits amounting to TEUR 1,896 and TEUR 1,993, respectively. In 2014, the gain on the merger of mobilkom liechtenstein amounting to TEUR 26,785 is included in other operating income, whereas in 2013, the gain on bargain purchases amounting to TEUR 1,276 from acquisitions in the segment Croatia is included in other operating income (see Note (2)). In 2014 and 2013, TEUR 3,250 and TEUR 822 were recorded relating to claims for compensation for damages and unjustified enrichment against former board members and managers.

(6) Other Operating Expenses

in TEUR	2014	2013
Interconnection	314,890	401,428
Repairs and maintenance	165,936	169,011
Services received	177,818	182,608
Concession fees	45,844	36,955
Advertising and marketing	144,725	158,558
Other support services	149,405	149,009
Rental and lease expenses	166,287	160,812
Commissions	72,731	76,887
Bad debt expenses	48,645	43,989
Other consulting	10,468	12,220
Legal consulting	5,548	5,007
Travel expenses	15,761	16,216
Other taxes	13,357	15,146
Energy	56,419	58,258
Transportation	26,916	27,575
Training expenses	7,789	7,887
Net loss from retirement of fixed assets	1,041	8,538
Other	53,570	60,392
Other operating expenses	1,477,149	1,590,496

In 2013, bad debt expenses of other receivables (see Notes (14) and (20)) of TEUR 6,004 were included in line item other, since 2014 they are reported in line item bad debt expenses. In 2013, concession fees of TEUR 36,955 were included in line item services received and in other, since 2014 they are reported in a separate line item. The 2013 comparison period was adjusted accordingly.

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

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

At the Annual General Meeting on 28 May 2014, Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna ("Deloitte") was appointed as group auditor for Telekom Austria Group. Expenses related to the group auditor amount to:

in TEUR	2014	2013
Audit fees	698	634
Other reviews	1,965	0
Fees Deloitte	2,663	634

Other reviews mainly relate to expenses for the capital increase (see Note (29)).

(7) Financial Result

in TEUR	2014	2013
Interest income on loans and receivables	12,371	11,900
Interest income on bank deposits	1,980	3,788
Interest income on available-for-sale investments	210	292
Net gain on hedging transactions	0	143
Interest income	14,562	16,123

Telekom Austria Group had entered into interest rate swap agreements to offset fair value changes attributable to interest rate variability of the bonds issued under the EMTN Programme in 2003 and redeemed in 2013. Changes in the fair value of hedging instruments (interest rate swaps) designated as a fair value hedge in accordance with IAS 39 and of the hedged items were netted for each swap contract and were recognised as interest income or interest expense depending on the net amount:

in TEUR	2014	2013
Result on interest rate swaps – fair value hedge	0	-6,479
Result from fair value measurement of EMTN bonds	0	6,622
Interest income	0	143

in TEUR	2014	2013
Interest expense on financial liabilities	163,410	164,490
Interest expense on restructuring provision	19,081	21,441
Interest expense on employee benefit obligations	5,845	5,817
Interest expense on asset retirement obligations	6,209	7,839
Net loss on hedging transactions	0	6,746
Interest expense	194,545	206,333

Provisions for restructuring contain onerous contracts in accordance with IAS 37 as well as provisions for social plans in accordance with IAS 19. The 2013 comparison period was adjusted according to IAS 8 (see Note (t)).

In 2013, the net loss on hedging transactions related to the settlement of the pre-hedges (see Note (33)).

Foreign exchange differences

in TEUR	2014	2013
Foreign exchange gains	8,424	5,703
Foreign exchange losses	-9,503	-11,043
Net monetary gain	-841	1,062
Foreign exchange differences	-1,921	-4,278

Other financial result

in TEUR	2014	2013
Dividends received	53	80
Gain on sale of investments measured at cost	67	0
Gain on disposal of available-for-sale securities transferred from other comprehensive income	42	5
Loss on disposal of available-for-sale securities transferred from other comprehensive income	-56	-222
Result from financial assets	105	-137

The amounts previously recognised in other comprehensive income (OCI) and subsequently recognised in profit or loss are disclosed in the consolidated statements of comprehensive income. Telekom Austria Group recognises gains and losses relating to financial instruments in the financial result.

(8) Short-term Investments

in TEUR, at 31 December	2014	2013
Marketable securities short-term – available-for-sale	1,050	1,739
Other short-term investments	13,383	8,143
Short-term investments	14,433	9,882

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

As of 31 December 2014 and 2013, other short-term investments relate to fixed deposits in Belarus.

(9) Accounts Receivable – Trade

in TEUR, at 31 December	2014	2013
Accounts receivable – trade, gross	773,032	864,772
Allowances	-172,963	-180,929
Accounts receivable – trade, net	600,068	683,843

At 31 December 2014 and 2013, accounts receivable – trade have a maturity of less than twelve months and are non-interest bearing.

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

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

in TEUR	2014	2013
At 1 January	180,929	203,451
Foreign currency adjustment	-734	-858
Change in reporting entities	1,060	814
Reversed	-6,194	-5,287
Charged to expenses	48,718	43,272
Amounts written-off	-50,816	-58,470
Reclassification	0	-1,992
At 31 December	172,963	180,929
Thereof		
Specific allowance	6,638	11,156
General allowance	166,325	169,774

The ageing of accounts receivable – trade is as follows:

in TEUR, at 31 December	Gross 2014	Allowance 2014	Gross 2013	Allowance 2013
Not yet due	523,516	6,949	600,603	8,509
Past due 0–90 days	75,178	13,493	70,106	12,158
Past due 91–180 days	19,537	12,797	25,839	11,773
Past due 181–360 days	25,026	19,910	36,289	23,756
More than one year	129,775	119,815	131,935	124,733
Total	773,032	172,963	864,772	180,929

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

There is no allowance for the following accounts receivable – trade not due.

in TEUR, at 31 December	2014	2013
Not past due without valuation allowance	209,399	239,119

As these accounts receivable – trade mainly relate to deferred marketing expenses related to customer loyalty programmes, roaming credits, deferrals related to multiple deliverables and access fees invoiced in advance, there is no risk of non-fulfilment.

Bad debt expenses mainly relate to accounts receivable – trade due from business and private customers. Accounts receivable – trade due from national and international carriers are only considered doubtful when they are past due for more than 90 days.

Telekom Austria Group has neither collateral nor insurance for its accounts receivable – trade because the credit risk is sufficiently diversified due to the large number of customers.

As of 31 December 2013, accounts receivable contained receivables amounting to TEUR 384,103 sold under civil law to a special purpose entity under the Asset Backed Securitisation (ABS) Programme which was terminated in August 2014 (see Note (33)). In accordance with IFRS 10 (“Consolidated financial statements” – Relevant activities and direction of relevant activities), the special purpose entity (“SPE”) was consolidated, which resulted in the recognition of the accounts receivable in Telekom Austria Group’s Consolidated Financial Statements despite their sale.

(10) Related Party Transactions

The significant shareholders América Móvil and ÖIAG are considered related parties due to their stake in Telekom Austria AG allowing them to control and to exercise significant influence, respectively. Through América Móvil, Telekom Austria Group is also related to its subsidiaries. Through ÖIAG, Telekom Austria Group is related to the Republic of Austria and its subsidiaries, which are mainly ÖBB Group, ASFINAG Group and Post Group as well as Rundfunk und Telekom Regulierungs-GmbH (“RTR”), all of which qualify as related parties. Telekom Austria Group has determined the kind and amount of the transactions concluded with these related parties. None of the individual transactions associated with government agencies or government-owned entities are considered significant to Telekom Austria Group except for the acquisition of licenses at the Austrian spectrum auction in 2013 (see Note (18)). In 2014 and 2013, services received from the related parties mentioned above mainly relate to postage fees, transportation, commissions, roaming and fees to RTR and amount to 4.7% and 3.8%, respectively, of the material expense and other operating expenses recognised in the segment Austria. In the years reported, revenues generated with these related parties were 3.2% of the total revenues in the segment Austria.

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

Telekom Austria Group is obligated to provide voice telephone services for disadvantaged individuals at reduced tariffs for which it is entitled to appropriate compensation from the government on a contractual basis. The contract with the government concluded in July 2011 specifies the reimbursement for customers having a valid official notice issued before 1 July 2011 of Euro 13.81 per customer per month. The reimbursement for customers having a valid official notice issued after 1 July 2011 amounts to Euro 10.00 per month. The total reimbursement recorded as revenue in the service period was TEUR 16,402 and TEUR 20,382 in 2014 and 2013, respectively.

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

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

in TEUR	2014	2013
Revenues	244	60
Other operating income	505	13
Expenses	24,805	28,436

In 2014 and 2013, the expenses relate mainly to advertising and marketing services provided by media.at-Group. As of 31 December 2014 and 2013, accounts payable due to related parties relate primarily to media.at-Group. At 31 December 2014, accounts receivable from related parties relate to Telecom Liechtenstein and to subsidiaries of América Móvil (see Note 15)).

From 28 June 2001 to 29 May 2013, a partner in a law firm which provides legal services to Telekom Austria Group was a member of the Supervisory Board. Up to the resignation in 2013, Telekom Austria Group was charged TEUR 159 for legal services provided by this law firm.

All transactions with related parties are carried out at arm's length.

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

in TEUR	2014	2013
Short-term employee benefits	11,501	11,807
Pensions	871	561
Other long-term benefits	218	124
Termination benefits	2,245	579
Share-based payments	446	-75
Compensation of key management	15,280	12,997
Expenses for pensions and severance for other employees	22,038	25,053

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

(11) Inventories

in TEUR, at 31 December	2014	2013
Spare parts, cables and supplies	48,429	51,399
Merchandise	91,696	75,818
Prepayments	0	56
Inventories	140,124	127,273

As of 31 December 2014 and 2013, the carrying amount of merchandise measured at fair value less cost to sell, amounted to TEUR 22,449 and TEUR 31,423, respectively. In 2014 and 2013, Telekom Austria Group recognised impairment charges related to inventories amounting to TEUR 13,583 and TEUR 23,432, respectively, as well as reversals of impairment charges amounting to TEUR 898 and TEUR 362, respectively.

(12) Prepaid Expenses

in TEUR, at 31 December	2014	2013
Advances to employees	16,906	16,639
Rent	30,855	6,513
Prepaid marketing expenses	39,845	46,475
Other	37,813	32,057
Prepaid expenses	125,418	101,684

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

(13) Non-current Assets Held for Sale

in TEUR, at 31 December	2014	2013
Land and buildings	413	962
Non-current assets held for sale	413	962

As of 31 December 2014 and 2013, non-current assets held for sale relate to land and buildings in the segment Austria. In 2014 and 2013, a gain of TEUR 2,846 and TEUR 1,821, respectively, was recognised from the sale of assets held for sale and is reported in the net result from retirement of fixed assets (see Note (6)).

