TELEKOM AUSTRIA GROUP

Results for the First Half 2014

Highlights

- Group revenues decline by 7.3% and EBITDA comparable declines by 7.2%, mainly driven by regulation, macro-economic effects in CEE as well as extraordinary effects of EUR 28.2 mn net in Austria
    - Clean*: Group revenues -4.1% and Group EBITDA comparable flat at -0.1%
- Group EBITDA comparable margin remains flat at 31.9% and increases to 33.2% on a clean basis*
- Austria benefits from successful strategy implementation: regulation and extraordinary effects account for most of revenue decline; cost cuts and subsidy reductions result in strong EBITDA comparable trends (-0.2% excluding extraordinary effects)
- Bulgaria: Macro effects and fierce competition drive customer and revenue decline in fixed and mobile; EUR 400 mn impairment due to adjustment of WACC and medium-term expectations
- Croatia: solid fixed-line performance cannot offset regulatory cuts and effects of mobile competition; spectrum fee introduced in June will burden EBITDA comparable as of H2 2014
- Belarus and Additional Markets segment achieve revenue and EBITDA comparable growth
- Spectrum prolongations and acquisitions in Bulgaria and Slovenia strengthen network
- Next step in implementation of successful convergence strategy: Acquisition of cable operator blizoo in the Republic of Macedonia in June (closed in July)
- Commitment to broadband funding announced by Austrian government as of 2016
- Group outlook for FY 2014 refined: Revenues of approx. -3.5% (from approx. -3.0%), CAPEX** of EUR 650 – 700 mn (from approx. EUR 700 mn), intended dividend of EUR 0.05/share

in EUR million	Q2 2014	Q2 2013	% change	1–6 M 2014	1–6 M 2013	% change
Revenues	963.0	1,043.2	–7.7%	1,939.0	2,092.3	–7.3%
EBITDA comparable	299.4	330.3	–9.3%	619.4	667.2	–7.2%
Operating income	–320.0	105.5	n.m.	–222.6	223.3	n.m.
Net income	–358.6	52.5	n.m.	–317.8	108.0	n.m.
Cash flow generated from operations	224.5	302.2	–25.7%	373.4	494.0	–24.4%
Earnings per share (in EUR)	–0.82	0.10	n.m.	–0.75	0.21	n.m.
Free cash flow per share (in EUR)	–0.01	0.29	n.m.	0.11	0.39	–71.9%
Capital expenditures	229.5	176.4	30.1%	329.0	325.4	1.1%

in EUR million	30 June 2014	31 Dec 2013	% change
Net debt	3,688.1	3,695.8	–0.2%
Net debt / EBITDA comparable (12 months)	3.0	2.9	

All financial figures are based on IFRS; if not stated otherwise, all comparisons are given year-on-year. EBITDA comparable is defined as net income excluding financial result, income tax expense, depreciation and amortisation, restructuring and impairment charges.

* Excluding extraordinary effects in Austria and FX translation effects

** Does not include investment for spectrum and acquisitions

Disclaimer

Disclaimer for forward-looking statements: This document contains forward-looking statements. These forward-looking statements are usually accompanied by words such as “believe”, “intend”, “anticipate”, “plan”, “expect” and similar expressions. Actual events may differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. Neither Telekom Austria nor any other person accepts any liability for any such forward-looking statements. Telekom Austria will not update these forward-looking statements, whether due to changed factual circumstances, changes in assumptions or expectations. This report does not constitute a recommendation or invitation to purchase or sell securities of Telekom Austria.

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Group Management Report

Group Review

The presentation for the conference call and key figures of the Telekom Austria Group in Excel format (“Fact Sheet Q2 2014”) are available on the website at www.telekomaustria.com.

Results for the first nine months 2014 will be announced on 17 November 2014.

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Vienna, 13 August 2014 – Today the Telekom Austria Group (VSE: TKA, OTC US: TKAGY) announces its results for the first half and the second quarter 2014, ending 30 June 2014.

Summary

Year-To-Date Comparison

Key Performance Indicators Group

First Half 2014

Financials

in EUR million	1–6 M 2014	1–6 M 2013	% change
Revenues	1,939.0	2,092.3	–7.3%
EBITDA comparable	619.4	667.2	–7.2%
EBITDA incl. effects from restructuring and impairment tests	212.7	659.6	–67.8%
Operating income	–222.6	223.3	n.m.
Net income	–317.8	108.0	n.m.
Cash flow generated from operations	373.4	494.0	–24.4%
Earnings per share (in EUR)	–0.75	0.21	n.m.
Free cash flow per share (in EUR)	0.11	0.39	–71.9%
Capital expenditures	329.0	325.4	1.1%

in EUR million	30 June 2014	31 Dec 2013	% change
Net debt	3,688.1	3,695.8	–0.2%
Equity	1,158.9	1,512.6	–23.4%
Net debt / EBITDA comparable (12 months)	3.0	2.9	3.6%

Fixed access lines (in '000)	30 June 2014	30 June 2013	% change
Total access lines	2,636.1	2,617.1	0.7%
in Austria	2,275.1	2,274.2	0.0%
in Bulgaria	153.0	163.5	–6.4%
in Croatia	208.0	179.3	16.0%
of which broadband lines	1,694.7	1,603.8	5.7%

Mobile communication subscribers (in '000)	30 June 2014	30 June 2013	% change
Total subscribers	19,877.9	20,032.8	-0.8%
in Austria	5,509.9	5,789.9	–4.8%
in Bulgaria	4,108.4	4,232.3	–2.9%
in Croatia	1,829.5	1,901.8	–3.8%
in Belarus	4,939.8	4,834.1	2.2%
in Slovenia	680.0	672.5	1.1%
in the Republic of Serbia	2,036.5	1,908.1	6.7%
in the Republic of Macedonia	619.9	620.9	–0.2%
in Liechtenstein	6.5	6.3	3.3%

Employees (full-time equivalent, period-end)	16,044	16,352	-1.9%

All financial figures are based on IFRS; if not stated otherwise, all comparisons are given year-on-year. EBITDA comparable is defined as net income excluding financial result, income tax expense, depreciation and amortisation, restructuring and impairment charges.

In the first half of 2014 the Telekom Austria Group saw a reduction in revenues of 7.3% year-on-year to EUR 1,939.0 mn. Higher revenues in the Belarus and the Additional Markets segment were offset by declines in the mature markets Austria, Bulgaria and Croatia.

Austrian revenues included negative extraordinary effects of EUR 28.2 mn, inter alia from a change in revenue accounting estimates relating to the introduction of a new fixed-line billing system interface, as described in the Notes on p. 40. Excluding these effects, and negative FX translation effects of EUR 40.1 mn, stemming mainly from Belarus, Group revenues declined by 4.1%.

In Austria a termination rate cut from EURc 2.01 to EURc 0.80 in November 2013 weighed on interconnection revenues. From February a reduction in subsidies for acquisition and, to a lesser extent, retention added to the material decline in equipment revenues but helped to support profitability. Meanwhile, the Group continued to execute its strategic focus on the high value segment with a strong emphasis on monetising the growing demand for data via the introduction of new tariff structures. Convergent offerings and the focus on up- and cross-selling via bundle products also remained at the heart of the Austrian strategy. Growth in TV and fixed-line broadband helped to stem the decline in fixed-line service revenues.

The Bulgarian segment suffered from a weak macroeconomic environment resulting in ongoing subscriber base erosion and severe pricing pressure, as well as from regulatory cuts. In Croatia lower interconnection and roaming rates following the country's accession to the EU in July 2013 negatively impacted roaming and interconnection revenues, while positive fixed-line trends only partly compensated for weakness in the mobile business. Belarus showed strong operational trends with high demand for tablets and data, which were however partly offset by negative FX effects. The continued strategic focus on the contract business reaped positive results for Slovenia and the Republic of Serbia in the Additional Markets segment, while the Republic of Macedonia struggled with the effects of a severe mobile termination rate cut in November 2013.

In the first half of 2014 the Telekom Austria Group saw a slight reduction in mobile subscribers of 0.8% year-on-year to just under 19.9 million customers. Austria experienced the biggest decline due to lower gross additions as a consequence of lower subsidies, as well as churn relating to the introduction of new tariffs for existing customers in May, which was in line with expectations. In the fixed-line business the Group gained over 19,000 access lines year-on-year to reach a total of 2.64 million by 30 June 2014.

Other operating income increased EUR 2.8 mn versus the same period last year, due to gains in Bulgaria and in Slovenia. These gains were partly offset by lower other operating income in Croatia.

Operating expenses fell by 7.0% to EUR 1,358.3 mn, mostly due to a EUR 54.9 mn reduction in material expenses in Austria stemming from lower subsidies for acquisition and retention, as well as lower interconnection costs in line with the revenue reduction from regulatory cuts.

EBITDA comparable declined by 7.2% to EUR 619.4 million on a reported basis, and was flat at -0.1% excluding the above-mentioned extraordinary revenue effects in Austria and the negative effect from FX translations amounting to EUR 18.8 mn. Excluding the extraordinary revenue effects in Austria, the Austrian segment showed an almost stable development of EBITDA comparable and even EBITDA comparable growth in the second quarter of 2014 as a consequent of cost reductions. Belarus and the Additional Markets segment posted EBITDA gains of 1.9% and 6.5%, while Bulgaria and Croatia saw reductions of 7.9% and 26.2% respectively.

Restructuring charges, which relate entirely to the Austrian segment, amounted to EUR 6.7 million in the first half of 2014 after EUR 7.6 million in the same period last year. Due to a change in the weighted average cost of capital (WACC) of the Bulgarian segment as well as changed medium-term macroeconomic expectations for Bulgaria an impairment of EUR 400.0 million was recognised for Mobiltel in the second quarter 2014.

As a result Group operating income turned from a positive EUR 223.3 mn in the first half of 2013 to a negative EUR 222.6 mn in the first half of 2014, despite roughly stable depreciation and amortisation charges.

In consequence this also resulted in a negative net income of EUR 317.8 mn for Telekom Austria Group compared with a positive EUR 108.0 million in the first half of 2013. The negative financial result remained almost unchanged. Income tax expenses declined from EUR 24.6 million in the first half of 2013 to EUR 4.7 million as a result of lower operating income as well as a deferred tax benefit in the amount of EUR 9.7 mn relating to the impairment of the goodwill, as goodwill was tax deductible in Bulgaria until 2006.

Group capital expenditures remained largely stable in the first half of 2014 versus the same period last year, following the spectrum prolongation for a price of EUR 30.6 mn in Bulgaria, as well as the acquisition of mobile spectrum in Slovenia for a price of EUR 63.9 mn. Excluding spectrum Group CAPEX fell 27.9% year-on-year, driven by an EUR 83.1 mn reduction in Austria. The Austrian effect was partly due to optimisation efforts and partly due to higher costs for the YESSS! integration in 2013.

Summary

Quarterly Comparison

Key Performance Indicators Group

2nd Quarter 2014

Financials

in EUR million	Q2 2014	Q2 2013	% change
Revenues	963.0	1,043.2	–7.7%
EBITDA comparable	299.4	330.3	–9.3%
EBITDA incl. effects from restructuring and impairment tests	–99.6	325.4	n.m.
Operating income	–320.0	105.5	n.m.
Net income	–358.6	52.5	n.m.
Cash flow generated from operations	224.5	302.2	–25.7%
Earnings per share (in EUR)	–0.82	0.10	n.m.
Free cash flow per share (in EUR)	–0.01	0.29	n.m.
Capital expenditures	229.5	176.4	30.1%

in EUR million	30 June 2014	31 March 2014	% change
Net debt	3,688.1	3,670.5	0.5%
Equity	1,158.9	1,525.0	–24.0%
Net debt / EBITDA comparable (12 months)	3.0	2.9	3.0%

In the second quarter of 2014 Group revenues fell by 7.7% year-on-year to EUR 963.0 mn, driven by the mature markets Austria, Bulgaria and Croatia, while Belarus und the Additional Markets segment posted year-on-year revenue growth. Austrian revenues included extraordinary effects in the amount of EUR 28.2 mn, mainly from revenue accounting estimates relating to the introduction of a new fixed-line billing system interface. Excluding these effects, and excluding a negative effect from FX translations amounting to EUR 19.6 mn, Group revenue declined by only 3.1%. The extraordinary effects in Austria did not impact average monthly revenues per user and per access line (ARPU and ARPL).

In Austria revenues fell by 12.3% year-on-year on a reported basis, and by 8.1% excluding the extraordinary revenue effects. The decline was mainly driven by lower gross additions in the premium segment, which weighed on equipment revenues, as well as lower mobile and fixed-line termination rates which substantially reduced interconnection revenues. While extraordinary cancellation rights granted to existing customers following tariff adjustments negatively affected net additions in the second quarter of 2014, higher fixed fees partly mitigated the negative effect on monthly fee and traffic revenues. Continuously rising broadband and TV revenues helped generate a further slowdown of the reduction in fixed-line service revenues stemming from the ongoing decline of the fixed-line voice business.

In Bulgaria political and economic instability, together with severe pricing pressure and regulatory effects, continued to weigh on results. In Croatia lower roaming and interconnection revenues as well as negative effects from lower mobile prices and usage were only partially compensated by strong fixed-line developments. In contrast, Belarus posted solid revenue growth despite a negative FX effect of EUR 17.4 mn, driven by consumer demand for smartphones and tablets, as well as increased data usage. In the Additional Markets segment, Slovenia and the Republic of Serbia continued to show subscriber growth and higher contract shares, while the Republic of Macedonia saw a considerable revenue decline as a result of a severe termination rate cut in November 2013.

Other operating income came in EUR 3.3 mn higher than in the same period last year. The increase stemmed primarily from the reversal of accruals in Austria as well as from own work capitalisation effects in Bulgaria, which were partially offset by lower other operating income in Croatia.

Group operating expenses fell 6.3% to EUR 686.1 mn in the second quarter of 2014, driven primarily by stringent cost cutting efforts, lower subsidies and lesser regulatory costs in Austria.

Group EBITDA comparable, which does not include any effects from restructuring and impairment testing, fell by 9.3% year-on-year to EUR 299.4 mn on a reported basis. Excluding the extraordinary revenue effects in Austria, as well as negative FX effects of EUR 9.2 mn, however, Group EBITDA comparable grew by 2.0%. Operations in Bulgaria and Croatia constituted the biggest drag, while the improvement in operating expenses meant that, on a clean basis, Austria was able to post EBITDA comparable growth of 5.9%.