(14) Other Current Assets

in TEUR, at 31 December	2014	2013
Instalment sales	70,775	22,667
Finance lease receivables	6,805	19,215
Other financial assets	7,155	6,485
Financial assets	84,734	48,366
Other non-financial assets	47,430	33,594
Other current assets, gross	132,164	81,960
Less allowance for financial assets	-9,061	-5,788
Less allowance for non-financial assets	-2,966	-2,177
Other current assets	120,137	73,995

Instalment sales receivables relate to the instalment sales of mobile handsets and tablets and equal the present value of the revenue. As of 31 December 2014, the instalment sales receivables relate to all segments. As of 31 December 2013, instalment sales were only offered in the segment Belarus and to a lesser extent by Si.mobil in Slovenia.

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

Other current non-financial assets mainly consist of deferrals related to customer loyalty programmes, value-added tax receivables, claims against the Republic of Austria (see Note (10)), advance payments, indemnification payments due from insurance companies and receivables due from employees. Additionally in 2014, other current assets contain a receivable amounting to TEUR 16,187 related to investment grants for broadband expansion, which are deducted from acquisition cost (see Note (19)).

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

in TEUR, at 31 December	Gross		Allowance	
	2014	2014	2013	2013
Not yet due	76,099	3,840	44,157	3,037
Past due 0–90 days	1,435	213	525	0
Past due 91–180 days	2,655	1,137	366	230
Past due 181–360 days	2,505	1,835	1,439	938
More than one year	2,040	2,036	1,880	1,583
Total	84,734	9,061	48,366	5,788

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

in TEUR	2014	2013
At 1 January	5,788	670
Foreign currency adjustment	-367	-2
Change in reporting entities	-171	0
Reversed	-10	0
Charged to expenses	4,189	3,472
Amounts written-off	-367	-170
Reclassification	0	1,819
At 31 December	9,061	5,788

The reclassification of the allowance in 2013 relates to the opening balance of the allowance for instalment sales receivables, which was reported in accounts receivable – trade until 31 December 2012 (see Note (9)).

(15) Investments in Associates

Investments in associates accounted for using the equity method as of 31 December 2014 and 2013 as well as their allocation to the segments are set forth in Note (38).

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

in TEUR	2014	2013
At 1 January	4,979	3,661
Dividends received	-1,724	-279
Recognised income	668	1,716
Changes in reporting entities	34,330	-119
At 31 December	38,253	4,979

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

The change in reporting entities in 2014 relates to the merger of the subsidiary mobilkom liechtenstein into Telecom Liechtenstein (see Note (2)). In April 2013, Telekom Austria Group sold its 25.029% interest in Marx Media Vienna GmbH in the segment Austria resulting in a loss of TEUR 19, which is reported in the result from investments in affiliates.

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

Statements of profit or loss (in TEUR)	2014	2013
Revenues	153,415	126,640
Operating income	7,592	4,845
Net income	7,264	3,678

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

The financial information of Telecom Liechtenstein AG relates to the reporting period 1 January to 31 December 2014.

The financial information for Marx Media Vienna GmbH is no longer included in 2013.

in TEUR	2014	2013
Total current assets	59,215	35,403
Total non-current assets	38,313	946
Total liabilities	41,109	32,110
Total stockholders' equity	56,419	4,238

Financial information of media.at-Group is included based on 30 June reporting. As liabilities are substantially short-term, no split between short-term and long-term is provided.

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

in TEUR, at 31 December	2014	2013
Proportional equity	13,468	1,818
Goodwills	14,043	3,161
Purchase price allocation	10,742	0
Investments in associates	38,253	4,979
Segment Austria	3,826	4,979
Corporate & Other	34,427	0

(16) Long-term Investments

in TEUR, at 31 December	2014	2013
Other investments carried at cost	554	558
Other long-term investments	600	0
Marketable securities – available-for-sale, long-term	6,246	4,690
Long-term investments	7,400	5,247

Other investments carried at cost include investments in unquoted equity instruments (investments). These relate mainly to CESEAG AG. As this stake can only be disposed of at the initial indexed purchase price and due to the absence of an active market, this equity instrument is carried at acquisition cost.

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

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

(17) Goodwill

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

in TEUR	Austria	Bulgaria	Croatia	Additional Markets	Total
At 1 January 2013	416,101	642,691	94,450	136,260	1,289,501
Acquisitions	292,110	0	1,139	0	293,249
Impairment	0	-59,400	0	0	-59,400
Translation adjustment	0	0	-844	0	-844
At 31 December 2013	708,211	583,291	94,744	136,260	1,522,506
Acquisitions	0	0	135	12,952	13,088
Impairment	0	-340,600	0	-5,100	-345,700
Translation adjustment	0	0	-406	-7	-413
At 31 December 2014	708,211	242,691	94,473	144,106	1,189,481

The 2013 comparison period was adjusted according to IAS 8 (see Note (1)).

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

Accumulated impairment charges of goodwill amount to:

in TEUR, at 31 December	2014	2013
Segment Austria	1,071	1,071
Segment Belarus	568,985	568,985
Segment Bulgaria	340,600	59,400
Segment Additional Markets	5,100	0
Accumulated impairment	915,756	629,456

The 2013 comparison period was adjusted according to IAS 8 (see Note (1)).

Due to the audit finding of OePR regarding impairment testing at 31 December 2013 (see Note (1)) the valuation method was significantly adapted for impairment testing at 31 December 2014. The planning period used for calculating the value in use is four years. The discount rate is based on peer group beta factors and peer group leverage factors and no convergence is estimated regarding country risk premiums, instead current market assessments are taken into account. Due to these changes, a standard discount rate is now used for all planning periods.

In 2014 and 2013, an impairment of goodwill of Mobiltel amounting to TEUR 340,600 and TEUR 59,400, respectively, was recognised in impairment and reversal of impairment in profit or loss as the carrying amount (including goodwill) of the cash-generating unit Bulgaria exceeded its respective value in use. For the correction of prior period amounts see "Changes in Accounting Estimates and Errors" in Note (1).

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

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

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

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

The Croatian market is significantly influenced by regulatory impacts and macroeconomic problems that were reflected in expectations for the result of the cash-generating unit Croatia. A possible adverse development of these external factors would potentially cause Vipnet's carrying amount to exceed its value in use. At 31 December 2014, Vipnet's value in use exceeded its carrying amount by only approximately TEUR 2,000.

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

in TEUR, at 31 December	2014	2013
A1 Telekom Austria – Segment Austria	708,211	708,211
Mobiltel – Segment Bulgaria	242,691	583,291
Vipnet – Segment Croatia	94,473	94,744
Si.mobil	136,260	136,260
Vip operator	7,846	0
Total Additional Markets	144,106	136,260
Total Goodwill	1,189,481	1,522,506

The 2013 comparison period was adjusted according to IAS 8 (see Note (t)).

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

	Growth rates perpetual annuity		Pre-tax interest rates*	
	2014	2013	2014	2013
Segment Austria	0.5%	0.0%	7.5%	8.3%
Segment Bulgaria	1.5%	0.0%	10.9%	8.5% – 10.7%
Segment Croatia	1.0%	0.0%	10.3%	9.3% – 12.2%
Segment Belarus	1.5%	0.0%	33.1%	21.4% – 37.0%
Segment Additional Markets	0.5% – 1.5%	0.0%	10.5% – 15.6%	5.7% – 13.7%

* Based on a risk-free interest rate, adjusted for market, country and industry-specific risks. As a result of changes due to OePR's audit findings, a standard discount rate is now used for all planning periods.

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

in TEUR, at 31 December	2014	2013
Segment Austria	3,978,016	4,339,900
Segment Bulgaria	775,860	1,171,841
Segment Croatia	180,843	748,300
Segment Belarus	671,640	652,219
Segment Additional Markets	785,184	1,227,601

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

Sensitivity analysis

The use of the following pre-tax interest rates would lead to the carrying amount equalling the value in use at 31 December 2014 and 2013:

Pre-tax interest rates*	2014	2013
Segment Austria	10.8%	12.9%
Segment Bulgaria	11.6%	9.3% – 10.2%
Segment Croatia	10.4%	21.1% – 23.3%
Segment Belarus	45.2%	30.9% – 42.5%
Segment Additional Markets	12.2% – 25.1%	14.3% – 22.2%

* Based on a risk-free interest rate, adjusted for market, country and industry-specific risks. In the segment Austria, the sensitivity analysis was only carried out for A1 Telekom Austria.

With respect to the substantial markets, the following table sets forth the changes in revenues, cost drivers and capital expenditure which would lead to the carrying amounts equalling the value in use at 31 December 2014 and 2013:

2014	Revenues	Cost	Capital expenditures
Segment Austria	-4.8%	6.8%	25.4%
Segment Bulgaria	-1.3%	1.9%	8.3%
Segment Croatia	0.0%	0.1%	0.4%
Segment Belarus	-7.5%	12.8%	57.8%
2013			
Segment Austria	-5.9%	8.3%	36.8%
Segment Bulgaria	-2.5%	4.3%	16.7%
Segment Croatia	-10.8%	15.5%	89.0%
Segment Belarus	-6.1%	9.5%	44.7%

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

(18) Other Intangible Assets

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

As of 31 December 2014 and 2013, the line item software comprises internally developed software with a carrying amount of TEUR 24,575 and TEUR 32,910, acquisition cost of TEUR 136,803 and TEUR 144,683 and the related accumulated amortisation of TEUR 112,228 and TEUR 111,773, respectively. Additions in 2014 and 2013 amounted to TEUR 1,890 and TEUR 5,488, respectively.

In 2014 and 2013, transfers include reclassifications of advances/construction in progress to tangible and intangible assets.

In 2014 and 2013, interest capitalised totalled TEUR 8,799 and TEUR 84, respectively. Calculation of capitalised borrowing cost was based on an interest rate of 3.125% and 4.3% for the years 2014 and 2013, respectively. Borrowing cost capitalised in 2014 relate to licenses acquired in Austria in 2013.

As of 31 December 2014 and 2013, purchase commitments for intangible assets amounted to TEUR 15,163 and TEUR 16,708, respectively.

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

	GSM licenses	UMTS licenses	LTE licenses
License cost	1,312,248	303,661	567,423
End of the term	2015–2034	2015–2027	2015–2033

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

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

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

On 21 October 2013, A1 Telekom Austria acquired four blocks of the 800 MHz spectrum, three blocks of the 900 MHz spectrum and seven blocks of the 1800 MHz spectrum at the Austrian spectrum auction. By official notice of 19 November 2013, the total consideration was set at TEUR 1,029,896 and was reported in advances/construction in progress at 31 December 2013.

The use of the 800 MHz spectrum band started on 1 January 2014 and will expire on 31 December 2029. The license was transferred from the item advances/construction in progress to licenses. The 800 MHz spectrum provides an unparalleled position to roll out a leading LTE network across Austria. This fully supports Telekom Austria Group’s high value strategy and network quality leadership and allows Telekom Austria Group to protect its fixed-line as well as its mobile customer base, in particular in rural areas.

The blocks in the 900 MHz and the 1800 MHz band were granted until 31 December 2034 for all operators. The blocks in the 900 MHz band serve to protect the existing GSM customer base, while the blocks in the 1800 MHz band provide further network capacity on a long-term basis to be able to offer modern multimedia services in highest quality. The start of the licensing period depends on the requirements stipulated by the official notice, on the current allocation of frequencies and on the other hand on the technical implementation of the intended use, which is subject to evaluation on an annual basis. According to the official notice, the use of the 900 MHz band starts on 1 January 2016 and the use of the 1800 MHz band will start between 1 January 2016 and 1 January 2020.

In October 2013, Vipnet acquired a 2x5 MHz block for a total amount of TEUR 23,110. The license is valid until 18 October 2024. Vipnet has to ensure a coverage of 50% of the territory of Croatia within a period of five years which starts once the national regulatory agency has ratified the spectrum as usable.

On 10 July 2013, Vip operator acquired a 10 MHz paired frequency block (in total 20 MHz) of the 800 MHz spectrum and a 15 MHz paired block (in total 30 MHz) in the 1800 MHz spectrum for a total amount of TEUR 10,300 in Macedonia. The frequency blocks have a term of 20 years. Vip operator has to ensure a coverage of 70% of the population of the Republic of Macedonia within a period of six years beginning with the date the blocks were awarded. The acquisition of the frequency blocks of the 800 MHz spectrum will enable Vip operator to provide LTE services.

In 2013, Si.mobil prolonged frequencies in the 900 MHz spectrum for a consideration of TEUR 3,519 and acquired 2x10 MHz frequency blocks in the 1800 MHz spectrum for a total consideration of TEUR 886. The licenses are valid until 2016.

In 2013, the useful lives of certain items of software in the segment Austria were reduced, which led to an increase in amortisation of TEUR 721.

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

2015	291,730
2016	238,400
2017	182,671
2018	145,801
2019	121,880
Thereafter	1,054,957

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

in TEUR	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Total
At 1 January 2013	145,897	245,706	28,996	97,422	4,305	522,327
Acquisitions	22,950	0	0	0	0	22,950
Amortisation	-3,333	-1,394	-1,026	0	0	-5,753
Translation adjustment	0	0	-256	0	-19	-275
Hyperinflation adjustment	0	0	0	967	0	967
At 31 December 2013	165,514	244,312	27,714	98,389	4,286	540,215
Acquisitions	0	0	0	0	772	772
Disposals	0	0	0	0	-1,158	-1,158
Amortisation	-6,667	-608	-1,019	0	-107	-8,401
Translation adjustment	0	-0	-111	0	20	-91
Hyperinflation adjustment	0	0	0	5,603	0	5,603
At 31 December 2014	158,847	243,704	26,584	103,992	3,813	536,941

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

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

As Telekom Austria Group does not intend to continue using the brand name "blizoo" acquired in the segment Additional Markets in 2014 (see Note (2)), it is amortised on a straight-line basis over a period of three years. The brand name "ONE" acquired in the segment Austria in 2013 was amortised on a straight-line basis over a period of 1.5 years. Furthermore, the brand names acquired in the segments Bulgaria and Croatia in 2011 will only be used for a specific period of time and are thus amortised on a straight-line basis. The useful life in Croatia is five years. In 2012, the useful life in Bulgaria was reduced from six to 3.4 years.

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

in TEUR, at 31 December	2014	2013
A1 Telekom Austria	144,910	144,910
Cable Runner	491	491
Paybox Bank	496	496
YESSS!	12,950	12,950
ONE	0	6,667
Total Austria	158,847	165,514
Mobiltel	243,704	243,704
Megalan	0	249
Spectrum Net	0	194
Orbitel	0	165
Total Bulgaria	243,704	244,312
Vipnet	24,976	25,079
B.net	1,608	2,635
Total Croatia	26,584	27,714
velcom	103,992	98,389
Total Belarus	103,992	98,389
mobilkom liechtenstein	0	1,138
Si.mobil	3,148	3,148
blizoo	665	0
Total Additional Markets	3,813	4,286
Total Brand Names	536,941	540,215
Thereof with indefinite useful live	534,668	530,306

(19) Property, Plant and Equipment

The "Table of Property, Plant and Equipment" provides the components and a reconciliation of the changes in property, plant and equipment.

In 2014 and 2013, borrowing cost capitalised totalled TEUR 1,595 and TEUR 1,617, respectively. Calculation of capitalised borrowing cost was based on an interest rate of 4.3% in the years 2014 and 2013.

As of 31 December 2014 and 2013, the carrying amount of land amounted to TEUR 54,750 and TEUR 55,141, respectively.

In 2014, Telekom Austria Group reduced the estimated useful lives of certain technical equipment in the segments Austria and Additional Markets and in 2013, in Austria and Bulgaria due to the rapid technological progress. The changes resulted in an increase in depreciation of TEUR 2,515 and TEUR 2,540 in 2014 and 2013, respectively.

Government grants totalling TEUR 20,827 and TEUR 432 were deducted from acquisition cost in 2014 and 2013, respectively.

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

As of 31 December 2014 and 2013, purchase commitments for property, plant and equipment amount to TEUR 74,303 and TEUR 55,522, respectively.

Sensitivity analysis

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

in TEUR	2014	2013
Decrease due to extension by one year	160,293	193,097
Increase due to reduction by one year	210,524	257,577

(20) Other Non-current Assets

in TEUR, at 31 December	2014	2013
Finance lease receivables	2,741	9,763
Instalment sales	33,026	6,546
Other financial assets	2,642	3,055
Financial assets	38,409	19,365
Other non-financial assets	9,882	7,137
Other non-current assets, gross	48,291	26,502
Less allowance for financial assets	-1,431	-1,258
Other non-current assets	46,859	25,243

For information on finance lease receivables and instalment sales receivables, see Notes (26) and (14). Other non-financial assets mainly include prepayments for maintenance agreements, license fees and rent.

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

in TEUR, at 31 December	Gross 2014	Allowance 2014	Gross 2013	Allowance 2013
Not yet due	38,224	1,247	18,783	677
Past due 0–90 days	185	185	0	0
More than one year	0	0	581	581
Total	38,409	1,431	19,365	1,258

in TEUR	2014	2013
At 1 January	1,258	195
Foreign currency adjustment	-33	0
Reversed	-47	0
Charged to expenses	649	890
Amounts written-off	-397	0
Reclassification	0	173
At 31 December	1,431	1,258

The reclassification in 2013 relates to the opening balance of the allowance of long-term instalment sales receivables, which were reported in the allowance of accounts receivable – trade until 2012 (see Note (9)).

(21) Short-term Borrowings

in TEUR, at 31 December	2014	2013
Current portion of long-term debt	247,326	136,551
Accrued interest	93,459	93,720
Short-term debt	28	14
Short-term borrowings	340,813	230,284

For further information regarding the current portion of long-term debt, see Note (25). Accrued interest includes interest on bonds and bank debt (see Note (25)). Further funding sources are listed in Note (33).

(22) Provisions and Accrued Liabilities

in TEUR	Restructuring	Employees	Customer allowances	Asset retirement obligation	Legal	Other	Total
At 31 December 2013	802,036	89,173	42,063	186,362	17,689	45,401	1,182,724
Additions	68,756	82,373	23,107	2,938	3,843	22,440	203,456
Changes in estimate	61,698	0	0	-4,167	0	0	57,531
Used	-93,498	-44,273	-28,196	-767	-787	-15,535	-183,056
Released	-65,515	-7,614	-8,440	-774	-481	-2,446	-85,269
Accretion expense	19,081	0	0	6,209	0	0	25,291
Reclassifications*	-1,928	7,770	0	0	0	0	5,842
Translation adjustment	0	-97	0	-1,303	-6	-91	-1,498
Changes in reporting entities	0	-89	0	-111	0	-6	-206
At 31 December 2014	790,631	127,241	28,533	188,388	20,258	49,763	1,204,815
Thereof long-term							
31 December 2014	679,130	0	0	188,388	0	0	867,518
31 December 2013	694,993	0	0	186,362	0	0	881,355

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

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

Telekom Austria Group expects that approximately 55% of the provisions and accrued liabilities, with the exception of the asset retirement obligation and the provision for restructuring, will be utilised during the following financial year. Even if Telekom Austria Group does not expect an outflow of funds in the following financial year, provisions and accrued liabilities are reported as short-term if the timing of such outflows cannot be controlled by Telekom Austria Group.

Restructuring

In 2008, a comprehensive restructuring programme was initiated in the segment Austria. The provision for restructuring includes future compensation of employees, who will no longer provide services for Telekom Austria Group but who cannot be laid off due to their status as civil servants. These employment contracts are onerous contracts under IAS 37, as the unavoidable cost related to the contractual obligation exceeds the future economic benefit. The restructuring programme also includes social plans for employees whose employments will be terminated in a socially responsible way. In 2009, 2011, 2012, 2013 and 2014, new social plans were initiated which provide for early retirement, special severance packages and golden handshake options. Due to their nature as termination benefits, these social plans are accounted for according to IAS 19. At 31 December 2014 and 2013, the corresponding liability amounts to TEUR 761,862 and TEUR 775,474 and includes 1,810 and 1,725 employees, respectively.

The expense recognised related to the increase in the provision is reported in the line item restructuring expenses, while the accretion expense is reported in the financial result. A part of the provision was released since a number of employees returned to regular operations, were transferred to the government or opted for schemes such as golden handshakes, special severance packages and early retirement to an extent not foreseeable at the time of the measurement of the provision in 2013. The changes in estimate are due to adjustments of the discount rate and the rate of compensation as well as an adjustment of the employee turnover rate from 27% in 2013 to 23% in 2014. The employee turnover rate takes into consideration employees leaving in the future as well as temporary re-employment within Telekom Austria Group and is only applicable to the provision for employees permanently leaving the service process and not to provisions for social plans.

Furthermore, restructuring includes agreements from 2010 to 2012 concluded with the Austrian government relating to the voluntary transfer of civil servants with tenure, whose positions are eliminated due to technological progress, to employment with the government. Civil servants of the segment Austria can voluntarily transfer to administrative employment with the government. After a period of six to twelve months of public service and subject to a positive performance evaluation, the civil servants have the option to apply for a permanent transfer, in which case the right to return to Telekom Austria Group is forfeited. Telekom Austria Group bears the salary expense for these civil servants up to 30 June 2016 at the latest. The civil servants are compensated for any shortfall in salary or pension payments.

In 2013, a new general agreement for the transfer of personnel, replacing previous agreements, was concluded with the Austrian government. Employees transferring voluntarily to the government can apply for a permanent transfer after a probation period of six months. During this probation period, Telekom Austria Group bears the salary expense. In case of a permanent transfer, Telekom Austria Group has to compensate the government for any excess expense arising due to differing professional classifications of work places. Furthermore, compensation payments have to be effected to civil servants up to the age of 62.

As of 31 December 2014 and 2013, the provision for the transfer of civil servants to the government amounts to TEUR 28,769 and TEUR 26,562 and comprises 242 and 330 employees, respectively. In addition, Telekom Austria Group recognised a liability for employees transferred to the government amounting to TEUR 3,833 and TEUR 7,933 (see Note (23)).

In 2014 and 2013, the estimated rate of compensation equals the rate used for the calculation of employee benefit obligations (see Note (27)). The following table sets forth the interest rates applied.