Instead of recording restructuring charges, A1 Telekom Austria saw a restructuring gain of EUR 0.9 mn in the second quarter of 2014, compared with a restructuring charge of EUR 4.9 mn in the same period of last year. This was due to a reversal of provisions, together with a lower number of employees who opted for social plans. The reversal of provisions is the result of inactive civil servants (staff released from work) accepting social plans. The Group also recognised an impairment of EUR 400.0 mn for Mobiltel, following a change in the weighted average cost of capital (WACC) of the Bulgarian segment as well as changed medium-term macroeconomic expectations for Bulgaria. Depreciation and amortisation charges were largely stable versus the same period last year.

Due to the Bulgarian impairment operating income turned from a positive EUR 105.5 mn in the second quarter of 2013 to a negative EUR 320.0 mn in the second quarter of 2014.

The negative financial result increased slightly from EUR 42.8 mn to EUR 44.1 mn in the same period mainly due to FX differences relating to Croatia. After a tax gain of EUR 5.5 mn, the net loss for the second quarter of 2014 still amounted to EUR 358.6 mn.

In the second quarter of 2014 Group capital expenditures grew 30.1% year-on-year to EUR 229.5 mn versus the same period last year, following the spectrum prolongation for a price of EUR 30.6 mn in Bulgaria, as well as the acquisition of spectrum by Si.mobil for a price of EUR 63.9 mn. Excluding the expenditure on spectrum, Group CAPEX fell 23.4% year-on-year, driven by a EUR 42.5 mn reduction in Austria. The Austrian effect was partly due to optimisation efforts and partly due to higher costs for the YESSS! integration in 2013.

The Telekom Austria AG Share

During the first half of 2014 the Telekom Austria share rose 29.7%, outperforming the sector as well as the Austrian ATX index. The share's buoyancy in early 2014 was partly driven by the prospect of a recovery in the Austrian mobile market and partly by speculation surrounding the company shareholder structure.

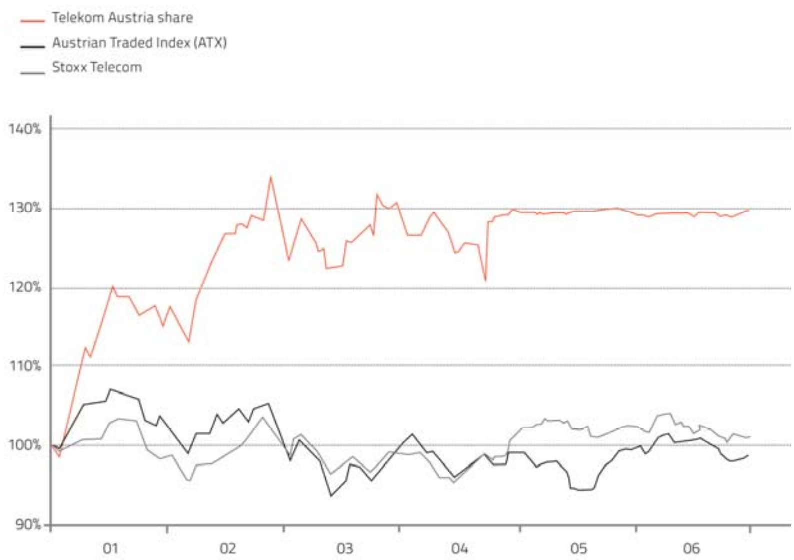
The Telekom Austria share first rose with European markets in January and then continued to rally throughout the remainder of February, as major shareholders América Móvil and ÖIAG confirmed early talks about forming a syndicate agreement. The share reached its high point of the first half at EUR 7.59 intra-day, when the results for the financial year 2013 were published on 26 February. It subsequently came off somewhat in early March as markets fell in reaction to the Russian annexation of Crimea, but moved higher again towards the end of the month when the ÖIAG supervisory board authorised the finalisation of a contract with América Móvil. During April the stock continued to show volatility and high trading volumes until the signing of the syndicate agreement and the publication of a takeover offer by América Móvil at the end of the month. Thereafter, the share traded around the offer price of EUR 7.15 for the remainder of the first half of 2014, closing at EUR 7.14 on 30 June.

After a strong performance in the second half of 2013, the Stoxx Telecom Index had a volatile first quarter amidst drawn-out regulatory processes relating to sector M&A. It then settled into a steadier uptrend in late April and held on to most of these gains for the remainder of May and June, closing 0.8% higher on 30 June.

Meanwhile, the Stoxx 600 reached highs last seen in 2008 several times during the first quarter, and then settled into an extended rally from late April until mid-June. Encouraging economic data, dovish comments from Federal Reserve Chairwoman Janet Yellen and another cut of the ECB refinancing rate to 0.15% in early June helped fuel investor optimism. Intermediate dips were caused by weakness in China, Eurozone deflation woes and the political crises in the Ukraine and Iraq. Tensions in the Middle East appear to have put a damper on share prices towards the end of June, going into the second quarter earnings season, when the Stoxx 600 closed 4.1% higher on 30 June.

In contrast, the Austrian ATX reached highs last seen in 2011 in early 2014 but fell away in March as investors reacted negatively to potential spillover effects from the Ukraine crisis, given the high CEE exposure of the index. The ATX dropped again in mid-May amidst lacklustre first quarter earnings and pressure on heavyweight financial stocks, before rallying again until the middle of June. The ATX eventually closed 1.8% lower on 30 June.

Development of Telekom Austria share price
indexed from 1 Jan 2014



Market Environment

The Telekom Austria Group operates in eight markets across Central and Eastern Europe. In its mature markets Austria, Bulgaria and Croatia Telekom Austria Group offers mobile and fixed-line services, allowing the company to pursue a successful convergence strategy. In its mobile-only markets Telekom Austria Group seeks to capitalise on the existing growth potential for smartphone offers and mobile data products. Telekom Austria Group also recently acquired blizoo Macedonia, which will allow the Group to add a fourth convergent market to its footprint.

Fierce competition presents an issue in almost all markets, exerting downward pressure on mobile prices. The economic success of Telekom Austria Group thus hinges to a great extent on its ability to safeguard margins by continuously increasing cost efficiency. In addition, regulatory provisions in the form of interconnection and roaming rate reductions cause added drag on revenues, especially in those segments which must conform to EU regulation. In addition to existing glidepaths, the proposal for a single European telecommunications market, currently awaiting approval by the European Council, poses a threat.

As one of the most sophisticated yet low-priced mobile markets in Europe, Austria is among the most competitive markets of the Telekom Austria Group. The Austrian telecoms sector contains full-scale as well as mobile virtual network operators. In terms of product offerings, all-in smartphone deals and mobile broadband solutions drive ongoing fixed-to-mobile substitution, which is visible in the highly advanced but continual decline in the fixed-line voice business. Attractive convergent bundle offers, incorporating fixed-line broadband and IPTV solutions, are key to the business.

In the CEE markets political and macroeconomic headwinds remain challenging, as they affect demand and usage. In June Standard & Poor's downgraded Bulgaria's sovereign credit rating to BBB-/A3, stating that growth is likely to remain lacklustre and unemployment high in the absence of any meaningful structural reform. The recent banking crisis and collapse of the country's fourth largest lender, Corporate Commercial Bank, has again increased tensions in the country. Croatia last achieved GDP growth in 2008 and is struggling to meet EU budget-deficit limits. In April the government cut investments and subsidies to reduce the deficit. As this will also stifle growth, GDP growth expectations were also revised downward, from 0.2% to zero. The telecoms regulator also introduced a fee for mobile spectrum in June 2014, which in turn led to tariff adjustments by all operators.

The Belarusian Rouble continued to fall against the Euro in the first quarter of 2014 but became somewhat more stable in the second quarter. Concerns remain that the ongoing political crisis in the Ukraine could lead to a more pronounced FX devaluation going forward. In Slovenia the recession appears to be easing after the country narrowly avoided a bailout in December 2013, with the government predicting that the country will return to growth in 2014, after posting 1.9% growth in the first quarter.

Meanwhile, the Serbian dinar has remained relatively stable so far in 2014, while the European Commission cut its 2014 GDP growth forecast for the Republic of Serbia from 1.3% to 1.1% in May, noting stronger than anticipated declines in public and private consumption and investments. The EU did, however, begin accession negotiations with Serbia in January 2014, and the election of a new government should give more impetus to reform. In comparison, April elections have yielded a third term in office for the conservative party in the Republic of Macedonia, which is widely regarded as responsible for the current solid economic growth, low public debt levels and stable banking sector.

Refined Outlook

Telekom Austria Group outlook for the full year 2014

Telekom Austria Group's outlook for the year 2014 reflects Management's continued confidence in achieving its ambitious targets, even though the overall conditions in most of the Groups markets remain challenging. The continued implementation of the turnaround strategy is expected to yield further results, targeting enhanced profitability and revenue inflection in the midterm. A number of recent developments support the success of this strategy.

Adverse external factors such as macro-economic headwinds, regulatory cuts and severe price pressure, which dominated the business development in 2013, will continue to weigh on revenue trends in 2014. At the same time, Management expects an increasingly positive impact from the strategic steps already taken to deal with these external factors.

In its mature markets, Telekom Austria Group will proceed with its focus on the successful implementation of its convergence strategy, as well as on products for the high-value customer segment. Management also remains confident about its ability to monetise increasing data usage in both the fixed-line and mobile networks, and to add value by upgrading prepaid customers to the contract segment. The ongoing trend towards smartphones in all markets of the Telekom Austria Group, as well as penetration and market share growth in the Group's mobile-only markets, is expected to persist.

Operations in Austria, the domestic market of the Group, will continue to be impacted by low mobile price levels, leading to further ARPU deterioration and fixed-to-mobile substitution. The expected introduction of new services from mobile virtual network operators (MVNOs) entails additional risks. Management is seeking to address these challenges through the continuation of its convergence strategy, by means of which the Group offers superior services to its customers and which is expected to support a further stabilisation of the fixed-line business. Regulatory cuts such as lower roaming prices and termination rates will continue to burden revenues in Austria.

In the CEE region ongoing macro-economic headwinds will remain a key driver impacting businesses and customer demand. Despite Management's GDP growth expectations of approximately 2.0% in Bulgaria for the year 2014, the population reduction will further burden business development. As Management had to adjust its medium-term expectations for the development of the Bulgarian segment, Telekom Austria Group booked an impairment of EUR 400 mn for Mobiltel in June 2014. In Croatia Management expects a minor GDP decrease, after a decline of 1.0% in 2013. In both countries regulatory interventions will continue to affect results negatively and these will be most prominently felt in Croatia, as the country became subject to EU regulation with its accession to the European Union in July 2013.

Growth in the Belarusian segment remains driven by the demand for smartphones also in 2014. Management expects the Belarusian Rouble to decline by up to 20% compared to the level seen at year-end 2013, in line with the expected inflation rate. The expected growth in the Additional Markets segment will be mostly driven by a rise in penetration in the Republic of Serbia as well as by targeted market share gains by the Serbian subsidiary Vip mobile.

In order to mitigate the impact of the above-mentioned negative factors on Group profitability, strict cost management remains key. In line with the continued focus on the high-value customer segment, Management will periodically review its subsidy policy in the mature markets. In addition to OPEX savings, the realisation of further CAPEX efficiency gains is critical, as safeguarding cashflow generation is crucial to the business. Altogether, Management is targetting gross OPEX and CAPEX savings of approximately EUR 100 mn in 2014. The restructuring expense for civil servants in the Austrian segment is expected to amount to approximately EUR 30 mn.

Altogether, the Management of Telekom Austria Group now expect Group revenues to decline by approximately 3.5% year-on-year, a revision from approx. 3.0% previously. The outlook for Group capital expenditures* was refined from approximately EUR 700 mn to EUR 650-700 mn for 2014.

Maintaining a conservative financial profile remains the number one priority of Telekom Austria Group's finance strategy, which is based on a target rating of BBB (stable) with Standard & Poor's. This will also strengthen the financial flexibility of the Group. As a result, the Management of Telekom Austria Group intends to distribute a dividend of 5 Eurocents per share for the year 2014.

DPS of EUR 0.05 intended for distribution for the financial year 2014

Outlook 2014	as of 13 August 2014
Revenues	approx. –3.5%
Capital expenditures	EUR 650 - 700 mn
Dividend	DPS of EUR 0.05

* Does not include investments for spectrum or acquisitions.
** Intended proposal to the Annual General Meeting 2015.

Year-To-Date Comparison

Revenues

Revenues

in EUR million	1–6 M 2014	1–6 M 2013	% change
Austria	1,197.6	1,345.5	–11.0%
Bulgaria	182.7	198.8	–8.1%
Croatia	175.8	190.2	–7.6%
Belarus	166.3	162.8	2.1%
Additional Markets	235.6	220.1	7.1%
Corporate & Holding, Eliminations	–19.0	–25.2	–24.4%
Total	**1,939.0**	2,092.3	–7.3%

Group revenue decline slows to 4.1% year-on-year on a clean basis

In the first half of 2014 Telekom Austria Group saw a revenue decline of 7.3% to EUR 1,939.0 mn, as higher revenues from the Belarus and the Additional Markets segments could not offset the ongoing decline in Austria, Bulgaria and Croatia. The Austrian revenues did include negative extraordinary effects of EUR 28.2 mn net, inter alia from revenue accounting estimates relating to the introduction of a new fixed-line billing system interface. Negative effects from FX translations stemming primarily from Belarus amounted to EUR 40.1 mn. Excluding both of these effects, Group revenues declined by 4.1% on a clean basis.

Austrian revenues fell by 11.0% year-on-year in the first half of 2014 on a reported basis, and by 8.9% excluding the above-mentioned extraordinary effects, with the decline primarily driven by interconnection and equipment revenues. Interconnection revenues declined by EUR 47.0 mn year-on-year, mainly driven by the reduction in mobile termination rates from EURc 2.01 to EURc 0.8 in November 2013 as well as lower fixed-line termination rates also from November 2013. Lower subsidies for acquisitions and – to a lesser extent – retention, as well as lower gross additions in Austria resulted in an equipment revenue reduction of EUR 42.4 mn. The extraordinary effect from the introduction of a new fixed-line billing system interface negatively impacted monthly fee and traffic revenues by EUR 39.4 mn, as well as data and ICT solutions by EUR 7.8 mn. At the same time, the reversal of accruals and deferrals, inter alia, had a positive net effect on wholesale (incl. roaming) of EUR 17.0 mn and on other revenues of EUR 2.0 mn. Excluding these effects, monthly fee and traffic revenues fell by EUR 27.8 mn, driven by both the prepaid and the contract businesses, as higher revenues from monthly fees could not compensate lower airtime revenue. Lower customer roaming revenues also contributed to the decline. Declining voice traffic continued to negatively impact fixed-line revenues, but was partly compensated by gains in TV and broadband.

Bulgaria continued to be affected by macroeconomic and competitive pressure as well as negative regulatory effects, which resulted in a revenue decline of 8.1% year-on-year to EUR 182.7 mn. Monthly fee and traffic revenues fell substantially due to lower mobile contract revenues as a result of the ongoing subscriber base erosion and severe price competition in the market. An increase in fixed-line service revenues could only partly mitigate this effect. Lower interconnection revenues following another mobile termination rate cut in January 2014 presented the second largest negative factor. Falling revenues from visitor roaming also contributed to a total revenue loss from regulatory effects of EUR 6.2 mn. Higher subsidies for retention weighed on equipment revenues in the second quarter of 2014, leaving only a slight increase in the first half of 2014 versus the first half of 2013.

In Croatia fierce competition, together with regulatory effects, resulted in a 7.6% year-on-year decline in revenues to EUR 175.8 mn. Lower revenues from interconnection and wholesale (incl. roaming) were the biggest factors, as higher usage could not outweigh the negative effects from the application of lower roaming and termination glidepaths. Similarly, despite higher usage and higher fixed fees across the board, reduced prices resulted in lower mobile airtime and customer roaming revenues. The shortfall in the mobile business was only partly mitigated by increased fixed-line service revenues stemming from both organic growth and the acquisitions in 2013. Higher hardware sales also resulted in a slight increase in equipment revenue.

In Belarus total revenues grew 2.1% year-on-year to EUR 166.3 mn in a strong first half of 2014, despite a negative FX effect of EUR 35.4 mn. In local currency revenues grew 20.6% compared with the same period last year, mainly driven by price increases and higher data usage which lifted monthly fee and traffic revenues. Equipment revenues also increased on the back of the unbroken demand for smartphones and tablets.

Continued revenue growth in Additional Markets of 7.1% y-o-y

In the Additional Markets segment revenues increased by 7.1% year-on-year to EUR 235.6 mn in the first half of 2014, as a revenue reduction of 12.4% in the Republic of Macedonia was more than offset by growth of 17.1% in the Republic of Serbia and gains of 3.8% in Slovenia. Revenues in Slovenia benefitted from strong growth in equipment revenue as well as positive usage effects translating into higher interconnection revenue. At the same time, competitive pressure and regulatory effects reduced mobile airtime revenues as well as customer and visitor roaming revenues. In the Republic of Serbia the revenue gains were primarily driven by an increase in equipment revenues stemming from a change to the revenue recognition for handsets. Revenues in the Republic of Macedonia suffered from a reduction in national termination rates in November 2013, which resulted in a substantial decline in interconnection revenue.

EBITDA

EBITDA comparable

in EUR million	1–6 M 2014	1–6 M 2013	% change
Austria	367.1	396.0	–7.3%
Bulgaria	75.8	82.4	–7.9%
Croatia	44.9	60.8	–26.2%
Belarus	81.8	80.3	1.9%
Additional Markets	66.1	62.1	6.5%
Corporate & Holding, Eliminations	–16.4	–14.4	n.m.
Total	**619.4**	667.2	–7.2%

Group EBITDA comparable flat at -0.1% y-o-y on a clean basis

In the first half of 2014 Group EBITDA comparable declined by 7.2% to EUR 619.4 mn. Gains of 1.9% in Belarus and 6.5% in the Additional Markets segment could not offset the revenue-related reduction in EBITDA comparable in Austria, Bulgaria and Croatia. Excluding the negative revenue effects from accounting estimate changes relating to the introduction of a new fixed-line billing system interface in Austria, as well as negative FX effects of EUR 18.8 mn, Group EBITDA comparable came in flat at -0.1% year-on-year on a clean basis.

In Austria the negative effect from lower revenues was partly mitigated by reduced operating expenses, which led to an EBITDA comparable reduction of 7.3% year-on-year to EUR 367.1 mn. Excluding the negative extraordinary revenue effects mentioned above, the Austrian segment saw a sharply improved EBITDA comparable decline of only 0.2%. The reduction in operating expenses was mainly the result of lower material expenses resulting from lower subsidies for acquisition and retention (to a lesser extent), as well as lower costs for interconnection. Marketing and sales costs were also lower following a reduction in marketing campaigns.

In Bulgaria EBITDA comparable dropped 7.9% to EUR 75.8 mn in the first half of 2014, mainly on account of lower revenues, as Mobiltel achieved a considerable reduction in operating expenses of 5.2% year-on-year. Lower interconnection and roaming costs contributed the bulk of the change; other costs also fell stemming from efforts to optimise costs for the external workforce, maintenance and bad debt expenses. These positive effects were partly offset by higher material costs stemming from higher handset sales and an increased focus on retention. Other operating income rose by EUR 3.5 mn, stemming mainly from own work capitalisation effects of EUR 1.9 mn, which is also included in operating expenses.

In Croatia EBITDA comparable fell 26.2% year-on-year to EUR 44.9 mn in the first half of 2014, resulting from the revenue decline and largely flat operating expenses. Lower material and interconnection costs were mostly offset by other costs. These were due to an increase in costs from bad debts, services received, logistics and sales expenses, as well as consulting. Employee costs also rose, inter alia due to a higher number of employees. Material costs were lower stemming from lower handset sales in the first quarter. Other operating income was EUR 2.3 mn lower in the first half of 2014 than in same period last year, primarily due to a positive acquisition and collection effect in the first half of 2013.

The Belarusian segment posted another 1.9% of EBITDA comparable growth to EUR 81.8 mn, despite a slight increase in operating expenses of 2.5% year-on-year, and after a negative FX effect of EUR 17.4 mn. In local currency EBITDA comparable came in 20.6% higher and operating expenses 20.8% higher versus the same period last year. This increase in operating expenses was primarily the result of higher bad debt, maintenance and repair as well as rental expenses. Employee costs rose due to inflation-based salary increases and a higher number of total employees, while a consistently high demand for high-value handsets also drove an increase in material costs (positive handset margin).

In the Additional Markets segment EBITDA comparable continued to show solid growth of 6.5% year-on-year to EUR 66.1 mn in the first half of 2014. In Slovenia EBITDA comparable rose 12.5% year-on-year to EUR 31.4 mn resulting from solid revenue growth. Operating expenses increased mainly due to higher material costs following the strategic focus on the contract segment and the higher number of high-value handsets sold, together with higher employee and other costs. Other operating income also increased by EUR 1.6 mn in Slovenia, due to the reclassification of site sharing revenues, expat revenues and intercompany service charges.

In contrast, in the Republic of Serbia the growth in operating expenses from material costs offset much of the positive revenue trend, resulting in EBITDA comparable growth of 1.5% to EUR 31.3 mn. In the Republic of Macedonia EBITDA comparable fell 4.5% year-on-year to EUR 4.9 mn despite a decrease in operating expenses, primarily from lower interconnection costs.

EBITDA incl. effects from restructuring and impairment tests

in EUR million	1–6 M 2014	1–6 M 2013	% change
Austria	360.4	388.4	–7.2%
Bulgaria	–324.2	82.4	n.m.
Croatia	44.9	60.8	–26.2%
Belarus	81.8	80.3	1.9%
Additional Markets	66.1	62.1	6.5%
Corporate & Holding, Eliminations	–16.4	–14.4	n.m.
Total	**212.7**	659.6	–67.8%

Group EBITDA incl. effects from restructuring and impairment tests decreased by 67.8% year-on-year to EUR 212.7mn. This was primarily the result of an impairment of EUR 400.0 mn booked for Mobiltel, following a change in the weighted average cost of capital (WACC) of the Bulgarian segment as well as changed medium-term macroeconomic expectations for Bulgaria. Meanwhile, restructuring charges came in lower than in the same period last year at EUR 6.7 mn versus EUR 7.6 mn previously.

EUR 400 mn impairment for Mobiltel booked in the second quarter

Operating Income

EBIT

in EUR million	1–6 M 2014	1–6 M 2013	% change
Austria	99.6	128.2	–22.3%
Bulgaria	–369.5	35.2	n.m.
Croatia	10.8	28.0	–61.5%
Belarus	38.2	35.9	6.5%
Additional Markets	14.2	10.0	42.4%
Corporate & Holding, Eliminations	–16.0	–14.0	n.m.
Total	**–222.6**	223.3	n.m.

Resulting primarily from the Bulgarian impairment, operating income turned from a positive EUR 223.3 mn in the first half of 2013 to a negative EUR 222.6 mn in the first half of 2014. Depreciation and amortisation charges remained largely flat versus the same period last year.

Consolidated Net Income

The negative financial result of the Telekom Austria Group remained roughly stable, as a reduction in interest expense stemming from refinancing activities in 2013 was outweighed by slightly lower interest income and FX differences, mainly relating to Croatia. The income tax expenses amounted to EUR 4.7 million, as against EUR 24.6 million in the first half of 2013, as a result of lower operating income as well as a deferred tax benefit in the amount of EUR 9.7 million relating to the impairment of the goodwill, as goodwill was tax deductible in Bulgaria until 2006.

Overall, the Bulgarian impairment resulted in a negative net income of EUR 317.8 mn for Telekom Austria Group compared with a positive EUR 108.0 million in the first half of 2013.

Balance Sheet and Net Debt

Total assets of the Telekom Austria Group amounted to EUR 7,280.2 mn as of 30 June 2014, a reduction of 7.4% compared to EUR 7,860 mn as of 31 December 2013. Both current and non-current assets fell in the period, with non-current assets dropping 7.2% to EUR 6,163.5 mn. The latter decline was driven by the impairment in Bulgaria of EUR 400.0 mn, which reduced goodwill by 25.2%. Property, plant and equipment also came in lower due to higher depreciation and amortisation than additions to assets. This was primarily the result of lower capital expenditure in Austria. Current assets fell 8.6% EUR 1,116.7 mn, driven by lower cash and cash equivalents as well as lower accounts receivable from lower revenues as well as the non-cash change in revenue accounting estimates relating to the introduction of a new fixed-line billing system interface.

Current liabilities increased 31.8% to EUR 1,901.5 mn in the first half of 2014, driven by a considerable increase in short-term borrowings. Due to "change of control"-clauses, which were triggered by the shareholders' agreement between ÖIAG and América Móvil, effective since 27 June 2014, long-term loans have to be presented under short-term borrowings according to IAS 1.74. Long-term debt of EUR 641.7 million had to be classified as short-term, although in the meantime lenders agreed to waive payment for loans in the amount of EUR 541.7 million as a consequence of the "change of control"-clauses. This increase was only partly offset by a reduction in accounts payable due to lower CAPEX in Austria, as well as lower current provisions and accrued liabilities, inter alia from the reversal of provisions for customer allowances. Non-current liabilities fell 14.0% to EUR 4,219.7 mn after the reduction in long-term debt.

Total stockholders' equity fell from EUR 1,512.6 mn as of 31 December 2013 to EUR 1,158.9 mn as of 30 June 2013 primarily due to the Bulgarian impairment.

Net debt

in EUR million	30 June 2014	31 Dec 2013	% change
Net debt	3,688.1	3,695.8	–0.2%
Net debt / EBITDA comparable (12 months)	3.0x	2.9x	3.6%

As of 30 June 2014 net debt was largely flat compared with 31 December 2013 at EUR 3,688.1 mn. Short-term borrowings rose and long-term debt fell considerably primarily stemming from the triggering of the above-mentioned "change of control"-clauses. The net positive effect of EUR 80.1 mn from the payment of accrued interest and the repayment of long-term debt classified as short-term was offset by a reduction in cash and cash equivalents of 42.1%. Net debt/EBITDA comparable (last 12 months) increased from 2.9x as at 31 December 2013 to 3.0x as at 30 June 2014, resulting from an EBITDA comparable reduction of 7.2% for the first half of 2014 on a reported basis.

Cash Flow

Cash flow

in EUR million	1–6 M 2014	1–6 M 2013	% change
Cash flow from operating activities	373.4	494.0	–24.4%
Cash flow from investing activities	–326.7	–988.6	n.m.
Cash flow from financing activities	–136.0	428.6	n.m.
Effect of exchange rate changes	–1.5	–3.4	n.m.
Monetary gain/loss on cash and cash equivalents	0.3	–0.6	n.m.
Net increase / decrease in cash and cash equivalents	–90.5	–70.0	n.m.

In the first half of 2014 cash flow from operating activities fell by 24.4% year-on-year to EUR 373.4 mn, as a slight reduction in gross cash flow was exacerbated by increased cash requirements for working capital, which more than doubled versus the same period last year.

Changes in working capital in the first half of 2014 were caused by lower levels of accounts payable as a result of lower Austrian CAPEX as well as lower provisions and accrued liabilities pertaining to restructuring provisions in Austria. Prepaid expenses rose due to seasonal effects, while the cash flow-relevant increase in accounts receivable also had a negative effect on working capital.

Cash flow from investing activities changed from a negative EUR 988.6 mn in the first half of 2013 to a negative EUR 326.7 mn in the first half of 2014, consisting almost entirely of cash outflow for CAPEX. The year-on-year change was driven by the acquisition of YESSS! and other assets from Orange Austria, as well as the investments of the proceeds from the issuance of a EUR 600 mn hybrid bond, both in January 2013.

Cash flow from financing activities fell from a positive EUR 428.6 mn in the first half of 2013 to a negative EUR 136.0 mn in the first half of 2014, primarily resulting from the issuance of the EUR 600 mn hybrid bond which supported the financing cash flow in 2013. Principal payments on long-term debt increased due to maturing bank debt. Dividends paid were also higher in the first half of 2014, as they include dividends to shareholders as well as owners of the hybrid bond.

In summary, the improvement in investing cash flow could not mitigate the negative cash effects from the reduction in operating cash flow, combined with the negative financing cash flow, which resulted in a further reduction in cash and cash equivalents of EUR 90.5 mn.

Capital Expenditures

Capital expenditures

in EUR million	1–6 M 2014	1–6 M 2013	% change
Austria	141.4	224.5	–37.0%
Bulgaria	47.8	23.8	100.7%
Croatia	31.0	29.1	6.7%
Belarus	15.6	11.5	35.7%
Additional Markets	93.2	36.5	155.1%
Corporate & Holding, Eliminations	0.0	0.0	n.a.
Total capital expenditures	**329.0**	325.4	1.1%
thereof tangible	177.7	219.4	–19.0%
thereof intangible	151.3	106.0	42.7%

In the second half of 2014 Group capital expenditures increased slightly versus the same period last year to EUR 329.0 mn, as spectrum outlay in Bulgaria and Slovenia was mostly mitigated by CAPEX savings in Austria.