	2014	2013
Employees permanently leaving the service process	2.0%	3.5%
Social plans	1.3%	2.0%
Civil servants transferred to the government	1.3%	2.0%

EBITDA was adjusted for restructuring expenses which comprise expenses of the restructuring programme in 2014 and 2013 amounting to TEUR 70,713 and TEUR 39,560 respectively, and for TEUR 18,852 and TEUR 5,625 resulting from the transfer of civil servants to the government.

Sensitivity analysis

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

	1 percentage point increase	1 percentage point decrease
in TEUR, at 31 December 2014		
Change in discount rate	-44,148	48,771
Change in rate of compensation	42,008	-38,899
in TEUR, at 31 December 2013		
Change in discount rate	-39,229	43,187
Change in rate of compensation	37,433	-34,753

Employees

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

In its judgement of 11 November 2014, the European Court of Justice (ECJ) decided that the Austrian law determining the reference date for salary increments for Austrian civil servants (this date determines the length of service and thus the date for being advanced into the next salary level) is not in conformity with European Union law. Thus Telekom Austria Group recognised a provision for employees in its financial statements 2014 relating to the anticipated supplementary payment of salaries for its civil servants. TEUR 30,137 (2013: TEUR 5,129) were recorded in employee expenses and TEUR 14,996 in restructuring expense.

Customer rebates

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

Asset retirement obligation

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

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

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

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

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

In addition, in 2014, the discount rate applied to the calculation of asset retirement obligations was reduced from 3.0% to 2.0%. The discount rate used for the calculation is based on the risk-free interest rate of Austrian government bonds with a maturity of 25 years. The inflation rate was reduced from 2.5% to 2.0% to reflect current market conditions in the individual countries. The change of these parameters resulted in a decrease of the asset retirement obligation and a corresponding decrease in related tangible assets amounting to TEUR 1,198. TEUR 2,969 were recognised in other operating income, as the facilities concerned are already fully depreciated. In the segment Belarus, the inflation rate of 15% and the discount rate of 21% remain unchanged compared to the previous year. In the segment Belarus, higher cost due to inflation led to an increase of the asset retirement obligation and a corresponding increase of assets.

Sensitivity analysis

A change of one percentage point in the discount rate or in the inflation rate would lead to the following changes in provisions at 31 December (negative values indicate a reduction in provisions):

	1 percentage point increase	1 percentage point decrease
2014		
Change in discount rate	-16,045	25,408
Change in inflation rate	25,773	-17,269
2013		
Change in discount rate	-18,771	21,929
Change in inflation rate	22,620	-19,578

Legal

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

Other provisions

Other provisions mainly relate to audit and consulting fees, commissions, taxes (excluding income taxes), pension contributions, energy and penalties.

(23) Accounts Payable – Trade and Other Current Liabilities

At 31 December 2014 and 2013, accounts payable – trade amounting to TEUR 278 and TEUR 779, respectively, have a maturity of more than twelve months. These accounts payable relate mainly to financial retentions.

Other current liabilities consist of the following items:

in TEUR, at 31 December	2014	2013
Fiscal authorities	63,413	61,544
Social security	9,571	9,475
Employees	17,985	18,877
Long-term incentive program	508	709
Employees – transferred to government	3,833	7,933
Prepayments from customers	7,897	7,784
Government	144	213
Other non-financial liabilities	4,158	4,394
Other current non-financial liabilities	107,509	110,928
Other current financial liabilities	25,194	26,170
Other current liabilities	132,703	137,098

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

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

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

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

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

In 2014 and 2013, other current financial liabilities include substantially cash deposits received and liabilities arising from customer deposits.

(24) Deferred Income

in TEUR, at 31 December	2014	2013
Unearned income	126,997	119,340
Customer loyalty programmes	36,880	39,794
Deferred income, current portion	163,877	159,134

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

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

(25) Long-term Debt

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

Currency	Maturity	Nominal interest rate	At 31 December 2014		At 31 December 2013				
			Face value	Carrying amount	Nominal interest rate	Face value	Carrying amount		
Bonds									
TEUR	2017	fixed	4.250%	500,000	498,671	fixed	4.250%	500,000	498,030
TEUR	2016	fixed	6.375%	750,000	748,772	fixed	6.375%	750,000	747,635
TEUR	2022	fixed	4.000%	750,000	741,610	fixed	4.000%	750,000	740,455
TEUR	2023	fixed	3.500%	300,000	297,839	fixed	3.500%	300,000	297,585
TEUR	2021	fixed	3.125%	750,000	742,787	fixed	3.125%	750,000	741,746
Total Bonds				3,050,000	3,029,679			3,050,000	3,025,452
Bank debt									
TEUR	2014–2019	fixed	4.88%	26,632	26,632	fixed	4.88%	31,958	31,958
TEUR	2015–2019	fixed	4.32%	126,000	126,000	fixed	4.32%	168,000	168,000
TEUR	2014			0	0	variable	0.76%	75,000	75,000
TEUR	2015	fixed	3.51%	200,000	200,000	fixed	3.51%	200,000	200,000
TEUR	2016	fixed	5.41%	50,000	50,000	fixed	5.41%	50,000	50,000
TEUR	2014–2017			0	0	fixed	4.22%	23,843	23,843
TEUR	2018	fixed	3.44%	200,000	200,000	fixed	3.44%	200,000	200,000
TEUR	2014–2020			0	0	variable	1.05%	100,000	100,000
Total bank debt				602,632	602,632			848,801	848,801
Financial debt				3,652,632	3,632,311			3,898,801	3,874,253
Current portion of long-term debt				–247,326	–247,326			–136,551	–136,551
Long-term debt				3,405,305	3,384,984			3,762,250	3,737,702

Bonds

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

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

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

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

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

Bank debt

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

In 2014, bank debt amounting to TEUR 119,777 was redeemed prematurely.

(26) Leases

Lessee

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

Future minimum lease payments for non-cancellable operating lease contracts as of 31 December 2014 are:

in TEUR	Operating leases
2015	53,095
2016	31,485
2017	15,535
2018	11,409
2019	7,403
After 2019	16,605
Total minimum lease payments	135,532

Lessor

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

These payments are recognised as revenue on a straight-line basis over the terms of the contracts. As of 31 December 2014 and 2013, the cost of this equipment amounted to TEUR 40,230 and TEUR 41,204, and the carrying amount to TEUR 13,176 and TEUR 11,470, respectively. The future minimum lease payments as of 31 December 2014 are as follows:

in TEUR	Operating leases
2015	8,147
2016	5,044
2017	3,854
2018	2,855
2019	1,033
After 2019	5,588
Total minimum lease payments	26,521

Telekom Austria Group leases infeasible rights of use in dark fibre under finance lease contracts, which have a term until 2033. In Bulgaria, mobile handsets were leased to customers under finance lease contracts until 31 December 2013. Starting 1 January 2014, the mobile handsets are sold on an instalment plan (see Notes (14) and (20)). As of 31 December 2014, the future minimum lease payments for these transactions amount to:

in TEUR	Finance lease
2015	7,050
2016	321
2017	311
2018	302
2019	292
After 2019	2,922
Total minimum lease payments	11,198
Less amount representing interest	-1,652
Present value of finance lease receivables	9,545
Less current portion	-6,805
Non-current finance lease receivables	2,741

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

in TEUR, at 31 December	2014	2013
Allowance finance lease receivables, long-term	0	333
Allowance finance lease receivables, short-term	323	939
Allowance at the end of the year	323	1,272

(27) Employee Benefit Obligations

in TEUR, at 31 December	2014	2013
Service awards	71,893	64,373
Severance	121,588	92,934
Pensions	6,812	6,138
Other	622	887
Long-term employee benefit obligations	200,916	164,332

Actuarial assumptions

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

	2014	2013
Discount rate	2.0%	3.5%
Rate of compensation increase – civil servants	5.5%	5.5%
Rate of compensation increase – other employees	3.1%	3.1%
Rate of compensation increase – civil servants released from work	4.5%	5.0%
Rate of increase of pensions	1.6%	1.6%
Employee turnover rate*	0.0%–2.01%	0.0%–2.14%

* Depending on years of service.

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

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

Service awards

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

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

in TEUR	2014	2013
At 1 January	70,652	71,825
Service cost	2,328	2,731
Interest cost	2,379	2,444
Actuarial gain/loss based on experience adjustment	635	-1,159
Actuarial gain/loss from changes in demographic assumptions	-5	93
Actuarial gain/loss from changes in financial assumptions	7,444	0
Recognised in profit or loss	12,780	4,109
Benefits paid	-5,940	-5,280
Foreign currency adjustments	-1	-2
Other	-5,941	-5,282
Obligation at 31 December	77,491	70,652
Less short-term portion	-5,598	-6,280
Non-current obligation	71,893	64,373

Of the defined benefit obligations for service awards, less than 1% relate to foreign subsidiaries as of 31 December 2014 and 2013, respectively.

As of 31 December 2014 and 2013, the weighted average duration of the obligation for service awards amounted to 7.3 and 7.1 years, respectively.

Severance

Employees starting to work for Telekom Austria Group in Austria on or after 1 January 2003 are covered by a defined contribution plan. Telekom Austria Group paid TEUR 1,917 and TEUR 1,776 (1.53% of the salary) into this defined contribution plan (BAWAG Allianz Mitarbeitervorsorgekasse AG) in 2014 and 2013, respectively.

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

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

in TEUR	2014	2013
At 1 January	94,170	90,740
Service cost	4,864	5,230
Interest cost	3,240	3,138
Included in Profit or Loss	8,104	8,368
Actuarial gain/loss based on experience adjustment	129	-533
Actuarial gain/loss from changes in demographic assumptions	-1,807	-1,263
Actuarial gain/loss from changes in financial assumptions	26,688	415
Recognised in other comprehensive income	25,011	-1,381
Benefits paid	-4,175	-3,561
Change in reporting entities	0	7
Foreign currency adjustments	-18	-3
Other	-4,193	-3,557
Obligation at 31 December	123,091	94,170
Less short-term portion	-1,503	-1,236
Non-current obligation	121,588	92,934

Approximately 3% of the defined benefit obligations for severance relate to foreign subsidiaries as of 31 December 2014 and 2013.

As of 31 December 2014 and 2013, the weighted average duration of the severance benefit obligations was 16.7 and 16.3 years, respectively.

Pensions

Defined contribution pension plans

In Austria, pension benefits generally are provided by the social security system for employees and by the government for civil servants. Telekom Austria Group is required to assist in funding the Austrian government's pension and health care obligations to Telekom Austria Group's current and former civil servants and their surviving dependents. In 2014 and 2013, the rate of contribution for active civil servants amounted to a maximum of 28.3% depending on the age of the civil servant. 15.75% are borne by Telekom Austria Group and the remaining portion is contributed by the civil servants. Contributions to the government, net of the share contributed by civil servants, amounted to TEUR 42,281 and TEUR 43,221 in 2014 and 2013, respectively.

Additionally, Telekom Austria Group sponsors a defined contribution plan for employees of some of its Austrian subsidiaries. Telekom Austria Group's contributions to this plan are based on a percentage of the compensation not exceeding 5%. The annual expenses for this plan amounted to TEUR 13,283 and TEUR 12,911 in 2014 and 2013, respectively.

Defined benefit pension plans

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

Other

Other employee benefit obligations relate substantially to a retention loyalty programme for key players in Bulgaria.