Significant reduction in Austrian CAPEX of EUR 83.1 mn y-o-y

In Austria tangible capital expenditure was significantly below the amount spent in the same period last year, resulting from lower transport and fixed-line network investment as various projects came to an end and others were moved back, as well as the optimisation of spending for customer premises equipment and core service network. Intangible capital expenditures also almost than halved on a comparative basis, stemming from the integration of YESSS! in the second quarter of 2013.

In Bulgaria capital expenditures rose by EUR 24.0 mn following the prolongation of 900-MHz and 1800-MHz frequency bands for EUR 30.6 mn in April 2014. Excluding spectrum, the Bulgarian CAPEX fell 27.8% year-on-year due to lower spending on customer premises equipment and billing. Slovenia also saw a EUR 66.3 mn increase in capital expenditures following the Slovenian multiband auction, during which Si.mobil spent EUR 63.9 mn to secure 2 x 10 MHz in the new 800-MHz band and modest gains across the other bands. However, even excluding spectrum, the Slovenian CAPEX increased 32.8% year-on-year, driven by spending on billing and LTE sites.

In Croatia Vipnet raised CAPEX by 6.7% year-on-year due to fixed-line construction spending, an upgrade of storage capacities as well as higher spending on customer premises equipment, and Belarus increased spending on, inter alia, site construction, transport and IT by 35.7%. Meanwhile, Vip mobile in the Republic of Serbia reduced spending by 37.4% year-on-year following the changed accounting treatment for handset sales.

Personnel

Personnel (full-time equivalent)

End of period	30 June 2014	30 June 2013	% change
Austria	8,837	9,225	-4.2%
International Operations	7,035	6,975	0,9%
Total	**16,044**	16,352	-1.9%

Personnel (full-time equivalent)

Average of period	H1 2014	H1 2013	% change
Austria	8,860	9,213	-3.8%
International Operations	7,054	7,087	-0.5%
Total	**16,086**	16,456	-2.2%

Headcount reduced by 308 full-time employees, primarily resulting from Austrian restructuring

As of 30 June 2014Telekom Austria Group had 16,044 full-time employees (FTEs), a decrease of 308 full-time employees versus 30 June 2013. The primary driver of this change was a reduction of 388 FTEs in Austria, resulting from ongoing restructuring efforts in previous quarters, as well as the ongoing outsourcing of services in Bulgaria, which reduced the Bulgarian headcount by 151 FTEs. In contrast, Belarus saw net additions of 159 FTEs owing to an increase in the residential sales, customer service and IT divisions. The increase of 39 FTEs in the Republic of Serbia was the result of increased marketing efforts.

Quarterly Analysis
Segment Austria

Key Performance Indicators

Financials

in EUR million	Q2 2014	Q2 2013	% change
Revenues	583.5	665.4	–12.3%
EBITDA comparable	172.3	189.3	–9.0%
EBITDA incl. effects from restructuring and impairment tests	173.2	184.3	–6.0%
EBIT	41.6	52.1	–20.3%

Revenue detail	Q2 2014	Q2 2013	% change
Monthly fee and traffic	413.6	457.6	–9.6%
Data & ICT solutions	45.7	53.0	–13.8%
Wholesale (incl. roaming)	48.1	36.3	32.6%
Interconnection	47.3	70.7	–33.2%
Equipment	20.3	42.2	–52.0%
Other operating income	8.4	5.6	50.8%

Mobile communication business*	Q2 2014	Q2 2013	% change
ARPU (in EUR)	16.2	16.3	–0.6%
Mobile service revenues (in EUR million)	270.2	283.8	–4.8%
thereof interconnection	5.1%	9.8%	
Subscriber acquisition cost (SAC, in EUR million)	0.5	10.4	–95.6%
Subscriber retention cost (SRC, in EUR million)	21.3	28.3	–24.7%
Churn (3 months)	5.9%	4.6%	

	Q2 2014	Q2 2013	% change
Mobile communication subscribers (in '000)	5,509.9	5,789.9	–4.8%
Mobile market share	41.5%	42.5%	
Mobile contract share	69.3%	69.1%	
Mobile broadband subscribers (in '000)	743.9	850.3	–12.5%
Mobile penetration - total market	156.3%	160.6%	
Broadband penetration (fixed and mobile) - total market	121.2%	119.4%	

Fixed line business	Q2 2014	Q2 2013	% change
ARPL (in EUR)	30.3	30.8	–1.5%
Fixed service revenues (in EUR million)	207.4	210.4	–1.4%
Fixed line voice minutes (in million)	448.0	519.4	–13.7%

in '000	Q2 2014	Q2 2013	% change
Access lines (without broadband lines)	849.9	927.8	–8.4%
Fixed broadband lines	1,425.2	1,346.4	5.9%
thereof fixed broadband retail lines	1,388.3	1,305.5	6.3%
thereof fixed broadband wholesale lines	36.9	40.9	–9.9%
Total access lines	2,275.1	2,274.2	0.0%
Lines unbundled	244.6	257.1	–4.9%

Austrian voice and broadband shares*

Voice market share	Q2 2014	Q2 2013	% change
Fixed Line A1 Telekom Austria	8.2%	8.5%	
Fixed Line Others	5.2%	5.2%	
Mobile	86.7%	86.2%	

Broadband market share	Q2 2014	Q2 2013	% change
Fixed line retail A1 Telekom Austria	30.8%	29.6%	
Fixed line wholesale A1 Telekom Austria	0.8%	0.9%	
Mobile broadband A1 Telekom Austria	16.5%	19.3%	
Mobile broadband other operators	31.0%	29.7%	
Cable	16.2%	15.3%	
Unbundled lines	4.8%	5.2%	

* As of Q2 2013 the methodology for counting subscribers has been changed. Previous quarters of 2012 and 2013 have been adjusted retrospectively.

In the second quarter of 2014 A1 Telekom Austria maintained its focus on the high-value customer base in order to mitigate the negative effects from competitive and regulatory pressure. A1 Telekom Austria successfully maintained a lower level of handset subsidies throughout the quarter, which continued to support profitability. Clean of extraordinary effects, the company therefore even managed to show year-on-year EBITDA comparable growth. While the tariff adjustments implemented for existing fixed-line and mobile customers resulted in additional churn, which is reflected in negative net additions, the development was in line with company expectations. Going forward, the changes will allow A1Telekom Austria to better monetise the growing demand for data.

The number of total mobile communication subscribers fell 4.8% year-on-year to approx. 5.5 million in the second quarter of 2014, driven by a mixture of the expected higher churn from extraordinary cancellation rights following tariff adjustments for existing contract customers implemented in May, as well as lower gross additions. Despite the above, A1 Telekom Austria saw a reduction in market share of only one percentage point versus the same period last year to 41.5%.

Fixed broadband lines show net additions of 10,300 lines

Fixed access lines were stable versus the same period last year, and showed a decline of 12,600 lines versus Q1 2014, resulting inter alia from higher churn following the voice tariff adjustments in May. Meanwhile, fixed broadband lines continue to grow strongly, both sequentially and compared to the same period last year, rising 5.9% year-on-year to almost 1.43 million and gaining 10,300 lines in the second quarter of 2014. A1 Telekom Austria sought to capture the rising demand via attractively priced broadband options and convergent bundle products.

Revenues fell by 12.3% year-on-year in the Austrian segment in the second quarter of 2014 to EUR 583.5 mn, including extraordinary effects, inter alia from revenue accounting estimates relating to the introduction of a new fixed-line billing system interface of EUR 28.2 mn. The effect negatively impacted monthly fee and traffic revenues by EUR 39.4 mn, as well as data and ICT solutions by EUR 7.8 mn. At the same time, the reversal of accruals and deferrals, inter alia, had a positive net effect on wholesale (incl. roaming) of EUR 17.0 mn and on other revenues of EUR 2.0 mn. Excluding these effects, revenues fell by 8.1% year-on-year, driven primarily by a EUR 23.5 mn decline in interconnection revenue stemming from the reduction in mobile termination rates from EURc 2.01 to EURc 0.8 in November 2013 as well as lower fixed-line termination rates, also from November 2013. Altogether, regulatory effects had a negative revenue impact of EUR 26.6 mn. Equipment revenues also fell EUR 22.0 mn versus the same period last year resulting from lower subsidies and gross additions in the residential contract business. Wholesale (incl. roaming) revenue came in slightly lower following a reduction in revenue from leased lines as well as lower inter-operator prices which outweighed any positive effects from higher visitor roaming traffic. Clean of the extraordinary effect, monthly fee and traffic was largely stable at -1.0% year-on-year after significant declines in previous periods, as positive contributions from higher mobile fixed fees as well as growing TV and broadband revenues almost mitigated lower mobile airtime and customer roaming revenue, as well as lower fixed-line voice revenue.

The average monthly revenue per user (ARPU) remained almost stable at EUR 16.2 in the second quarter of 2014 versus EUR 16.3 in the second quarter of 2013, as successful tariff initiatives and the impact of lower average subscriber numbers almost offset negative effects from regulatory cuts. Lower voice traffic and customer roaming were mostly compensated by higher fixed fees in the premium and no-frills businesses. Concurrently the mobile service revenue decline also slowed to 4.8% year-on-year from 8.8% year-on-year in the first quarter of 2014.

Average monthly revenue per line (ARPL) also showed only a minor decline from EUR 30.8 in the second quarter of 2013 to EUR 30.3 in the second quarter of 2014, as successful broadband and TV upselling efforts mitigated some of the decline from voice revenue. The decline in fixed-line service revenue also showed a slowdown versus previous quarters to only 1.4% year-on-year.

Other operating income came in EUR 2.1 mn higher in the second quarter of 2014 than in the same period last year, stemming mainly from a reversal of accruals.

As a result of stringent cost cutting efforts and reduced subsidies, as well as lower costs from regulation, operating expenses fell 12.6% year-on-year in the second quarter of 2014 compared to the same period last year. Lower subsidies for acquisition and, to a lesser extent, retention shaved EUR 26.0 mn off material expenses versus the same period last year, while another EUR 20.7 mn were gained from reduced interconnection costs. A reduction in campaigning also had a positive effect on marketing and sales costs. Employee costs came in 3.7% lower year-on-year as a result of a lower number of average employees stemming from ongoing restructuring efforts, despite salary step-ups following the collective bargaining agreement discussions.

The improvement in operating expenses more than offset lower revenues, resulting in an EBITDA comparable gain of 5.9% year-on-year excluding the above-mentioned extraordinary revenue effects. On a reported basis EBITDA comparable fell 9.0% year-on-year to EUR 172.3 mn.

EBITDA comparable growth achieved in Austria with 5.9% y-o-y gain (on a clean basis)

The lower number of gross additions in the contract segment as well as the lower level of subsidies reduced mobile subscriber acquisition costs in the high-value segment from EUR 10.4 mn in the second quarter of 2013 to EUR 0.5 mn in the second quarter of 2014. Subscriber retention costs fell by a lesser 24.7%, resulting from a lower number of replaced handsets as well as a lower average subsidy.

Instead of recording restructuring charges, A1 Telekom Austria saw a restructuring gain of EUR 0.9 mn in the second quarter of 2014, compared with a restructuring charge of EUR 4.9 mn in the same period of last year. This was due to a reversal of provisions, together with a lower number of employees who opted for social plans. The reversal of provisions is the result of inactive civil servants (staff released from work) accepting social plans. Together with a slight reduction in depreciation and amortisation costs, this benefitted operating income, which however still fell by 20.3% to EUR 41.6 mn versus the same quarter last year.

Segment Bulgaria

Key Performance Indicators

in EUR million	Q2 2014	Q2 2013	% change
Revenues	91.5	101.3	–9.7%
EBITDA comparable	38.8	43.0	–9.8%
EBITDA incl. effects from restructuring and impairment tests	–361.2	43.0	n.m.
EBIT	–383.6	19.8	n.m.

Mobile communication business*	Q2 2014	Q2 2013	% change
ARPU (in EUR)	6.2	6.5	–4.4%
Mobile communication subscribers (in '000)	4,108.4	4,232.3	–2.9%
Mobile market share	38.1%	39.8%	
Mobile contract share	79.4%	78.2%	
Mobile broadband subscribers (in '000)	217.1	163.9	32.5%
Mobile penetration - total market	146.1%	143.2%	

Fixed line business*	Q2 2014	Q2 2013	% change
ARPL (in EUR)	14.5	13.2	9.7%
Total access lines ('000)	153.0	163.5	–6.4%
Fixed broadband lines ('000)	148.5	158.3	–6.2%

* As of Q4 2013 the methodology for counting mobile and fixed lines subscribers has been changed, resulting in a total reduction of 1,026 million mobile communication subscribers. Previous quarters of 2013 have been adjusted retrospectively.

In the second quarter of 2014 the Bulgarian business remained affected by the weak macroeconomic backdrop, which continued to negatively affect consumer demand. A downgrade of the country's credit rating by Standard & Poor's in early June was followed by a banking crisis and the failure of the country's fourth largest lender Corporate Commercial Bank. In June Telekom Austria Group announced an impairment of EUR 400.0 mn for Mobiltel, due to a change in the weighted average cost of capital (WACC) of the Bulgarian segment as well as changed medium-term macroeconomic expectations for Bulgaria.

Operationally Mobiltel continued to counteract the above-mentioned challenges through strict cost management and a focus on up- and cross-selling, data-centric services and convergent bundle products. The company was also able to prolong its existing spectrum in the 900- and 1800-MHz bands for EUR 30.6 mn in April, thus securing its position in these bands for another 10 years.

Data demand translates into mobile broadband subscriber growth of 32.5% y-o-y

In the second quarter of 2014 total subscribers fell 2.9% year-on-year to 4.1 million, driven mostly by prepaid and, to a lesser extent, contract customers, as a result of severe price competition in the market. The combination of the two also resulted in a market share reduction for Mobiltel. The company was, however, able to translate growing demand for data into mobile broadband subscriber growth of 32.5% year-on-year. In the fixed-line business total access lines fell by 6.4% year-on-year stemming from lower gross additions as well as higher churn in the residential business, which could not be offset by the higher share of business customers.

Total revenues fell by 9.7% year-on-year to EUR 91.5 million in the second quarter of 2014, driven primarily by lower mobile contract revenues stemming from lower prices, which in turn reduced monthly fee and traffic revenues. Growth in fixed-line revenues stemming from a strong performance of the business segment only partly mitigated the decline in mobile revenues. Lower interconnection and roaming revenues resulted from the reduction in termination and roaming rates since July 2013, while lower equipment revenues reflected increased subsidies for retention.

Average monthly revenue per user (ARPU) fell to EUR 6.2 from EUR 6.5 in the same quarter last year, driven by the negative pricing trend in the contract segment and regulatory effects. Average monthly revenue per fixed line (ARPL) increased from EUR 13.2 to EUR 14.5 in the second quarter of 2014, as a result of the higher ARPL and share of business access lines. Consequently, fixed-line service revenues also rose 2.9% year-on-year to EUR 6.7 mn.

In the second quarter of 2014 other operating income increased by EUR 2.0 mn, EUR 1.0 mn of which stemmed from own work capitalisation. The corresponding amount is also included in operating expenses.

Operating expenses fell by 6.2% in the same period, primarily driven by lower roaming and interconnection costs. Reduced marketing expenses also helped bring down total expenses, as did a reduction in the external workforce and sales commissions. These positive effects were only partly offset by higher material expenses from more handset sales due to higher gross additions and higher subsidies for retention.

The reduction in operating expenses could only partly mitigate the negative effect of the revenue decline on EBITDA comparable, which fell 9.8% to EUR 38.8 mn in the second quarter of 2014.

After the impairment of EUR 400.0mn, operating income turned from a positive EUR 19.8 mn in the second quarter of 2013 to a negative EUR 383.6 mn in the second quarter of 2014.

Segment Croatia

Key Performance Indicators

in EUR million	Q2 2014	Q2 2013	% change
Revenues	92.6	98.1	–5.6%
EBITDA comparable	22.2	31.5	–29.6%
EBITDA incl. effects from restructuring and impairment tests	22.2	31.5	–29.6%
EBIT	4.9	15.0	–67.4%

Mobile communication business	Q2 2014	Q2 2013	% change
ARPU (in EUR)	11.1	12.0	–7.5%
Mobile communication subscribers (in '000)	1,829.5	1,901.8	–3.8%
Mobile market share	36.7%	37.7%	
Mobile contract share	43.9%	43.3%	
Mobile broadband subscribers (in '000)	173.6	178.2	–2.6%
Mobile penetration - total market	116.1%	117.5%	

Fixed line business	Q2 2014	Q2 2013	% change
ARPL (in EUR)	21.3	22.7	–5.9%
Total access lines ('000)	208.0	179.3	16.0%
Fixed broadband lines ('000)	121.0	99.0	22.2%

In the second quarter of 2014 operational trends in Croatia remained impacted by macro-economic headwinds and a highly competitive telecommunications market. Regulatory pressure following the country's accession to the European Union in July 2013 continued to weigh on results. In addition, the regulator introduced a fee for mobile spectrum in June 2014, which in turn led to tariff adjustments by all operators.

In the second quarter of 2014 Vipnet's total subscriber base declined by 3.8% year-on-year to almost 1.83 million, driven primarily by a falling number of prepaid customers, while the contract business was supported by a continued focus on upselling customers to higher-value products and services. Higher churn in the contract business was due to extraordinary cancellation rights which accompanied tariff adjustments following the introduction of the mobile spectrum fee. However, Vipnet was able to achieve positive net additions for total mobile and mobile broadband numbers after declines in the first quarter of this year. Meanwhile, fixed access lines continued to grow both quarter-on-quarter and year-on-year to approx. 208,000 lines driven by broadband, which grew 22.2% year-on-year.

Revenues fell 5.6% year-on-year in the second quarter of 2014 to EUR 92.6 mn due to regulatory effects as well as lower mobile prices and usage. The latter factors negatively impacted monthly fee and traffic revenues, despite a partial offset from the fixed-line business. Interconnection and wholesale (incl. roaming) revenues fell considerably, resulting from lower mobile termination and roaming rates. These negative effects were partially offset by higher equipment revenues resulting from higher handset sales.

Fixed-line service revenue increase of 10.5% driven by organic growth in broadband and acquisitions

Average monthly revenue per user (ARPU) amounted to EUR 11.1 in the second quarter of 2014 compared to EUR 12.0 in the same period last year driven by lower usage and regulatory effects. Average monthly revenue per fixed-line (ARPL) also fell from EUR 22.7 in the second quarter of 2013 to EUR 21.3 in the second quarter of 2014, as customers from the companies acquired over the last 12 months have been migrated to Vipnet at a lower average ARPL. However, total fixed-line service revenues increased by 10.5% year-on-year to EUR 13.2 mn, mainly driven by the higher number of access lines from organic growth, especially in broadband, as well as by acquisitions.

Other operating income fell by EUR 1.2 mn year-on-year resulting from a positive acquisition and collection effect in the second quarter of 2013.

Operating expenses rose by 3.8% in the second quarter of 2014, as the positive impact from falling interconnection and roaming costs was more than offset by higher material expenses from the sale of higher-value handsets as well as higher marketing and sales costs relating to convergence campaigns. Other costs also rose as a result of higher costs for services received and bad debts, especially in the business segment.

The increase in operating expenses exacerbated the negative effects of the revenue decline on EBITDA comparable, which fell 29.6% year-on-year to EUR 22.2 mn in the second quarter of 2014. Slightly higher depreciation and amortisation charges further enhanced the effect of the above on operating income, which came in 67.4% lower at EUR 4.9 mn.

Segment Belarus

Key Performance Indicators

in EUR million	Q2 2014	Q2 2013	% change
Revenues	85.3	81.2	5.0%
EBITDA comparable	41.9	40.8	2.6%
EBITDA incl. effects from restructuring and impairment tests	41.9	40.8	2.6%
EBIT	18.5	18.9	−2.4%

	Q2 2014	Q2 2013	% change
ARPU (in EUR)	5.0	4.9	1.7%
Mobile communication subscribers (in '000)	4,939.8	4,834.1	2.2%
Market share	42.5%	43.7%	
Contract share	80.8%	80.7%	
Mobile broadband subscribers (in '000)	262.3	227.0	15.6%
Market penetration - total market	122.8%	117.1%	

Since the fourth quarter of 2011 Belarus has been classified as a hyperinflationary economy, and hyperinflation accounting according to IAS 29 has been applied to the Belarusian segment. The Belarusian Rouble fell 2.3% against the Euro in the second quarter of 2014, 5.8% in the first half of 2014 and 17.6% year-on-year. Inflation amounted to 5.1% in the second quarter of 2014 and to 10.2% for the first half of 2014.

In the second quarter of 2014 velcom continued to show strong operational results as high demand for smartphones and tablets as well as higher usage supported upselling activities, especially for data-linked services. As a result its customer base continued to grow year-on-year both in the contract and prepaid business to almost 4.94 million. While velcom saw a slight reduction in its market share in the second quarter of 2014 as a result of strong competition and pressure in the business segment, the company was able to push its contract share to 80.8%.

Total revenues increased by 20.4% on a local currency basis in the second quarter of 2014, driven by a 19.6% rise in monthly fee and traffic revenues as the company benefitted from growing data usage and was again able to implement inflation-linked increases in its retail prices in May. Efforts to upsell customers to higher-value handsets also led to higher equipment revenues. The revenue rise in local currency was diminished by negative foreign exchange effects of EUR 17.4 mn, which resulted in total revenue growth of 5.0% on a consolidated basis to EUR 85.3 mn.

In local currency operating expenses increased by 22.9%, primarily due to higher material expenses and employee costs. While the former was driven by the larger number of smartphones and tablets sold, the latter was the result of inflation-adjustments to salaries as well as a greater number of employees versus the same period last year. Other expenses also increased, stemming inter alia from higher costs for bad debts, frequency fees, maintenance and rental costs. As FX effects reduced the negative impact of the above on a consolidated basis, operating expenses rose 7.1% year-on-year in Euro.

EBITDA comparable growth of 17.6% y-o-y in local currency

On a local currency basis higher revenues outweighed the increase in operating expenses, resulting in EBITDA comparable growth of 17.6% compared to the same period last year. After a negative FX effect of EUR 8.6 mn, however, the consolidated EBITDA comparable still came in 2.6% higher year-on-year at EUR 41.9 mn.

A EUR 1.5 mn increase in depreciation and amortisation led to a slight reduction in operating income versus the previous year, which came in at EUR 18.5 mn.

Segment Additional Markets

Slovenia

Key Performance Indicators

in EUR million	Q2 2014	Q2 2013	% change
Revenues	50,9	48.4	5.1%
EBITDA comparable	16,4	15.1	8.1%
EBITDA incl. effects from restructuring and impairment tests	16,4	15.1	8.1%
EBIT	10,5	9.1	15.4%

	Q2 2014	Q2 2013	% change
ARPU (in EUR)	19.8	20.8	−4.8%
Mobile communication subscribers (in '000)	680.0	672.5	1.1%
Market share	29.8%	29.9%	
Contract share	78.9%	77.5%	
Mobile broadband subscribers (in '000)	22.0	19.4	13.5%
Market penetration - total market	109.5%	107.7%	

Si.mobil continued to successfully navigate a challenging macroeconomic and fiercely competitive environment by focusing on its multi-brand strategy. The company also acquired almost 50% of mobile spectrum auctioned in a multiband auction for EUR 63.9 mn in April, securing 2 x 10 MHz in the new 800-MHz band and modest gains across the other bands with the intention to cover 50% of the population with LTE technology this year.

In the second quarter of 2014 the mobile subscriber base of Si.mobil increased by 1.1% to 680,000, mostly driven by the contract segment. The contract share thus rose to 78.9%, 1.4 percentage points above the same period last year.

Contract subscriber growth reflected in 86.0% y-o-y growth in equipment revenue

The higher number of contract subscribers was reflected in a considerable increase in equipment revenue from higher-value handset sales, 86.0% above the same period last year. Interconnection revenues also came in slightly higher, stemming from higher usage, while roaming revenues were lower as a result of lower prices. Lower monthly fee and traffic revenues from lower average mobile prices versus the same period last year only partly offset the above-mentioned positive effects, leading to an improvement in total revenues of 5.1% to EUR 50.9 mn. Average monthly revenue per user (ARPU) fell from EUR 20.8 to EUR 19.8 as a result of price pressure, which could not be compensated by the higher number of contract subscribers.

Higher equipment revenues also resulted in higher material expenses from a higher number of postpaid handsets sold, which drove an increase in operating expenses of 5.9% year-on-year. Lower costs for roaming as well as lower marketing and sales costs only partly offset the increase.

Higher revenues more than offset the increase in operating expenses, which resulted in an increase in EBITDA comparable of 8.1% to EUR 16.4 mn in the second quarter of 2014. With depreciation and amortisation largely stable, operating income also increased by 15.4% to EUR 10.5 mn.

Republic of Serbia

Key Performance Indicators

in EUR million	Q2 2014	Q2 2013	% change
Revenues	53.0	44.7	18.5%
EBITDA comparable	16.0	15.8	1.0%
EBITDA incl. restructuring and impairment test	16.0	15.8	1.0%
EBIT	−1.7	−2.3	n.m.

	Q2 2014	Q2 2013	% change
ARPU (in EUR)	7.1	7.4	−4.2%
Mobile communication subscribers (in '000)	2,036.5	1,908.1	6.7%
Market share	22.0%	20.6%	
Contract share	52.0%	49.5%	
Market penetration - total market	129.1%	128.6%	

In the Republic of Serbia the pursuit of growth and value generation through the focus on the contract segment continued to support mobile subscriber growth of 6.7% year-on-year to over 2.0 million, as well as a higher contract share of 52.0% versus 49.5% in the same period last year.

Revenue growth of 18.5% year-on-year

In the second quarter of 2014 revenues increased 18.5%, driven primarily by higher equipment revenues. The latter stemmed from a change in revenue recognition for handsets. Monthly fee and traffic revenues remained stable, as an increase in fixed fees from the higher contract share was offset by a decline in traffic and customer roaming revenues. Interconnection revenues also came in lower as a result of lower transit usage as well as lower usage and prices in national roaming. Average monthly revenue per user (ARPU) fell to EUR 7.1 versus EUR 7.4 in the same period last year, resulting from lower traffic and interconnection.

Operating expenses rose by 27.6% in the second quarter of 2014, driven by an EUR 8.0 million increase in material costs, which also resulted from the new accounting treatment for handset sales. In addition, marketing and sales costs increased due the reversal of accruals relating to a new commissioning scheme which decreased costs in 2013. The above-mentioned effects were only partly mitigated by a reduction in interconnection and roaming costs. The higher revenues combined with the increase in operating expenses, resulted in EBITDA comparable growth of 1.0% year-on-year to EUR 16.0 mn.

The Serbian dinar rose 0.1% versus the Euro in the second quarter of 2014, fell 2.2% in the first half of 2014 and 3.2% versus the 30 June 2013. In the second quarter of 2014 this resulted in negative FX effects of EUR 1.7 mn on revenues and EUR 0.5 mn on EBITDA comparable.

Republic of Macedonia

Key Performance Indicators

in EUR million	Q2 2014	Q2 2013	% change
Revenues	14.3	16.5	–13.1%
EBITDA comparable	2.5	3.3	–25.7%
EBITDA incl. effects from restructuring and impairment tests	2.5	3.3	–25.7%
EBIT	0.3	1.3	–73.6%

	Q2 2014	Q2 2013	% change
ARPU (in EUR)	7.0	8.2	–15.1%
Mobile communication subscribers (in '000)	619.9	620.9	–0.2%
Market share	28.2%	28.0%	
Contract share	50.6%	45.1%	
Market penetration - total market	107.1%	107.9%	

In the Republic of Macedonia Vip Operator continued its focus on the growth of the high-value segments in a highly competitive mobile market. The acquisition of blizoo Macedonia, which was closed on 30 July 2014, represents a significant step in the execution of Telekom Austria Group's convergence strategy and will allow Vip operator to bundle fixed-line and mobile services in the future.

Contract subscriber base growth of 12.2% year-on-year

Due to intensified competition in a saturated mobile market prepaid subscriber numbers declined, the effect of which could, however, be mitigated by gains in the contract segment of 12.2% year-on-year, as a result of the focus on attractively priced postpaid offers. Total subscribers remained stable compared to the same quarter last year.

In the second quarter of 2014 revenues fell by 13.1% year-on-year to EUR 14.3 mn, mainly driven by a 70% reduction in national mobile termination rates from EURc 6.50 to EURc 1.95 in November 2013, which weighed on interconnection revenues. Monthly fee and traffic as well as wholesale revenues also suffered from lower customer roaming and visitor-roaming revenues respectively, as a consequence of lower prices charged. Equipment revenues rose slightly because of higher subsidies, especially for retention, and a higher number of postpaid handsets sold. Driven by lower interconnection prices, lower prepaid usage and lower prices in the postpaid segment, the average monthly revenue per user (ARPU) fell to EUR 7.0 from EUR 8.2 in the same period last year.