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

in TEUR	2014	2013
At 1 January	6,836	7,296
Interest cost	227	242
Recognised in profit or loss	227	242
Actuarial gain/loss based on experience adjustment	205	15
Actuarial gain/loss from changes in financial assumptions	909	0
Recognised in other comprehensive income	1,114	15
Benefits paid	-683	-717
Obligation at 31 December	7,494	6,836
Less short-term portion	-681	-697
Non-current obligation	6,812	6,138

As of 31 December 2014 and 2013, the weighted average duration of the pension benefit obligations was 9.6 and 8.1 years, respectively.

Sensitivity analysis

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

in TEUR, at 31 December	2014	2013
Service awards	77,491	70,652
Severance	123,091	94,170
Pensions	7,494	6,836

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

in TEUR, at 31 December 2014	0.5 percentage points decrease	0.5 percentage points increase
Service awards	2,878	-2,727
Severance	10,888	-9,817
Pensions	357	-328
in TEUR, at 31 December 2013		
Service awards	2,677	-2,404
Severance	8,125	-7,321
Pensions	294	-272

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

in TEUR, at 31 December 2014	1 percentage point decrease	1 percentage point increase
Service awards	-5,174	5,635
Severance	-18,647	22,448
Pensions	-638	742
in TEUR, at 31 December 2013		
Service awards	-4,681	5,255
Severance	-14,109	16,998
Pensions	-509	586

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

in TEUR, at 31 December 2014	0.5 percentage points decrease	0.5 percentage points increase
Service awards	74	-2,846
Severance	3,547	-5,704
<hr/>		
in TEUR, at 31 December 2013		
Service awards	149	-2,542
Severance	944	-3,857

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

(28) Other Non-current Liabilities and Deferred Income

in TEUR, at 31 December	2014	2013
Other non-current financial liabilities	969	942
<hr/>		
Long-term incentive program	1,317	1,083
Other liabilities	0	0
Deferred income, other	14,309	14,416
Other non-current non-financial liabilities	15,626	15,499
<hr/>		
Other non-current liabilities and deferred income	16,595	16,441

As of 31 December 2014 and 2013, other non-current financial liabilities consist mainly of cash deposits received.

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

(29) Stockholders' Equity

Capital management

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

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

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

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

Share capital

As of 31 December 2014 and 2013, the common stock of Telekom Austria AG amounts to TEUR 1,449,275 and TEUR 966,183, respectively, and is divided into 664.5 million and 443 million bearer shares with no par value. As of 31 December 2014, América Móvil directly and indirectly holds 59.70%, ÖIAG holds a stake of 28.42%, and the free floated shares including treasury shares amount to 11.88%. As of 31 December 2013, ÖIAG held a stake of 28.42%, América Móvil directly and indirectly held 23.67%, and the free floated shares including treasury shares amounted to 47.91%.

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

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

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

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

At 31 December	2014	2013
Shares authorised	664,500,000	443,000,000
Shares issued	664,500,000	443,000,000
Shares in treasury	-415,159	-415,159
Shares outstanding	664,084,841	442,584,841

The shares issued are fully paid.

The following table provides the development of shares outstanding:

	2014	2013
Outstanding as of 1 January	442,584,841	442,563,969
Capital increase	221,500,000	0
Transfer of treasury shares	0	20,872
Outstanding as of 31 December	664,084,841	442,584,841

In 2013, treasury shares were transferred to a board member.

Dividend payment

The following dividends were approved by the shareholders at the Annual General Meeting and paid by Telekom Austria AG:

	2014	2013
Date of Annual General Meeting	28 May 2014	29 May 2013
Dividend per share in Euro	0.05	0.05
Total dividend paid in TEUR	22,129	22,128
Date of payment	6 June 2014	5 June 2013

In 2014, the net loss of Telekom Austria AG according to Austrian GAAP amounts to TEUR 1,147,123, while in 2013, the net income of Telekom Austria AG according to Austrian GAAP amounted to TEUR 64,618. In 2014, an amount of TEUR 1,180,210 was released from reserves reported in retained earnings for the year ended 31 December 2014, and in 2013, an amount of TEUR 42,500 was allocated to reserves reported in retained earnings. These transfers resulted in unappropriated retained earnings of TEUR 33,205 and TEUR 22,247 as of 31 December 2014 and 2013, respectively. The Management Board and Supervisory Board plan to propose to the shareholders at the Annual General Meeting to distribute a dividend of Euro 0.05 per share from unappropriated retained earnings.

Treasury shares

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

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

	2014	2013
Shares held in treasury as of 31 December		
Number of treasury shares	415,159	415,159
Average price per share in Euro	18.80	18.80
Deduction in equity (in TEUR)	7,803	7,803

Additional paid-in capital

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

Hybrid capital

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

In the local financial statements, coupon payments are recognised as interest expense in profit or loss according to Austrian GAAP. While the tax benefit resulting from the accrued interest is recognised in profit or loss according to local GAAP, it is recognised in stockholders' equity as "distribution of dividend" in the Consolidated Financial Statements according to IAS 12. The net result attributable to hybrid capital holders is presented in the consolidated statements of profit or loss in the allocation of the net result and equals interest recognised in profit or loss according to local GAAP in 2014 and 2013 amounting to TEUR 33,750 and TEUR 30,971, respectively, net of the relating tax benefit of TEUR 8,438 and TEUR 7,698, which is recognised in stockholders' equity in 2014 and 2013.

Earnings per share

Basic and diluted earnings per share for the years ended 31 December 2014 and 2013 are calculated as follows:

	2014	2013
Net result attributable to owners of the parent (in TEUR)	-210,900	28,977
Weighted average number of common shares outstanding	461,296,913	442,570,851
Basic and diluted earnings per share (in Euro)	-0.46	0.07

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

Due to Management's decision to settle all share-based compensation plans in cash, no related dilutive effect occurred as of 31 December 2014 and 2013.

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

The development of the reserve for available-for-sale marketable securities and the hedging reserve as well as the translation adjustment are presented in the consolidated statements of comprehensive income and consolidated statements of changes in stockholders' equity. The foreign currency translation adjustment mainly relates to the consolidation of velcom in Belarus and Vip mobile in Serbia. The translation adjustment as of 31 December 2014 and 2013 relating to the consolidation of Vip mobile amounts to TEUR 147,821 and TEUR 132,739, respectively. Due to the application of IAS 29 "Financial Reporting in Hyperinflationary Economies" to the subsidiaries in Belarus since 2011, the relating translation adjustment of TEUR 302,063 as of 1 January 2011 remains unchanged.

(30) Income Taxes

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

in TEUR	2014	2013
Current income tax	43,107	50,604
Deferred income tax	-41,826	22,507
Income taxes	1,281	73,111

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

in TEUR	2014	2013
Continuing operations	1,281	73,111
Other comprehensive income	-4,974	2,713
Tax benefit relating to hybrid capital*	-8,438	-10,636
Tax benefit relating to capital increase*	-4,052	0
Total income taxes	-16,183	65,188

* See Note (29).

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

in TEUR	2014	2013
Income tax expense (benefit) at statutory rate	-46,029	31,310
Foreign tax rate differential	33,091	-10,582
Tax-non-deductible expenses	9,876	6,192
Tax incentives and tax-exempted income	-10,428	-4,803
Tax-free income (loss) from investments	-180	-444
Change in tax rate	0	-2
Tax expense previous years	6,854	6,322
Deferred tax assets not recognised	184,739	21,123
Impairments (reversals of impairments) of investments in subsidiaries and other intragroup transactions	-201,109	26,791
Impairment of goodwill	30,821	0
Result from changes in reporting entities	-6,870	-1,141
Other	517	-1,654
Income taxes	1,282	73,111
Effective income tax rate	-0.70%	58.38%

In 2014 and 2013, non-deductible expenses mainly consist of withholding taxes on dividends and representation expenses as well as in 2014, non-deductible remuneration of managers in Austria. Tax incentives and tax-exempted income in 2014 relate mainly to investment incentives in Slovenia and to group taxation in Austria. In 2013, they relate mainly to a tax incentive in Belarus, which allows for the tax-neutral revaluation of carrying amounts of property plant and equipment for tax purposes in order to increase the future basis of depreciation. Furthermore, research, education and investment incentives as well as other government grants are included.

In 2013, the effect of the change in tax rates resulted from the reduction in the corporate income tax rate in Slovakia. The aggregated corporate income tax rate was reduced from 23% to 22% at the beginning of 2014.

The tax expense for prior periods recognised in 2014 and 2013 results mainly from the application of financial reporting in hyperinflationary economies in accordance with IAS 29 in Belarus.

In 2014, the impairment of goodwill mainly relates to the effect of the impairment in the segment Bulgaria amounting to TEUR 34,060 as well as the relating deferred tax gain of TEUR 3,749 from the release of a deferred tax liability on goodwill which was tax deductible in Bulgaria until 2006. In 2013, the tax effect of the impairment amounted to TEUR 5,940, which was offset by the release of the related deferred tax liability. The corporate tax rate in Bulgaria amounts to 10%, the difference to the Austrian statutory tax rate of 25% is reported in the foreign tax rate differential.

The result from changes in reporting entities in 2014 relates to the gain resulting from the merger of mobilkom liechtenstein (see Note (2)). In 2013, the result from changes in reporting entities comprises the gain resulting from a bargain purchase and the loss from the sale of a subsidiary.

Impairments (reversals of impairments) of investments relate to write-downs and reversals of write-downs of investments in affiliated companies in Austria, which are recognised over a period of seven years for tax purposes and for which deferred tax is calculated (according to the respective guidance in "Effects of tax write-downs according to section 12/3/2 of the Austrian Corporate Tax Act on the accounting of income taxes according to IAS 12 in consolidated or single IFRS financial statements" issued by the Austrian Financial Reporting and Auditing Committee).

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

in TEUR, at 31 December	2014	2013
Deferred tax assets		
Deferred deduction for impairments of investments in subsidiaries	149,355	75,801
Loss carry-forwards	8,517	47,567
Accounts receivable – trade	6,463	8,962
Deferred income and other liabilities	715	665
Other current assets and prepaid expenses	849	1,378
Provisions, long-term	66,721	57,887
Employee benefit obligations	28,179	19,808
Property, plant and equipment	1,463	1,708
Other	9,765	8,931
Deferred tax assets	272,026	222,707
Deferred tax liabilities		
Goodwill	0	-3,749
Property, plant and equipment	-30,375	-25,969
Other intangible assets	-154,741	-160,871
Provisions	-3,915	-3,838
Write down of treasury shares for tax purposes	-1,380	-1,380
Other	-1,525	-3,218
Deferred tax liabilities	-191,935	-199,024

in TEUR, at 31 December	2014	2013
Deferred tax assets	170,895	123,006
Deferred tax liabilities	-90,804	-99,324
Deferred taxes, net	80,091	23,683

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

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

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

in TEUR, at 31 December	2014	2013
Net operating loss carry-forwards	576,323	393,163
Temporary differences related to impairments of investments in consolidated subsidiaries	341,371	113,960
Deferred tax assets not recognised	917,695	507,123

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

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

At 31 December 2014, Telekom Austria Group had TEUR 2,714,418 of operating loss carry-forwards. The following loss carry-forwards mainly relating to Serbia will expire in the following years:

Year	in TEUR
2015	84,675
2016	2,765
2017	89,503
2018	105,098
2019	119,356
Total	401,397

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

As of 31 December 2014 and 2013, Telekom Austria Group did not recognise a deferred tax liability for temporary differences related to investments in associates in the amount of TEUR 28,003 and TEUR 1,578, respectively.