Operating expenses fell by EUR 1.3 mn in the second quarter of 2014, stemming mainly from lower interconnection costs. Lower costs for classical advertising helped to slightly reduce marketing and sales costs. Higher material expenses from a higher number of postpaid handsets sold as well as higher subsidies for retention only partly offset this positive effect. Despite the cost reduction, EBITDA comparable fell by 25.7% year-on-year to EUR 2.5 mn.

With depreciation and amortisation charges almost stable, the lower EBITDA comparable translated into operating income of EUR 0.3 mn, compared to EUR 1.3 mn in the same period last year.

Consolidated Net Income

The negative financial result increased slightly from EUR 42.8 mn to EUR 44.1 mn in the same period due to a reduction in interest income and FX differences versus last year. After a tax gain of EUR 5.5 mn, the net loss for the second quarter of 2014 still amounted to EUR 358.6 mn, after a net profit of EUR 52.5 mn during the same period last year. The tax gain was the result of a deferred tax benefit in the amount of EUR 9.7 mn relating to the impairment of the goodwill, as goodwill was tax deductible in Bulgaria until 2006.

Cash Flow

Cash flow in EUR million	Q2 2014	Q2 2013	% change
Cash flow from operating activities	224.5	302.2	–25.7%
Cash flow from investing activities	–232.4	–96.0	n.m.
Cash flow from financing activities	–123.0	–91.8	n.m.
Effect of exchange rate changes	–2.2	–4.5	n.m.
Monetary loss on cash and cash-equivalents	0.5	0.2	98.3%
Net increase / decrease in cash and cash equivalents	**–132.6**	110.3	n.m.

In the second quarter of 2014 cash flow from operations fell by 25.7% year-on-year to EUR 224.5 mn, as a considerable increase in cash requirements for working capital, which turned from a cash supply of EUR 2.9 mn in the second quarter of 2013 to a cash requirement of EUR 78.8 mn in the second quarter of 2014, offset a slight increase in gross cash flow. The change in working capital was driven by a cash flow-relevant increase in accounts receivable, as well as lower provisions and accrued liabilities pertaining to restructuring provisions in Austria.

Cash flow from investing activities fell from a negative EUR 96.0 mn in the second quarter of 2013 to a negative EUR 232.4 mn in the second quarter of 2014, almost entirely as a result of a higher cash outflow for CAPEX, as well as lower proceeds from the sale of investments.

Cash flow from financing activities also fell further from a negative EUR 91.8 mn in the second quarter of 2014 to a negative EUR 123.0 mn in the second quarter of 2014. The change was driven by higher principal payments on long-term debt and lower short-term borrowings, compensated by the settlement of derivative financial instruments which negatively affected the financing cash flow in the second quarter of 2013.

In summary, cash and cash equivalents recorded an outflow of EUR 132.6 mn versus an inflow of EUR 110.3 mn in the same period of last year.

Capital Expenditures

Capital expenditures in EUR million	Q2 2014	Q2 2013	% change
Austria	79.9	122.4	–34.7%
Bulgaria	41.2	12.7	223.2%
Croatia	18.4	14.7	25.2%
Belarus	7.3	7.3	–0.1%
Additional Markets	82.8	19.3	329.0%
Corporate & Other, Eliminations	0.0	0.0	n.a.
Total capital expenditures	**229.5**	176.4	30.1%
thereof tangible	106.3	122.2	–13.0%
thereof intangible	123.3	54.2	127.3%

Total capital expenditure increase driven by spectrum in Bulgaria and Slovenia

In the second quarter of 2014 Group capital expenditure increased 30.1% year-on-year to EUR 229.5 mn, primarily driven by expenditures for spectrum in Bulgaria and Slovenia, which were partly mitigated by CAPEX savings in Austria.

In Austria tangible capital expenditure was significantly below the amount spent in the same period last year, resulting from lower transport and fixed-line network investment as various projects came to an end and others were moved back, as well as the optimisation of spending for customer premises equipment and core service network. Intangible capital expenditures also more than halved on a comparative basis, stemming from the integration of YESSS! in the second quarter of 2013.

In Bulgaria capital expenditures rose by EUR 28.5 mn following the prolongation of 900-MHz and 1800-MHz frequency bands for EUR 30.6 mn in April 2014. Excluding spectrum, Bulgarian CAPEX fell 16.9% year-on-year due to lower spending on CPE and billing. Slovenia also saw a EUR 66.9 mn increase in capital expenditure following the Slovenian multiband auction, during which Si.mobil spent EUR 63.9 mn to secure 2 x 10 MHz in the new 800-MHz band and modest gains across the other bands. However, even excluding spectrum, the Slovenian CAPEX increased 78.3% year-on-year, driven by spending on billing and LTE sites.

In Croatia Vipnet raised CAPEX by 25.2% year-on-year due to fixed construction spending, an upgrade of storage capacities as well as higher CPE, while Vip mobile in the Republic of Serbia reduced spending by 24.6% year-on-year following the changed accounting treatment for handset sales.

Additional Information

Risks and Uncertainties

The Telekom Austria Group faces various risks and uncertainties, which could affect its results. For further details about these risks and uncertainties, please refer to the Telekom Austria Group Annual Report 2013, pp. 101 ff.

Other and Subsequent Events

For details on other and subsequent events, please refer to page 43.

Waiver of Review

This financial report of the Telekom Austria Group contains quarterly results, which were not audited or reviewed by a certified public accountant.

Other

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

Following the classification of Belarus as a hyperinflationary economy, financial reporting in hyperinflationary countries according to IAS 29 is applied to the financial statements of the Belarusian segment starting 2011.

The reported result in the Austrian, Bulgarian, Croatian and Belarusian segments include depreciation and amortisation of fair value adjustments resulting from past business combinations and therefore may deviate from the result of the single financial statements.

n.m. – not meaningful, used for percentage changes >300% and others which are not meaningful.

n.a. – not applicable, i.e. for divisions by zero.

Vienna, 6 August 2014
The Management Board

Hannes Ametsreiter, Chairman of the Management Board,
Telekom Austria Group

Siegfried Mayrhofer, CFO, Telekom Austria Group

Günther Ottendorfer, CTO, Telekom Austria Group

Condensed Consolidated Financial Statements Telekom Austria Group

Condensed Consolidated Statements of Profit or Loss

in EUR million, except per share information	Q2 2014 unaudited	Q2 2013 unaudited	1–6 M 2014 reviewed	1–6 M 2013 reviewed
Operating revenues	963.0	1,043.2	1,939.0	2,092.3
Other operating income	22.5	19.2	38.7	35.8
Material expenses	−112.8	−124.4	−217.4	−255.5
Employee expenses, including benefits and taxes	−211.5	−212.7	−430.1	−425.9
Other operating expenses	−361.7	−395.0	−710.7	−779.5
Operating expenses	**−686.1**	−732.2	**−1,358.3**	−1,460.9
EBITDA comparable	**299.4**	330.3	**619.4**	667.2
Restructuring	0.9	−4.9	−6.7	−7.6
Impairment and reversal of impairment	−400.0	0.0	−400.0	0.0
EBITDA incl. effects from restructuring and impairment testing	**−99.6**	325.4	**212.7**	659.6
Depreciation and amortisation	−220.4	−219.9	−435.3	−436.3
Operating result	**−320.0**	105.5	**−222.6**	223.3
Interest income	3.4	4.4	6.7	8.1
Interest expense	−49.8	−51.0	−98.9	−102.3
Foreign exchange differences	2.1	3.6	1.5	3.4
Other financial result	0.1	0.0	0.1	0.0
Result from investments in affiliates	0.1	0.0	0.1	0.1
Financial result	**−44.1**	−42.8	**−90.5**	−90.7
Earnings before income taxes	**−364.1**	62.7	**−313.1**	132.6
Income taxes	5.5	−10.2	−4.7	−24.6
Net Result	**−358.6**	52.5	**−317.8**	108.0
Attributable to:				
Owners of the parent	−364.9	44.0	−330.4	94.1
Non-controlling interests	0.0	0.1	0.1	0.1
Hybrid capital owners	6.3	8.4	12.6	13.8
Basic and fully diluted earnings per share	**−0.82**	0.10	**−0.75**	0.21
Weighted-average number of ordinary shares outstanding	**442,584,841**	442,563,969	**442,584,841**	442,563,969

Condensed Consolidated Statements of Comprehensive Income

in EUR million	Q2 2014 unaudited	Q2 2013 unaudited	1–6 M 2014 reviewed	1–6 M 2013 reviewed
Net Result	**–358.6**	52.5	**–317.8**	108.0
Realised result on securities available-for-sale	0.0	0.0	0.0	0.1
Income tax (expense) benefit	0.0	0.0	0.0	0.0
Unrealised result on hedging activities	0.0	–0.6	0.0	0.4
Income tax (expense) benefit	0.0	0.1	0.0	–0.1
Realised result on hedging activities	1.6	0.0	3.2	0.0
Income tax (expense) benefit	–0.4	0.0	–0.8	0.0
Foreign currency translation adjustment	0.8	–2.8	–1.7	0.9
Items that may be reclassified to profit or loss	**2.0**	–3.3	**0.7**	1.3
Remeasurements of defined benefit obligations	–1.2	–0.7	–2.3	–1.3
Income tax (expense) benefit	0.3	0.2	0.6	0.3
Items that are not reclassified to profit or loss	**–0.9**	–0.5	**–1.8**	–1.0
Other comprehensive income (loss)	**1.2**	–3.8	**–1.0**	0.3
Total comprehensive income (loss)	**–357.4**	48.7	**–318.8**	108.2
Attributable to:				
Owners of the parent	–363.8	40.2	–331.4	94.3
Non-controlling interests	0.0	0.1	0.1	0.1
Hybrid capital owners	6.3	8.4	12.6	13.8

Condensed Consolidated Statements of Financial Position

in EUR million	30 June 2014 reviewed	31 Dec. 2013 audited
ASSETS		
Current assets		
Cash and cash equivalents	110.8	201.3
Short-term investments	11.4	9.9
Accounts receivable - trade, net of allowances	649.4	683.8
Receivables due from related parties	0.1	0.1
Inventories	124.9	127.3
Prepaid expenses	115.7	101.7
Income tax receivable	21.5	22.2
Non-current assets held for sale	0.8	1.0
Other current assets	82.1	74.0
Total current assets	**1,116.7**	**1,221.2**
Non-current assets		
Investments in associates	4.2	5.0
Financial assets long-term	6.0	5.2
Goodwill	1,182.5	1,581.9
Other intangible assets, net	2,609.0	2,590.3
Property, plant and equipment, net	2,201.3	2,308.1
Other non-current assets	31.7	25.2
Deferred tax assets	128.9	123.0
Total non-current assets	**6,163.5**	**6,638.8**
TOTAL ASSETS	**7,280.2**	**7,860.0**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	−805.4	−230.3
Accounts payable - trade	−461.5	−573.8
Current provisions and accrued liabilities	−276.7	−301.4
Payables due to related parties	−5.2	−5.9
Income tax payable	−32.1	−34.7
Other current liabilities	−158.7	−137.1
Deferred income	−162.0	−159.1
Total current liabilities	**−1,901.5**	**−1,442.3**
Non-current liabilities		
Long-term debt	−3,084.5	−3,737.7
Employee benefit obligation	−169.9	−164.3
Non-current provisions	−852.8	−881.4
Deferred tax liabilities	−95.1	−105.3
Other non-current liabilities and deferred income	−17.5	−16.4
Total non-current liabilities	**−4,219.7**	**−4,905.1**
Stockholders' equity		
Common stock	−966.2	−966.2
Treasury shares	7.8	7.8
Additional paid-in capital	−582.6	−582.6
Hybrid capital	−591.2	−591.2
Retained earnings	487.0	132.6
Available-for-sale reserve	−0.1	0.0
Hedging reserve	43.3	45.7
Translation adjustments	444.0	442.3
Equity attributable to equity holders of the parent	**−1,157.9**	**−1,511.5**
Non-controlling interests	−1.1	−1.1
Total stockholders' equity	**−1,158.9**	**−1,512.6**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**−7,280.2**	**−7,860.0**

Condensed Consolidated Statements of Cash Flows

in EUR million	Q2 2014 unaudited	Q2 2013 unaudited	1–6 M 2014 reviewed	1–6 M 2013 reviewed
Net Result	−358.6	52.5	−317.8	108.0
Adjustments to reconcile net result to operating cash flow				
Depreciation, amortisation and impairment	620.4	219.9	835.3	436.3
Employee benefit obligation - non-cash	1.4	3.3	3.3	5.3
Bad debt expenses	12.1	11.3	20.6	23.4
Change in deferred taxes	−13.4	−2.9	−14.0	1.1
Result from investments in affiliates	−0.1	0.0	0.8	0.2
Share-based compensation	1.0	1.1	2.0	−0.7
Change in asset retirement obligation - non-cash	1.8	2.0	3.6	3.8
Provision for restructuring - non-cash	2.0	9.4	14.0	16.8
Result on sale of investments	0.0	0.0	−0.1	0.1
Result on disposal / retirement of equipment	−0.1	−0.4	0.2	0.4
Gain on monetary items - non-cash	0.2	0.4	0.2	0.2
Other	36.7	2.8	39.3	1.6
Gross cash flow	**303.4**	299.4	**587.4**	596.5
Accounts receivable - trade	−48.5	−34.7	−35.2	−29.1
Receivables due from related parties	−0.1	0.0	−0.1	−0.1
Inventories	9.6	1.7	2.9	−8.1
Prepaid expenses and other assets	−3.0	22.9	−30.8	−9.6
Accounts payable - trade	4.3	36.2	−112.4	−29.5
Employee benefit obligation	0.0	0.0	0.0	−0.1
Provisions and accrued liabilities	−40.9	−31.7	−64.6	−60.4
Other liabilities and deferred income	−1.7	2.9	26.7	30.6
Payables due to related parties	1.4	5.6	−0.4	3.8
Changes in assets and liabilities	−78.8	2.9	−213.9	−102.5
Cash flow from operating activities	**224.5**	302.2	**373.4**	494.0
Capital expenditures	−229.5	−176.4	−329.0	−325.4
Acquisitions of subsidiaries, net of cash acquired	0.0	−2.8	0.0	−328.4
Sale of property, plant, equipment and intangible assets	1.7	2.7	4.0	3.8
Purchase of investments	−4.7	0.0	−4.9	−504.5
Sale of investments	0.2	80.6	3.1	165.9
Cash flow from investing activities	**−232.4**	−96.0	**−326.7**	−988.6
Principal payments on long-term debt	−45.5	−4.0	−48.7	−4.0
Changes in short-term borrowings	−53.5	−0.5	−29.4	−39.1
Issuance of hybrid bond	0.0	0.0	0.0	588.2
Dividends paid	−22.1	−22.1	−56.0	−22.2
Settlement of derivative financial instruments	0.0	−65.1	0.0	−65.1
Deferred consideration paid for business combinations	−1.9	0.0	−1.9	−29.3
Cash flow from financing activities	**−123.0**	−91.8	**−136.0**	428.6
Effect of exchange rate changes	**−2.2**	−4.5	**−1.5**	−3.4
Monetary loss on cash and cash equivalents	**0.5**	0.2	**0.3**	−0.6
Change in cash and cash equivalents	**−132.6**	110.3	**−90.5**	−70.0
Cash and cash equivalents at beginning of period	243.4	420.5	201.3	600.8
Cash and cash equivalents at end of period	110.8	530.8	110.8	530.8