Income tax receivables relate to fiscal years not yet assessed. As of 31 December 2014 and 2013, income tax receivable mainly relates to Austrian and Croatian subsidiaries. As of 31 December 2014 and 2013, income tax payable mainly relates to foreign subsidiaries.

(31) Share-based Compensation

Long Term Incentive (LTI) Program

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

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

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

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

	LTI 2014	LTI 2013	LTI 2012	LTI 2011
Start of the programme	1 January 2014	1 January 2013	1 January 2012	1 January 2011
Grant date	1 July 2014	1 September 2013	1 August 2012	1 June 2011
End of vesting period	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Vesting date	1 July 2017	1 September 2016	1 August 2015	1 June 2014
Personal investment (at grant date)	299,239	343,738	510,986	527,094
Thereof Management Board****	75,671	73,977	59,674	51,348
Personal investment (at reporting date)*	297,739	292,123	399,658	443,786
Expected performance**	49.70%	40.10%	17.70%	28.00%
Expected bonus shares***	292,985	216,693	70,739	0
Maximum bonus shares***	1,042,085	1,022,429	699,401	0
Fair value of programme (in TEUR)	1,562	1,181	405	0
Allocated bonus shares	0	0	0	124,260
Average stock price at end of vesting period (in EUR)	0	0	0	6.04
Share-based compensation (in TEUR)	0	0	0	750

* For LTI 2011 personal investment at the end of the vesting period.

** For LTI 2011 actual performance at the end of the vesting period.

*** Taking into account the allocation of bonus shares equal to the double personal investment for LTI 2014 and 2013.

**** Including the personal investment of Hans Tschuden for all tranches. LTI 2014 including the personal investment of Siegfried Mayrhofer (see Note (35)).

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

in TEUR	2014	2013
LTI 2010	0	-549
LTI 2011	-20	-370
LTI 2012	149	-260
LTI 2013	7	801
LTI 2014	526	0
Expense	662	-378

Sensitivity analysis

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

in TEUR, at 31 December	1 EUR increase	1 EUR decrease
Fair value of LTI 2013	217	-217
Fair value of LTI 2014	293	-293

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

in TEUR, at 31 December	5 percentage points increase	5 percentage points decrease
Fair value of LTI 2013	309	-188
Fair value of LTI 2014	374	-701

(32) Cash Flow Statement

The following is a summary of supplemental cash flow information:

in TEUR	2014	2013
Cash paid for		
Interest	162,783	227,745
Income taxes	50,540	46,093
Cash received for		
Interest	12,326	8,178

Cash flows relating to interest and income taxes are reported in the cash flow from operating activities. The dividends received in 2014 and 2013 (see Note (7)) had already been settled in cash as of 31 December. In 2014 and 2013, dividends paid include dividends paid to the non-controlling interests of Cable Runner Austria GmbH & Co. KG in the amount of TEUR 84 and TEUR 24, respectively (see Note (38)).

In 2014, the item "Other", which is part of the reconciliation of net result to gross cash flow, amounts to TEUR 39,649 and consists mainly of the non-cash gain on the merger of mobilkom liechtenstein amounting to TEUR 26,785 (see Note (2)), the decrease in revenues due to the change in estimate amounting to TEUR 47,505 (see Note (9)), interest expense on the reversal of the hedging reserve (see Note (33)) as well as non-cash changes in provisions (see Note (22)). In 2013, the item "Other" amounted to TEUR 14,090 and mainly consisted of interest resulting from the settlement of the pre-hedges and the relating reversal of the hedging reserve (see Note (33)).

In 2014 and 2013, cash and cash equivalents acquired totalled TEUR 325 and TEUR 14,855, respectively, and cash and cash equivalents of TEUR 4,458 and TEUR 110, respectively, were disposed of due to the sale of subsidiaries (see Note (2)).

(33) Financial Instruments

Financial risk management

Overview

Telekom Austria Group is exposed to market risks, including liquidity risk, interest rate and foreign currency exchange rate risk and credit risk associated with underlying financial assets, liabilities and anticipated transactions. Potential risks relating to interest rate and foreign exchange rate fluctuations can be limited by entering into derivative financial instruments. These policies are laid down in the Treasury Guidelines. Telekom Austria Group neither holds nor issues derivative financial instruments for trading or speculative purposes.

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

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

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

Liquidity risk

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

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

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

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

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

Funding sources

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

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

Other funding sources

In order to diversify its short-term funding sources, Telekom Austria Group implemented a multi-currency short-term and medium-term treasury notes programme (multi-currency notes) with a maximum volume of TEUR 300,000 in 2007. The programme was concluded for an indefinite period. As of 31 December 2014 and 2013, no multi-currency notes were issued.

In August 2014, Telekom Austria Group terminated the contract relating to the revolving period securitisation of trade receivables to a special purpose entity ("Asset Backed Securitisation (ABS) Programme"), which was entered into in 2012. As of 31 December 2013, no amount was drawn, thus no relating short-term debt was recorded. For further information on accounts receivable – trade sold in the course of this programme in 2013, see Note (9).

In accordance with IFRS 10, Telekom Austria Group controlled the SPE because the activities of the SPE were conducted on behalf of Telekom Austria Group according to its specific business needs so that Telekom Austria Group obtained the benefits from the SPE's operations. In substance, Telekom Austria Group retained the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits of its activities. Consequently, Telekom Austria Group included the SPE in the Consolidated Financial Statements until August 2014. In 2014 and 2013, liquidity fees amounting to TEUR 1,133 and TEUR 1,679, respectively, were recognised in interest expense.

As of 31 December 2014 and 2013, Telekom Austria Group had total credit lines (including ABS) of TEUR 1,000,000 and TEUR 1,060,000, respectively. These credit lines were not utilised. The credit line commitments have a term until November 2019.

Exposure to liquidity risk

The following table sets forth the contractual (undiscounted) interest and redemption payments of financial liabilities. The variable interest payments related to the financial instruments were calculated based on interest rates effective as of 31 December 2014 and 2013. Foreign currencies were translated at the rates valid on the reporting date.

	Contractual cash flow	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 years
At 31 December 2014						
Financial liabilities						
Bonds	3,707,938	99,063	33,938	883,000	713,063	1,978,875
Bank debt	660,255	12,940	257,803	66,985	322,528	0
Accounts payable – trade	523,977	521,492	2,102	171	155	56
Other financial liabilities	54,867	34,950	12,059	3,541	3,273	1,044
At 31 December 2013						
Financial liabilities						
Bonds	3,840,807	99,063	34,002	133,304	1,531,691	2,042,748
Bank debt	940,821	60,444	103,466	294,009	402,654	80,247
Accounts payable – trade	573,836	573,050	7	63	191	525
Other financial liabilities	69,198	49,704	9,242	5,612	3,443	1,198

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

Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect Telekom Austria Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. All financial transactions are carried out within the Treasury Guideline. For derivative financial instruments, if used for risk management purposes, Telekom Austria Group generally applies hedge accounting in accordance with IAS 39.

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

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

Interest rate risk

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

Since the majority of Telekom Austria Group's long-term debt has fixed interest rates, the cash flow exposure due to fluctuating interest rates is limited. However, the fair value of fixed rate debt increases when market rates are below the rates fixed on these loans.

Exposure to interest rate risk

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

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

Fair value sensitivity analysis for financial instruments

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

in TEUR, at 31 December	Capital amounts	Change in financial portfolio	
		Increase	Decrease
2014			
Fixed rate financial liabilities	3,626,000		
Sensitivity at 4,913%		-178,131	178,131
2013			
Fixed rate financial liabilities	3,723,801		
Sensitivity at 4,969%		-185,036	185,036

Cash flow sensitivity analysis for variable-rate financial instruments

A change of one percentage point in interest rates at the reporting date would have increased (decreased) net income or loss by the amounts shown below. The analysis assumes that all other variables remain constant. At 31 December 2014, all financial liabilities have fixed interest rates. The amounts presented refer to the variable portion of the total debt portfolio at 31 December 2013 (negative amounts represent positive effects on the consolidated statements of profit or loss):

in TEUR, at 31 December	Capital amounts	1 percentage point	
		increase	decrease
2013			
Variable rate financial liabilities	175,014		
EMTN bond with interest rate swap (variable leg)			
Sensitivity		1,750	-1,750

Information with respect to cash flow hedges

Cash flow hedges were entered into by Telekom Austria Group to reduce its exposure to changes in the cash flows resulting from interest payments with respect to floating interest rate liabilities.

The three forward-starting interest rate swap contracts (pre-hedges) with a face value of TEUR 100,000 each, which were concluded in 2011 to hedge the interest rate risk of future interest payments, were settled on 28 May 2013 as agreed upon. An amount of TEUR 65,142 was paid to the contractual partners and was recognised in the hedging reserve in stockholders' equity.

The relating hedging reserve will be released in profit or loss in accordance with the recognition of interest expense on the bond, which was issued on 4 July 2013, as the interest rate risk on that bond was hedged. Telekom Austria Group compared the expenses that will actually be recognised in profit or loss in the following ten years with the hedged fixed payments less the saving for early payment due to settlement. This resulted in a non-recoverable amount of TEUR 6,746 which was immediately recognised in interest expense according to IAS 39.97 (before deduction of the settlement cost of TEUR 978 that had already been recorded in interest expense, see Note (7)). Thus the hedging reserve at 4 July 2013 amounted to TEUR 58,396. In 2014 and 2013, the release of the hedging reserve and, in 2013, the recognition of the non-recoverable amount resulted in interest expense amounting to TEUR 5,840 and TEUR 8,688 and a tax benefit amounting to TEUR 1,460 and TEUR 2,172, respectively. In 2013, the change in fair value of the hedging instrument until settlement resulted in a gain of TEUR 336 which was recognised in other comprehensive income (OCI). For the correction of prior period amounts see "Changes in Accounting Estimates and Errors" in Note (1).

Exchange rate risk

As of 31 December 2014 and 2013, of all accounts receivable – trade and accounts payable – trade, only the following are denominated in a currency other than the functional currency of the reporting entities (for foreign exchange rates, see Note (i)):

in TEUR, at 31 December Denominated in	2014			2013		
	EUR	USD	Other	EUR	USD	Other
Accounts receivable – trade	15,597	2,246	18,673	24,428	1,081	20,311
Accounts payable – trade	57,880	6,057	13,003	41,199	8,310	9,988

A change of 5% in the exchange rate of EUR to HRK would have increased (decreased) foreign exchange rate differences by TEUR 883 and TEUR 1,628 in 2014 and 2013, respectively. A change of 10% in the exchange rate of EUR to RSD would have increased (decreased) foreign exchange rate differences by TEUR 1,267 and TEUR 796 in 2014 and 2013, respectively. A sensitivity analysis for a change of the BYR was not performed due to the application of accounting in hyperinflationary economies. No sensitivity analysis was performed for other accounts receivable or for accounts payable – trade, denominated in foreign currencies, as there is no significant risk due to diversification.

Credit risk

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

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

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

Telekom Austria Group does not require collateral in respect of financial assets. In order to reduce the risk of non-performance by the other parties all swap agreements are concluded under the standards of the “ISDA-Master Agreement” or the German Standards “Framework for Financial Forward Agreements”.

Accounts receivable – trade and other receivables

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

The Credit Management Department has established a credit policy that requires each new customer to be analysed individually for creditworthiness.

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

Telekom Austria Group does not require collateral in respect of accounts receivable – trade and other receivables.

Financial investments

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

Exposure to credit risk

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

in TEUR, at 31 December	2014	2013
Available-for-sale investments	21,279	14,571
Financial investments valued at cost	554	558
Loans and receivables	113,905	60,743
Cash and cash equivalents	1,018,065	201,334
Carrying amount of financial assets	1,153,803	277,206

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

in TEUR, at 31 December	2014	2013
Domestic	689,556	755,873
Foreign	83,475	108,899
Allowances	-172,963	-180,929
Accounts receivable – trade	600,068	683,843

Accounts receivable – trade from Telekom Austria Group's most significant customer amount to TEUR 3,155 and TEUR 2,979 as of 31 December 2014 and 2013, respectively. Thus, no major concentration of credit risk exists. With respect to the aging of accounts receivable – trade and the allowance for doubtful accounts, see Note (9).

Fair value of financial instruments

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

in TEUR, at 31 December	Carrying amount	2014 Fair value	Carrying amount	2013 Fair value
Financial assets				
Cash and cash equivalents	1,018,065	1,018,065	201,334	201,334
Accounts receivable – trade	600,068	600,068	683,843	683,843
Receivables due from related parties	1,255	1,255	58	58
Other current financial assets	75,672	75,672	42,578	42,578
Other non-current financial assets	36,978	36,978	18,106	18,106
Loans and receivables	713,973	713,973	744,585	744,585
Long-term investments	6,846	6,846	4,690	4,690
Short-term investments	14,433	14,433	9,882	9,882
Available-for-sale investments	21,279	21,279	14,571	14,571
Investments at cost	554	554	558	558

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

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

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

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

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

in TEUR, at 31 December	Carrying amount	2014		2013	
		Fair value	Carrying amount	Fair value	Carrying amount
Financial liabilities					
Bonds	3,029,679	3,430,116	3,025,452	3,206,764	
Other current financial liabilities	53,755	53,755	68,247	68,247	
Non-current liabilities to financial institutions	602,632	655,521	848,801	911,356	
Other non-current liabilities	969	969	942	942	
Accounts payable – trade	522,344	522,344	573,836	573,836	
Payables due to related parties	7,058	7,058	5,891	5,891	
Accrued interest	93,459	93,459	93,720	93,720	
Financial liabilities at amortised cost	4,309,895	4,763,222	4,616,890	4,860,757	

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

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

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

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

Fair value hierarchy of financial instruments

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

in TEUR, at 31 December	Level 1	Level 2	Level 3	Total
2014				
Available-for-sale & other investments	7,296	13,983	0	21,279
Financial assets measured at fair value	7,296	13,983	0	21,279
2013				
Available-for-sale & other investments	6,429	8,143	0	14,571
Financial assets measured at fair value	6,429	8,143	0	14,571

(34) Commitments and Contingent Assets and Liabilities

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

In 2011, Si.mobil filed a lawsuit against Telekom Slovenije for alleged violation of competition laws. On 29 December 2014, an agreement was signed which was subject to conditions precedent and provided for payment by Telekom Slovenije to Si.mobil of up to TEUR 30,000 as well as continued business cooperation.

On 12 June 2014, Mobiltel received the tax assessment act for the audit covering the years 2006 and 2007. The material findings relate to the accounting of brand name and customer base. Tax authorities did not recognise tax amortisation on these assets and thus imposed a potential additional claim of TEUR 19,500 including penalty interest. Mobiltel appealed to the highest tax authority. On 1 December 2014, Mobiltel received the final decision confirming the potential additional claim. Mobiltel initiated a court procedure in Bulgaria. The outcome and the timing of any further decision on the case are highly unpredictable. Moreover, a subsequent tax audit covering the years 2008 to 2012 is currently ongoing, the results of which are hard to estimate before the previous case is finally closed. In case of an unfavourable outcome of the court proceedings, Mobiltel might face a further potential additional claim for the years 2008 to 2012 of up to TEUR 74,000 including penalty interest. Mobiltel expects the court decision to be in favour of Mobiltel due to the fact that Mobiltel followed the approach confirmed by the Minister of Finance and two consecutive tax audits in the past. Mobiltel assesses an additional claim including interest to be improbable. Mobiltel has already issued a bank guarantee covering up to TEUR 22,800 to secure the possible tax claim.

In the normal course of business, Telekom Austria Group is subject to proceedings, lawsuits and other claims, including proceedings under laws and regulations related to interconnection. Such matters are subject to many uncertainties, and the outcomes are not predictable with certainty. Consequently, Management is unable to ascertain the ultimate aggregate amount of the monetary liability or the impact on the financial position of Telekom Austria Group with respect to these matters at 31 December 2014. These matters could materially affect the operating results or cash flows of any quarter when resolved in future periods. However, Management believes that after final settlement, any monetary liability or financial impact on Telekom Austria Group, beyond such provided for at year-end, would not be material to its Consolidated Financial Statements.

(35) Remuneration paid to the Management and Supervisory Board

As of 31 December 2014, the Management Board of Telekom Austria Group is composed of Hannes Ametsreiter as Chief Executive Officer (CEO), Siegfried Mayrhofer as Chief Financial Officer (CFO) and Günther Ottendorfer as Chief Technology Officer (CTO). On 1 June 2014, Siegfried Mayrhofer succeeded Hans Tschuden as Chief Financial Officer. Günther Ottendorfer is a member of the Management Board since 1 September 2013.

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

in TEUR	2014	2013
Basic remuneration (fixed salary incl. remuneration in kind)	1,484	1,118
Variable remuneration	1,374	1,349
Share-based compensation (Long Term Incentive Program)*	87	111
Total	2,945	2,578
Compensation Supervisory Board	212	220

*See Note (31).

As the Management Board was extended by the Chief Technology Officer since 1 September 2013, figures can only be compared to a limited extent.

On 31 May 2014, Hans Tschuden's contract, due to expire on 31 March 2015, was terminated prematurely. In 2014, remuneration of the Management Board and Supervisory Board does not include termination expenses of TEUR 737 and the severance of TEUR 850 related to the resignation of Hans Tschuden. Furthermore, TEUR 213 were paid into a pension plan.

(36) Employees

The average number of employees during the years 2014 and 2013 was 16,155 and 16,347, respectively. As of 31 December 2014 and 2013, Telekom Austria Group employed 16,240 and 16,045 employees (full-time equivalents).

(37) Subsequent Events

In October 2014, Telekom Austria Group reached an agreement with Telekom Slovenije Group to merge its subsidiaries Vip operator and One, both operating in the Republic of Macedonia. Telekom Austria Group will hold 55% and have sole control over the newly created company whereas Telekom Slovenije Group will hold 45%. Furthermore, the agreement also includes call and put options for the exit of Telekom Slovenije Group within three years of the closing of the merger. The closing of the merger is subject to merger control clearance in the Republic of Macedonia, which is expected for the first quarter of 2015. One is the third largest mobile network operator in the Republic of Macedonia and achieved revenues of approximately TEUR 75,500 and EBITDA of approximately TEUR 14,400 in 2013.

Since 31 December 2014, the Belarusian Rouble lost approximately 20% of its value compared to the Euro. The effect of the devaluation on the inflation rate in Belarus remains to be seen (see Note (1)).

On 21 January 2015, a condition of the agreement subject to conditions precedent between Telekom Slovenije and Si.mobil was fulfilled. Thereupon, Si.mobil withdrew its lawsuit and already received a first payment of TEUR 20,000 (see Note (34)).

In its judgement of 11 November 2014, the European Court of Justice (ECJ) decided at the request of the Austrian Administrative Court that the Austrian law determining the reference date for salary increments for Austrian civil servants is not in conformity with European Union law (see Note (22)). To compensate the resulting burden on the federal budget the National Assembly passed a law on 21 January 2015, which has not yet entered into force as it still needs to be enacted by the Austrian Federal Assembly and published in the Austrian Federal Law Gazette. Telekom Austria Group will further examine the accounting of this fact based on the judgement by the Austrian Administrative Court as well as the assessment of the existing wording of the law regarding EU conformity.

(38) Affiliated Companies

Name and company domicile	Share in capital as of 31 December 2014 in %	Method of consolidation*	Share in capital as of 31 December 2013 in %	Method of consolidation*
Segment Austria				
A1 Telekom Austria Aktiengesellschaft, Vienna	100.00	FC	100.00	FC
Telekom Austria Personalmanagement GmbH, Vienna	100.00	FC	100.00	FC
Telekom Austria Beteiligungen GmbH, Vienna	100.00	FC	100.00	FC
CableRunner GmbH, Vienna	76.00	FC	76.00	FC
CableRunner Austria GmbH & Co. KG, Vienna	76.00	FC	76.00	FC
World-Direct eBusiness solutions Gesellschaft m.b.H., Vienna	100.00	FC	100.00	FC
ÖFEG GmbH, Vienna	100.00	FC	100.00	FC
paybox Bank AG, Vienna	100.00	FC	100.00	FC
paybox Service GmbH, Vienna	100.00	FC	100.00	FC
3G Mobile Telecommunications GmbH, Vienna	100.00	FC	100.00	FC
mk Logistik GmbH, Vienna	100.00	FC	100.00	FC
JetStream Hungary Kft., Budapest	100.00	FC	100.00	FC
JetStream Slovakia s.r.o., Bratislava	100.00	FC	100.00	FC
JetStream RO s.r.l., Bucharest	100.00	FC	100.00	FC
JetStream TR Telekomünikasyon Hizmetleri Ve Ticaret Limited Sirketi, Istanbul	100.00	FC	100.00	FC
JetStream Switzerland GmbH, Zurich	100.00	FC	100.00	FC
JetStream Poland Spolka Z Ograniczona Odpowiedzialnoscia, Warsaw	100.00	FC	100.00	FC
JetStream Germany GmbH, Frankfurt on the Main	100.00	FC	100.00	FC
JetStream Italy S.r.l., Milan	100.00	FC	100.00	FC
TA CZ sítě s.r.o., Prague	100.00	FC	100.00	FC
JetStream BH d.o.o. drustvo za telekomunikacije, Sarajevo	100.00	FC	100.00	FC
JetStream England Limited, London	100.00	FC	–	–
Homer Receivables Purchasing Company Limited, Dublin (Special Purpose Entity)	–	–	–	FC
media.at GmbH, Vienna	25.3228	EQ	25.3228	EQ
Segment Bulgaria				
Mobiltel EAD, Sofia	100.00	FC	100.00	FC
Alabin 48 EOOD, Sofia	LIQ	–	100.00	FC
M repair and service EAD, Sofia	100.00	FC	100.00	FC
M Support Services EOOD, Sofia	100.00	FC	100.00	FC
M Game EOOD, Sofia	LIQ	–	100.00	FC
GPS Bulgaria AD, Sofia	90.00	FC	90.00	FC
Orbitel EAD, Sofia	ME	–	100.00	FC
Segment Croatia				
Vipnet d.o.o., Zagreb	100.00	FC	100.00	FC
Vipnet usluge d.o.o., Zagreb	100.00	FC	100.00	FC
Segment Belarus				
Unitary enterprise velcom, Minsk	100.00	FC	100.00	FC
Unitary enterprise TA-Engineering, Minsk	100.00	FC	100.00	FC
Unitary enterprise TA-Installation, Minsk	100.00	FC	100.00	FC