Condensed Consolidated Statements of Changes in Stockholders' Equity

in EUR million (reviewed)	Common stock	Treasury shares	Additional paid-in capital	Hybrid capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total stockholders' equity
Balance at 1 January 2014	**966.2**	**–7.8**	**582.6**	**591.2**	**–132.6**	**–488.0**	**1,511.5**	**1.1**	**1,512.6**
Net Result	0.0	0.0	0.0	0.0	–317.9	0.0	–317.9	0.1	–317.8
Other comprehensive income (loss)	0.0	0.0	0.0	0.0	–1.8	0.7	–1.0	0.0	–1.0
Total comprehensive income (loss)	**0.0**	**0.0**	**0.0**	**0.0**	**–319.6**	**0.7**	**–318.9**	**0.1**	**–318.8**
Distribution of dividends	0.0	0.0	0.0	0.0	–51.7	0.0	–51.7	–0.1	–51.8
Hyperinflation adjustment	0.0	0.0	0.0	0.0	16.9	0.0	16.9	0.0	16.9
Balance at 30 June 2014	**966.2**	**–7.8**	**582.6**	**591.2**	**–487.0**	**–487.3**	**1,157.9**	**1.1**	**1,158.9**

in EUR million (reviewed)	Common stock	Treasury shares	Additional paid-in capital	Hybrid capital	Retained earnings	Other reserves	Total	Non-controlling interest	Total stockholders' equity
Balance at 1 January 2013	966.2	–8.2	582.9	0.0	–236.2	–486.7	818.0	1.1	819.0
Net Result	0.0	0.0	0.0	0.0	107.8	0.0	107.8	0.1	108.0
Other comprehensive income (loss)	0.0	0.0	0.0	0.0	–1.0	1.3	0.3	0.0	0.3
Total comprehensive income (loss)	0.0	0.0	0.0	0.0	106.8	1.3	108.1	0.1	108.2
Distribution of dividends	0.0	0.0	0.0	0.0	–18.7	0.0	–18.7	0.0	–18.7
Hyperinflation adjustment	0.0	0.0	0.0	0.0	28.8	0.0	28.8	0.0	28.8
Issuance of hybrid capital	0.0	0.0	0.0	591.2	0.0	0.0	591.2	0.0	591.2
Balance at 30 June 2013	966.2	–8.2	582.9	591.2	–119.2	–485.4	1,527.4	1.2	1,528.6

For further details on the hybrid bond coupon payment and the tax benefit relating to the amount of interest attributable to hybrid bond owners, which is recognised as distribution of dividends, see "Stockholders' Equity"

Net Debt

in EUR million	30 June 2014 reviewed	31 Dec. 2013 audited
Long-term debt	3,084.5	3,737.7
Short-term borrowings	805.4	232.2
Cash and cash equivalents and short-term investments	–122.2	–211.2
Long-term investments, instalment sale and finance lease receivables	–79.4	–62.9
Net debt	**3,688.1**	3,695.8
Net debt/EBITDA comparable (last 12 months)	**3.0x**	2.9x

The deferred consideration for the acquisition of SOBS paid in June 2014 is included in short-term borrowings as of 31 December 2013.

Condensed Operating Segments

in EUR million (reviewed)	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Elimina-tions	Consoli-dated
				1–6 M 2014				
External revenues	1,188.2	181.4	171.9	166.3	231.3	0.0	0.0	1,939.0
Intersegmental revenues	9.4	1.3	4.0	0.0	4.3	0.0	−19.0	0.0
Total revenues	**1,197.6**	**182.7**	**175.8**	**166.3**	**235.6**	**0.0**	**−19.0**	**1,939.0**
Other operating income	40.3	4.7	2.0	2.7	5.3	13.2	−29.7	38.7
Segment expenses	−870.8	−111.6	−133.0	−87.2	−174.7	−29.6	48.7	−1,358.3
EBITDA comparable	**367.1**	**75.8**	**44.9**	**81.8**	**66.1**	**−16.4**	**0.1**	**619.4**
Restructuring	−6.7	0.0	0.0	0.0	0.0	0.0	0.0	−6.7
Impairment and reversal of impairment	0.0	−400.0	0.0	0.0	0.0	0.0	0.0	−400.0
EBITDA incl. effects from restructuring and impairment testing	**360.4**	**−324.2**	**44.9**	**81.8**	**66.1**	**−16.4**	**0.1**	**212.7**
Depreciation and amortisation	−260.7	−45.4	−34.1	−43.6	−51.9	0.0	0.4	−435.3
Operating result	**99.6**	**−369.5**	**10.8**	**38.2**	**14.2**	**−16.4**	**0.5**	**−222.6**
Interest income	1.1	0.6	0.0	4.7	0.5	17.6	−17.7	6.7
Interest expense	−22.8	−0.3	−5.2	−1.2	−0.9	−86.0	17.6	−98.9
Result from investments in affiliates	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Other financial result	0.4	0.0	1.7	0.3	−0.1	−61.3	60.6	1.6
Earnings before income taxes	**78.5**	**−369.3**	**7.3**	**41.9**	**13.7**	**−146.2**	**61.0**	**−313.1**
Income taxes								−4.7
Net result								**−317.8**
Segment assets	4,765.6	889.2	581.2	571.7	781.8	7,444.0	−7,753.3	7,280.2
Segment liabilities	−2,621.9	−123.3	−394.9	−45.8	−178.3	−4,350.8	1,593.9	−6,121.3
Capital expenditures - intangible	38.1	36.7	3.5	1.8	71.2	0.0	0.0	151.3
Capital expenditures - tangible	103.2	11.2	27.5	13.8	22.0	0.0	0.0	177.7
Total capital expenditures	**141.4**	**47.8**	**31.0**	**15.6**	**93.2**	**0.0**	**0.0**	**329.0**
EBITDA comparable margin	30.7%	41.5%	25.5%	49.2%	28.1%	n.a	n.a	31.9%

in EUR million (reviewed)	Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Elimina-tions	Consoli-dated
				1–6 M 2013				
External revenues	1,335.3	196.1	184.2	162.8	213.9	0.0	0.0	2,092.3
Intersegmental revenues	10.1	2.7	6.0	0.0	6.2	0.0	−25.2	0.0
Total revenues	**1,345.5**	**198.8**	**190.2**	**162.8**	**220.1**	**0.0**	**−25.2**	**2,092.3**
Other operating income	40.6	1.2	4.3	2.5	3.4	12.0	−28.2	35.8
Segment expenses	−990.1	−117.7	−133.7	−85.0	−161.3	−26.4	53.3	−1,460.9
EBITDA comparable	**396.0**	**82.4**	**60.8**	**80.3**	**62.1**	**−14.4**	**0.0**	**667.2**
Restructuring	−7.6	0.0	0.0	0.0	0.0	0.0	0.0	−7.6
Impairment and reversal of impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA incl. effects from restructuring and impairment testing	**388.4**	**82.4**	**60.8**	**80.3**	**62.1**	**−14.4**	**0.0**	**659.6**
Depreciation and amortisation	−260.2	−47.2	−32.8	−44.4	−52.1	0.0	0.5	−436.3
Operating result	**128.2**	**35.2**	**28.0**	**35.9**	**10.0**	**−14.4**	**0.5**	**223.3**
Interest income	1.4	0.5	0.5	3.7	0.5	12.2	−10.7	8.1
Interest expense	−21.3	−1.5	−5.6	−0.9	−0.2	−83.4	10.6	−102.3
Result from investments in affiliates	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Other financial result	−0.1	0.0	3.7	−0.2	0.0	124.7	−124.8	3.4
Earnings before income taxes	**108.3**	**34.1**	**26.5**	**38.6**	**10.3**	**39.1**	**−124.4**	**132.6**
Income taxes								−24.6
Net result								**108.0**
Segment assets	4,389.7	1,290.2	550.4	647.5	788.0	7,892.0	−7,725.1	7,832.6
Segment liabilities	−2,199.9	−176.5	−374.8	−45.5	−184.2	−4,719.1	1,396.0	−6,304.0
Capital expenditures - intangible	87.2	9.2	2.8	1.6	5.1	0.0	0.0	106.0
Capital expenditures - tangible	137.3	14.6	26.2	9.9	31.4	0.0	0.0	219.4
Total capital expenditures	**224.5**	**23.8**	**29.1**	**11.5**	**36.5**	**0.0**	**0.0**	**325.4**
EBITDA comparable margin	29.4%	41.4%	32.0%	49.3%	28.2%	n.a	n.a	31.9%

Results by Segments

in EUR million	Q2 2014 unaudited	Q2 2013 unaudited	% change	1–6 M 2014 reviewed	1–6 M 2013 reviewed	% change
Revenues						
Austria	583.5	665.4	–12.3%	1,197.6	1,345.5	–11.0%
Bulgaria	91.5	101.3	–9.7%	182.7	198.8	–8.1%
Croatia	92.6	98.1	–5.6%	175.8	190.2	–7.6%
Belarus	85.3	81.2	5.0%	166.3	162.8	2.1%
Additional markets	120.2	111.3	8.0%	235.6	220.1	7.1%
Corporate & Other & Eliminations	–10.1	–14.2	–29.2%	–19.0	–25.2	–24.4%
Total revenues	**963.0**	1,043.2	–7.7%	**1,939.0**	2,092.3	–7.3%
EBITDA comparable						
Austria	172.3	189.3	–9.0%	367.1	396.0	–7.3%
Bulgaria	38.8	43.0	–9.8%	75.8	82.4	–7.9%
Croatia	22.2	31.5	–29.6%	44.9	60.8	–26.2%
Belarus	41.9	40.8	2.6%	81.8	80.3	1.9%
Additional markets	33.9	33.2	1.9%	66.1	62.1	6.5%
Corporate & Other & Eliminations	–9.5	–7.5	26.9%	–16.4	–14.4	13.2%
Total EBITDA comparable	**299.4**	330.3	–9.3%	**619.4**	667.2	–7.2%
EBITDA incl. effects from restructuring and impairment testing						
Austria	173.2	184.3	–6.0%	360.4	388.4	–7.2%
Bulgaria	–361.2	43.0	–940.4%	–324.2	82.4	–493.6%
Croatia	22.2	31.5	–29.6%	44.9	60.8	–26.2%
Belarus	41.9	40.8	2.6%	81.8	80.3	1.9%
Additional markets	33.9	33.2	1.9%	66.1	62.1	6.5%
Corporate & Other & Eliminations	–9.5	–7.5	26.9%	–16.4	–14.4	13.2%
Total EBITDA incl. effects from restructuring and impairment testing	**–99.6**	325.4	–130.6%	**212.7**	659.6	–67.8%
Operating result						
Austria	41.6	52.1	–20.3%	99.6	128.2	–22.3%
Bulgaria	–383.6	19.8	–2041.9%	–369.5	35.2	–1149.7%
Croatia	4.9	15.0	–67.4%	10.8	28.0	–61.5%
Belarus	18.5	18.9	–2.4%	38.2	35.9	6.5%
Additional markets	8.0	6.9	16.5%	14.2	10.0	42.4%
Corporate & Other & Eliminations	–9.3	–7.3	28.4%	–16.0	–14.0	14.3%
Total operating result	**–320.0**	105.5	–403.4%	**–222.6**	223.3	–199.7%
EBITDA comparable margin						
Austria	29.5%	28.4%		30.7%	29.4%	
Bulgaria	42.4%	42.4%		41.5%	41.4%	
Croatia	24.0%	32.1%		25.5%	32.0%	
Belarus	49.1%	50.2%		49.2%	49.3%	
Additional markets	28.2%	29.9%		28.1%	28.2%	
EBITDA comparable margin total	**31.1%**	31.7%		**31.9%**	31.9%	

Capital Expenditures

in EUR million	Q2 2014 unaudited	Q2 2013 unaudited	% change	1–6 M 2014 reviewed	1–6 M 2013 reviewed	% change
Austria	79.9	122.4	–34.7%	141.4	224.5	–37.0%
Bulgaria	41.2	12.7	223.2%	47.8	23.8	100.7%
Croatia	18.4	14.7	25.2%	31.0	29.1	6.7%
Belarus	7.3	7.3	–0.1%	15.6	11.5	35.7%
Additional markets	82.8	19.3	329.0%	93.2	36.5	155.1%
Corporate & Other & Elimination	0.0	0.0	n.a	0.1	0.0	n.a
Total capital expenditures	**229.5**	176.4	30.1%	**329.0**	325.4	1.1%
Thereof tangible	106.3	122.2	–13.0%	177.7	219.4	–19.0%
Thereof intangible	123.3	54.2	127.3%	151.3	106.0	42.7%

Selected Explanatory Notes to the Consolidated Interim Financial Statements

Basis of Presentation

The consolidated interim financial statements, in the opinion of Management, include all adjustments necessary for a fair presentation in accordance with International Financial Reporting Standards (IFRS).

These financial results in accordance with IAS 34 "Interim Financial Reporting" were reviewed and should be read in connection with the audited Company's annual consolidated financial statements according to IFRS for the year ended 31 December 2013. The consolidated results for the interim periods are not necessarily indicative of results for the full year.

No major related party transactions, commitments and guarantees have occurred since 31 December 2013.

The preparation of the interim financial statements in conformity with IAS 34 requires making estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

The Company has applied the same accounting policies and methods of computation in the interim financial statements as in the annual financial statements as of and for the year ended 31 December 2013, except the following standards/interpretations which became effective and were endorsed as of 1 January 2014:

		Effective*	Effective**
IAS 32	Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32	1 January 2014	1 January 2014
IFRS 10.12; IAS 27	Investment Entities - Amendments to IFRS 10, 12 and IAS 27	1 January 2014	1 January 2014
IAS 36	Amendment IAS 36 Recoverable Amount Disclosures	1 January 2014	1 January 2014
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1 January 2014
IFRIC 21	Levies	1 January 2014	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).