Name and company domicile	Share in capital as of 31 December 2014 in %	Method of consolidation*	Share in capital as of 31 December 2013 in %	Method of consolidation*
Segment Additional Markets				
Telekom Austria Group M2M GmbH, Vienna	100.00	FC	100.00	FC
mobilkom liechtenstein AG, Vaduz	ME	–	100.00	FC
Si.mobil telekomunikacijske storitve d.d., Ljubljana	100.00	FC	100.00	FC
TA Mreža d.o.o., Ljubljana	100.00	FC	100.00	FC
Vip mobile d.o.o., Belgrade	100.00	FC	100.00	FC
Vip operator DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
Vip operator uslugi DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
Vip operator prodazba DOOEL, Skopje-Zentar	100.00	FC	100.00	FC
BLIZOO DOOEL, Skopje	100.00	FC	–	–
Corporate & Other				
Telekom Projektentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
Telekom Finanzmanagement GmbH, Vienna	100.00	FC	100.00	FC
Mobilkom Beteiligungsgesellschaft mbH, Vienna	100.00	FC	100.00	FC
mobilkom Bulgarien BeteiligungsverwaltungsgmbH, Vienna	100.00	FC	100.00	FC
mobilkom Bulgarien GeschäftsentwicklungsgmbH, Vienna	100.00	FC	100.00	FC
mobilkom CEE Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
mobilkom CEE Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Mazedonien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Mazedonien Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Belarus Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
mobilkom Belarus Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
Kroatien Beteiligungsverwaltung GmbH, Vienna	100.00	FC	100.00	FC
A1 Kroatien Geschäftsentwicklungs GmbH, Vienna	100.00	FC	100.00	FC
SB Telecom Ltd., Limassol	100.00	FC	100.00	FC
Telecom Liechtenstein AG, Vaduz	24.90	EQ	–	–

* FC – full consolidation, EQ – equity method, LIQ – liquidated, ME – merged

All affiliated companies have 31 December as their reporting date except for media.at-Group which has 30 June as its reporting date.

(39) Release for Publication

On 22 January 2015, the Management Board approved the Consolidated Financial Statements for submission to the Supervisory Board. The Supervisory Board will review the Consolidated Financial Statements and report its decision upon approval.

Vienna, 22 January 2015

Hannes Ametsreiter
Chairman of the Management Board

Siegfried Mayrhofer
Chief Financial Officer

Günther Ottendorfer
Chief Technology Officer

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Telekom Austria AG, Vienna, for the fiscal year from January 1, 2014 to December 31, 2014. These consolidated financial statements comprise the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of financial position as of December 31, 2014, the consolidated statements of cash flows, the consolidated statements of changes in stockholders equity for the fiscal year ended December 31, 2014, and the notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND FOR THE ACCOUNTING SYSTEM

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 245a UGB. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY AND DESCRIPTION OF TYPE AND SCOPE OF THE STATUTORY AUDIT

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

OPINION

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2014 and of its financial performance and its cash flows for the fiscal year from January 1, 2014 to December 31, 2014 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

COMMENTS ON THE MANAGEMENT REPORT FOR THE GROUP

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB are appropriate.

Vienna, January 23, 2015

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Nikolaus Schaffer
Certified Public Accountant
(Austria)

Mag. Maximilian Schreyvogel
Certified Public Accountant
(Austria)

The report is a translation from the original auditor's report in German, which is solely valid. The consolidated financial statements may only be published or duplicated together with our auditors' report in the version audited by us. This auditors' report only relates to the complete consolidated financial statements in German, including the consolidated management report. Section 281(2) of the Austrian Commercial Code (UGB) applies to versions differing from the version audited by us.

GLOSSARY

INFORMATION AND COMMUNICATION TECHNOLOGY TERMS

ARPL (Average Revenue per Line)

Average revenue generated per fixed access line.

ARPU (Average Revenue per User)

Average revenue generated per mobile user.

Carrier Aggregation

Next expansion stage for LTE.

Convergence

Consolidation of telecommunications, informatics and media and their combination via an interactive multimedia platform.

G.fast

New technology for ultra high-bandwidth transmission, based on existing copper lines.

IPTV (Internet Protocol Television)

Transmission of television programmes and films via the internet.

LTE (Long Term Evolution)

LTE represents the further advancement of mobile networks towards even faster data transfer and larger transmission capacities. LTE enables transfer rates of up to 150 Mbps.

Machine-to-Machine (M2M)

Connection services for automated data transfer between machines, devices, sensors or servers for remote controlling and monitoring with or without human interaction.

Mobile penetration

Measures customers of a mobile communication provider as a proportion of total population.

No frills

Cost benefit for customers gained by foregoing supplementary services.

Roaming

Allows users to make telephone calls using a third-party (foreign) network. This is subject to a roaming agreement between network operator and at least one partner in the respective foreign country.

Termination charges

The operator of a subscriber network connects a call originating from a third-party telecommunication network to a subscriber of its own network and charges a fee to the network operator from which the call originates.

Unbundling

The local loop is made available to alternative network operators and internet service providers in order to give them access to end users.

Vectoring

Vectoring helps to reduce interference between parallel lines.

STOCK EXCHANGE AND FINANCIAL TERMS

Capital expenditure

Defined as 'additions to property, plant and equipment and intangible assets' as reported in the cash flow statement under 'cash flow from investing activities'.

Capital market compliance guideline

Group-wide guideline setting out organisational measures to prevent stock trading using share price-relevant information not yet publicly available (insider information) and to ensure the confidential treatment of such insider information.

Code of Conduct

The Code of Conduct of the Telekom Austria Group is a Group-wide internal directive which prescribes how to deal fairly with customers, suppliers and employees, protect confidential company and business information, protect assets and deal with conflicts of interest. It also sets out rules for accepting gifts and provisions on capital market compliance.

Compliance management

Area of responsibility dealing with a company's compliance with statutory provisions and directives as well as voluntary codes.

Corporate governance

The Austrian Corporate Governance Code sets out guidelines for responsible company management and controlling.

Directors and officers (D&O) insurance

Pecuniary damage liability insurance concluded by a company for its executive bodies and senior employees.

Directors' dealings

Describes transactions by the management of listed stocks in securities of the same company.

EBITDA (earnings before interest, taxes, depreciation and amortisation)

EBITDA is defined as net income excluding the financial result, income taxes and depreciation and amortisation expense.

EBITDA comparable

Defined as EBITDA adjusted for restructuring and impairment effects. EBITDA comparable is defined as EBITDA adjusted for the expenses of the restructuring programme and, where applicable, of impairment charges as well as for the income from the reversal of impairment losses. Expenses for the transfer of civil servants to the Austrian government are also taken into account when calculating EBITDA comparable.

EBITDA margin

Ratio of EBITDA to revenue in percent.

Free cash flow

Defined as cash flow from operating activities less capital expenditure in existing business areas.

IFRS (International Financial Reporting Standards)

Accounting standards developed by the International Accounting Standards Board (IASB; formerly International Accounting Standards Committee, IASC). In addition to the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) published by the IASB, this includes the interpretations published by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

Market capitalisation

Number of shares outstanding multiplied by the share price.

Net debt

Financial liabilities less cash and cash equivalents, investments, finance lease receivables and derivative financial instruments for hedging activities.

Net debt to EBITDA comparable

Ratio of net debt to EBITDA comparable; indicates the debt repayment period on the basis of net debt and EBITDA comparable.

ÖIAG

Österreichische Industrieholding AG is the investment and privatisation agency of the Republic of Austria.

ROE (return on equity)

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

ROIC (return on invested capital)

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

LEGEND FOR TABLES

n. a.

not applicable.

n. m.

not meaningful; used for changes >300% and for percentage changes which are not meaningful.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are usually accompanied by words such as 'believe', 'intend', 'anticipate', 'plan', 'expect' and similar expressions. We caution that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. These factors include, but are not limited to, the following:

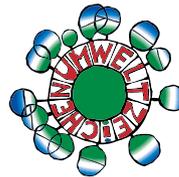
- ✓ the level of demand for telecommunications services or equipment, particularly with regard to access lines, traffic, bandwidth and new products;
- ✓ competitive forces in liberalised markets, including pricing pressures, technological developments, alternative routing developments and new access technologies, and our ability to retain market share in the face of competition from existing and new market entrants;
- ✓ the effects of our tariff reduction initiatives or other marketing initiatives;
- ✓ the impact of insolvencies of our major customers or international suppliers;
- ✓ the regulatory developments and changes, including the levels of tariffs, the terms of interconnection, unbundling of access lines and international settlement arrangements;
- ✓ our ability to achieve cost savings and realise productivity improvements;
- ✓ the success of new business, operating and financial initiatives, many of which involve start-up costs, and new systems and applications, particularly with regard to the integration of service offerings of our newly integrated subsidiaries;
- ✓ our ability to secure the licences we need to offer new services and the cost of these licences and related network infrastructure build-outs;
- ✓ the progress of our domestic and international investments, joint ventures and alliances;
- ✓ the impact of our new business strategies and transformation process including the reintegration of subsidiaries and restructuring of operations;
- ✓ the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital expenditures;
- ✓ the outcome of current and future litigation in which we are or will be involved;
- ✓ the level of demand for our shares which can affect our business strategies;
- ✓ our ability to further reduce our existing workforce;
- ✓ concerns over health risks associated with the use of wireless handsets or radio frequency emissions from transmission masts;
- ✓ changes in the law including regulatory, civil servants and social security, pensions and tax law; and
- ✓ general economic conditions, government and regulatory policies, new legislation and business conditions in the markets we serve.



This annual report was printed on paper (Mondi Offset) from sustainable forest management.

ClimatePartner[®]
climate neutral

Print | ID: 11582-1501-1001



The printing was carried out in accordance with the Low Pollution Printing Products Directive of the Austrian Ecolabel at Paul Gerin GmbH & Co KG (UZ 24, UW756).

This annual report is printed on 'Mondi Offset' paper according to the Austrian Ecolabel criteria for printed products and the paper is sourced from verifiably and sustainably managed forests and is PEFC-certified. The CO₂ emissions generated during printing were neutralised. The report is printed with vegetable-based ink by the Paul Gerin GmbH & Co KG printing house, which has been awarded the Austrian Ecolabel (UW756). With a view to the requirements of the Austrian Ecolabel we refrained from protecting the cover of this report by film lamination.

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