The initial application of the IFRS and IFRIC mentioned above had an insignificant impact on the consolidated financial statements since the amendments and revisions were not fully applicable.

Compared to other economic sectors, the telecommunications industry is in general less cyclical. Within the telecommunication sector, the seasonality of the Company's segments shows the same pattern as other European incumbents, having lower margins in the year-end quarter due to Christmas promotions, equipment provided to customers and increases in sales commissions. However, customer and visitor roaming revenues are above average in the third quarter due to the summer vacation season. In Austria, visitor roaming is also above average in the first quarter due to winter sports tourism.

Format of the Condensed Consolidated Statements of Profit or Loss

Telekom Austria Group defines EBITDA as net income excluding financial result, income taxes and depreciation and amortization. EBITDA comparable and EBITDA incl. effects from restructuring and impairment testing are used to better evaluate trends in the Company's underlying operations. EBITDA comparable comprises EBITDA adjusted for effects from the restructuring programme 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. For details on restructuring expenses for the half year 2014 and 2013 see "Provisions and Accrued Liabilities".

Change in accounting estimate

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 in the amount of EUR 47.5 million in the segment Austria. This change in accounting estimate according to IAS 8 does not have any effect on following periods.

Cash Flow

The item "other", which is part of the reconciliation of net result to gross cash flow, in the first half 2014 mainly relates to the above mentioned non-cash effect of the change in accounting estimate for deferred unbilled revenues and non-cash changes in provisions.

Goodwill

In the second quarter of 2014 an impairment of goodwill in the amount of EUR 400 million was recognised in profit or loss in line item "Impairment and reversal of impairment" as the carrying amount (including goodwill) of the cash generating unit Bulgaria exceeded its value in use.

Due to a change in the weighted average cost of capital (WACC) of the Bulgarian segment as well as changed medium-term macroeconomic expectations for Bulgaria, leading to changed expectations of the development of the Bulgarian subsidiary Mobiltel, an impairment test had to be carried out in the second quarter 2014. This resulted in a reduction of the value in use of the cash-generating unit Mobiltel from EUR 1,172 million as of 31 December 2013 to EUR 678 million.

As of June 2014 Mobiltel's 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 rating agency Standard & Poor's cut its sovereign credit rating for Bulgaria from BBB to BBB-, expecting economic growth to remain mediocre unless there are meaningful political and structural reforms.

These changed medium-term macroeconomic expectations and weak operational performance of Mobiltel in the second quarter of 2014 (after being in line with the budget in the first quarter 2014) also result in changed expectations for the entire Bulgarian telecoms market and the development of the Bulgarian subsidiary Mobiltel. While the management expected a mid-term recovery of the region, this expectation appears no longer sustainable. The resulting effects on the business plan for the Bulgarian segment drive the remainder of the impairment.

The Croatian market is significantly influenced by regulatory impacts and market conditions. A possible adverse effect of these external factors could potentially cause Vipnet's carrying amount to exceed its recoverable amount. As of 30 June 2014 Vipnet's recoverable amount exceeds its carrying amount by less than EUR 100 million.

Non-Current and Current Liabilities

In the first half 2014, no long-term debt was issued and EUR 48.7 million of long-term debt was repaid.

Due to "change of control"-clauses, which were triggered by the shareholders' agreement between ÖIAG, America Movil and Carso Telecom B.V., effective since 27 June 2014, long-term loans have to be presented under short-term borrowings according to IAS 1.74. Long-term debt of EUR 641.7 million had to be classified as short-term although in the meanwhile the lenders agreed not to demand payment for loans in the amount of EUR 541.7 million as a consequence of the "change of control"-clauses. This increase in short-term borrowings was only slightly offset by the payment of accrued interest and the repayment of long-term debt classified as short-term as of 31 December 2013.

As of 30 June 2014 no instalment sale receivables were sold under the factoring programme, entered by velcom in March 2014. In Austria accounts receivable - trade amounting to EUR 356.8 million were sold under civil law to a special purpose entity under the Asset Backed Security (ABS) programme but no amount was drawn.

The increase in other current liabilities is mainly due to higher liabilities to fiscal authorities.

In 2010 Telekom Austria Group has introduced a Long Term Incentive Programme (LTI). On 6 May 2014 the Supervisory Board approved the fifth tranche (LTI 2014). Grant date was 1 July 2014 the performance period is 1 January 2014 to 31 December 2016. Net income, total shareholder return and EBITDA were defined as key performance indicators. As of reporting date a liability for LTI 2014 measured at fair value for expected future expense which is already vested, in the amount of EUR 0.9 million is recorded.

Provisions and Accrued Liabilities

The provision for restructuring amounting to EUR 775.4 million as of 31 December 2013 decreased to EUR 739.7 million as of 30 June 2014, mainly due to the usage of the provision, partly compensated by the accretion and additions to the provision. In the first half 2014 a positive effect of restructuring of EUR 2.5 million, in the first half 2013 a restructuring expense of EUR 5.6 million, respectively, was recognized.

The provision for civil servants of the segment Austria who voluntarily changed to the Austrian government to take on administrative tasks amounting to EUR 26.6 million as of 31 December 2013 decreased to EUR 24.4 million as of 30 June 2014. In the first half 2014 and 2013, a restructuring expense of EUR 9.2 million and EUR 2.0 million, respectively, was recorded.

Income Taxes

The effective tax rate for the first half 2014 and 2013 was 16.6% and 18.6%, respectively. In the first half 2014 and 2013, the effective tax rate was lower than the Austrian statutory tax rate of 25% mainly due to tax incentives and foreign tax rate differentials. The effective tax rate does not include the effect of the impairment of the goodwill in the amount of EUR 400.0 million in segment Bulgaria as well as the relating deferred tax benefit in the amount of EUR 9.7 million, since goodwill was tax deductible in Bulgaria until 2006.

Net deferred tax assets of EUR 17.7 million as of 31 December 2013 increased to EUR 33.8 million as of 30 June 2014, mainly due to the recognition of deferred tax assets on loss carry-forwards, which was almost compensated by the deferred recognition of the impairments of investments in subsidiaries for tax purposes over seven years according to Austrian legislation.

Stockholders' Equity

In February 2014, the Telekom Austria Group paid the first annual coupon of 5.625% of the hybrid bond in the amount of EUR 33.8 million. The coupon payment, as well as the related tax benefit of the interest in the amount of EUR 4.2 million, which is recognised in profit or loss under local GAAP, is recognised as distribution of dividend in equity. The net result attributable to hybrid capital holders is presented in the condensed consolidated statements of profit or loss and equals the recognised interest for the first half according to local GAAP amounting to EUR 16.7 million, net of the related tax benefit of EUR 4.2 million, which is recognised in stockholders' equity according to IAS 12.

In June 2014, the Telekom Austria Group paid dividend to its shareholders in the amount of EUR 22.1 million.

Other reserves in the Condensed Consolidated Statements of Changes in Stockholders' Equity include Available-for-sale reserve, Hedging reserve and Translation adjustments.

Financial Instruments

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

in EUR million	30 June 2014 Carrying amount reviewed	Fair value reviewed	31 Dec. 2013 Carrying amount audited	Fair value audited
Cash and cash equivalents	**110.8**	**110.8**	201.3	201.3
Accounts receivable - trade	649.4	649.4	683.8	683.8
Receivables due from related parties	0.1	0.1	0.1	0.1
Other current financial assets	50.4	50.4	42.6	42.6
Other non-current financial assets	24.2	24.2	18.1	18.1
Loans and receivables	**724.1**	**724.1**	744.6	744.6
Long-term investments	5.4	5.4	4.7	4.7
Short-term investments	11.4	11.4	9.9	9.9
Available-for-sale investments	**16.8**	**16.8**	14.6	14.6
Investments at cost	**0.6**	**0.6**	0.6	0.6

The carrying amounts of cash and cash equivalents, accounts receivable – trade and other financial assets approximate their fair values, therefore no further information on the classification in the fair value hierarchy is provided.

Investments at cost mainly relate to the stake in CEESEG 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.

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

in EUR million	30 June 2014 Carrying amount reviewed	Fair value reviewed	31 Dec. 2013 Carrying amount audited	Fair value audited
Liabilities to financial institutions	0.0	0.0	0.0	0.0
Bonds	3,027.5	3,375.2	3,025.5	3,206.8
ABS and factoring	0.0	0.0	0.0	0.0
Other current financial liabilities	58.3	58.3	68.2	68.2
Non-current liabilities to financial institutions	800.1	866.0	848.8	911.4
Other non-current liabilities	0.9	0.9	0.9	0.9
Accounts payable - trade	461.5	461.5	573.8	573.8
Payables due to related parties	5.2	5.2	5.9	5.9
Accrued interest	62.2	62.2	93.7	93.7
Financial liabilities at amortised cost	**4,415.7**	**4,829.3**	4,616.9	4,860.8

The carrying amounts of accounts payable – trade and other liabilities approximate their fair values, therefore no further information on the classification in the fair value hierarchy is provided. Non-current liabilities to financial institutions include the current portion of long-term debt

The following table shows financial instruments per class of financial instrument measured at fair value based on a three-level fair value hierarchy that reflects the significance of the inputs in such fair value measurements:

30 June 2014 in EUR million (reviewed)	Level 1	Level 2	Level 3	Total
Available-for-sale & other investments	6.9	9.9	0.0	16.8
Financial assets measured at fair value	**6.9**	**9.9**	**0.0**	**16.8**

31 Dec. 2013 in EUR million (audited)	Level 1	Level 2	Level 3	Total
Available-for-sale & other investments	6.4	8.1	0.0	14.6
Financial assets measured at fair value	6.4	8.1	0.0	14.6

The levels of fair value hierarchy are determined as follows:

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: Fair values measured using inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly.
- Level 3: Fair values measured using inputs that are not based on observable market data.

Subsequent and Other Events

In June 2014, the Telekom Austria Group has signed an l agreement for the merger of its subsidiary mobilkom liechtenstein into Telecom Liechtenstein AG to form a convergent market leader in Liechtenstein. The merger is subject to approval by the competent authorities. This transaction will be non-cash with the Telekom Austria Group holding a stake of 24.9% and the Principality of Liechtenstein holding 75.1% in Telecom Liechtenstein AG. The new company will offer bundled products out of one hand – fixed line, mobile communications, internet and TV services. The new company will be consolidated at equity. The fair value of the stake in the new company is expected to be approximately EUR 30 million, therefore the transaction will result in a gain of approximately EUR 20 million.

On 23 April 2014 Österreichischen Industrieholding AG („ÖIAG“) entered into a shareholders' agreement, effective since June 27, 2014, with Carso Telecom B.V., Netherlands ("Carso Telecom") and América Móvil, S.A.B. de C.V., Mexico City ("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"). 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 the Offer was settled. After the Offer, América Móvil holds in total 50.8% of the share capital of the Telekom Austria Group, while ÖIAG continues to hold 28.4%. The Syndicate Agreement currently covers 351,002,957 shares of Telekom Austria, which equates to a shareholding of 79.23%. During the 3-months additional acceptance (“sell-out”) period following the publication of the Offer results (16 July – 16 October 2014), shareholders can still tender their shares under the Offer conditions.

On 14 August 2014 an Extraordinary General Meeting will take place at the Vienna Stadthalle. The documents are on the website www.telekomaustria.com/en/ir/annual-general-meeting.

Vienna, 6 August 2014
The Management Board

Hannes Ametsreiter, Chairman of the Management Board,
Telekom Austria Group

Siegfried Mayrhofer, CFO, Telekom Austria Group

Günther Ottendorfer, CTO, Telekom Austria Group

Statement of All Legal Representatives

Declaration of the Management Board according to § 87 Abs 1 Z 4 Börsegesetz

We confirm to the best of our knowledge that the condensed interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the International Financial Reporting Standards (IFRS) and that the group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements and of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Vienna, 6 August 2014
The Management Board

Hannes Ametsreiter, Chairman of the Management Board,
Telekom Austria Group

Siegfried Mayrhofer, CFO, Telekom Austria Group

Günther Ottendorfer, CTO, Telekom Austria Group

Report on the Interim Condensed Consolidated Financial Statements

Translation of the report on the review of Telekom Austria AG`s interim condensed consolidated financial statements as of June 30, 2013 and as of June 30, 2014

Introduction
We have reviewed the accompanying condensed consolidated interim financial statements of Telekom Austria AG, Vienna, for the periods from January 1, 2013 to June 30, 2013 as well as from January 1, 2014 to June 30, 2014. The condensed consolidated interim financial statements comprise the statements of financial position as of June 30, 2013 and June 30, 2014 respectively, the statements of profit or loss, the statements of comprehensive income, the statements of cash flows and the statements of changes in stockholders equity for the period from January 1, 2013 to June 30, 2013 and January 1, 2014 to June 30, 2014 respectively, as well as selected explanatory notes.

Management is responsible for the preparation of these condensed consolidated interim financial statements in accordance with IAS 34 “Interim Financial Reporting” as adopted by the European Union. Our responsibility is to issue a report on the condensed consolidated interim financial statements based on our review.

Under reference to section 87 (3) of the Austrian Stock Exchange Act (Börsegesetz, BörseG) in conjunction with section 275 (2) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB), our liability for negligence is limited to EUR 12 Mio.

Scope of review
We conducted our review in accordance with applicable Austrian laws and professional standards, in particular KFS/PG 11, as well as the International Standard on Review Engagements (ISRE) 2400 “Engagements to Review Historical Financial Statements” as far as the condensed consolidated interim financial statements as of June 30, 2013 are concerned and ISRE 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” as far as the condensed consolidated interim financial statements as of June 30, 2014 are concerned. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Telekom Austria AG as of June 30, 2013 and as of June 30, 2014 are not prepared, in all material respects, in accordance with IFRS applicable on interim financial reporting as adopted by the European Union.

Translation of the statement on the interim group management report and on the responsibility statement of the legal representatives according to section 87 of the Austrian Stock Exchange Act

We have read the accompanying condensed interim group management report of Telekom Austria AG as of June 30, 2014 and assessed whether it contains any obvious contradictions to the condensed consolidated interim financial statements. Based on our review nothing has come to our attention that causes us to believe that the accompanying condensed interim group management report contains obvious contradictions to the condensed consolidated interim financial statements.

The interim financial report includes the responsibility statement of the legal representatives as required by Section 87 (1) (3) of the Austrian Stock Exchange Act (Börsegesetz, BörseG).

Vienna, 6 August 2014

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Nikolaus Schaffer	Mag. Maximilian Schreyvogl
(Austrian) Certified Public Accountant	(Austrian) Certified Public Accountant

This English translation of the review report was prepared for the client’s convenience only. It is no legally relevant translation of the German review report.