TELEKOM AUSTRIA GROUP

Results for the First Quarter 2014

Highlights

- 7.0% year-on-year revenue decline driven by Austria and FX translation in Belarus; better trends in Bulgaria
- EUR 56.6 mn OPEX savings driven by lower subsidies in Austria
- Rising EBITDA-comparable margins in Austria and Bulgaria
- Austrian tariff initiatives continue with focus on existing contracts
- Croatian mobile remains challenging while growth in the Additional Markets segment continues
- Regulation shaves EUR 44.3 mn and EUR 14.4 mn off revenues and EBITDA comparable respectively
- Spectrum renewal in Bulgaria and spectrum auction in Slovenia result in total cost of EUR 94.5 mn
- Group guidance 2014 unchanged: Revenues approx. -3%, CAPEX approx. 700 mn, dividend EUR 0.05
- Croatia: Significant risk of potential increase of annual spectrum fees
- Syndicate agreement signed on 23 April will trigger mandatory takeover offer by mid-May (expected)

in EUR million	Q1 2014	Q1 2013	% change
Revenues	975.9	1,049.0	−7.0%
EBITDA comparable	319.9	336.9	−5.0%
Operating income	97.4	117.8	−17.4%
Net income	40.8	55.5	−26.5%
Cash flow generated from operations	148.9	191.8	−22.4%
Earnings per share (in EUR)	0.08	0.11	−31.1%
Free cash flow per share (in EUR)	0.12	0.10	17.9%
Capital expenditures	99.4	149.0	−33.3%

in EUR million	31 Mar 2014	31 Dec 2013	% change
Net debt	3,670.5	3,695.8	−0.7%
Net debt / EBITDA comparable (12 months)	2.9	2.9	0.6%

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.

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 Review

The presentation for the conference call and key figures of the Telekom Austria Group in Excel format ("Fact Sheet Q1 2014") are available on the website at www.telekomaustria.com.

Results for the second quarter and first half of 2014 will be announced on 13 August 2014.

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Vienna, 8 May 2014 – Today the Telekom Austria Group (VSE: TKA, OTC US: TKAGY) announces its results for the first quarter 2014, ending 31 March 2014.

Summary

Quarterly Comparison

Key Performance Indicators Group

1st Quarter 2014

Financials in EUR million	Q1 2014	Q1 2013	% change
Revenues	975.9	1,049.0	–7.0%
EBITDA comparable	319.9	336.9	–5.0%
EBITDA incl. effects from restructuring and impairment tests	312.3	334.2	–6.6%
Operating income	97.4	117.8	–17.4%
Net income	40.8	55.5	–26.5%
Cash flow generated from operations	148.9	191.8	–22.4%
Earnings per share (in EUR)	0.08	0.11	–31.1%
Free cash flow per share (in EUR)	0.12	0.10	17.9%
Capital expenditures	99.4	149.0	–33.3%

in EUR million	31 Mar 2014	31 Dec 2013	% change
Net debt	3,670.5	3,695.8	–0.7%
Equity	1,525.0	1,512.6	0.8%
Net debt / EBITDA comparable (12 months)	2.9	2.9	0.6%

Fixed access lines (in '000)	31 Mar 2014	31 Mar 2013	% change
Total access lines	2,644.2	2,616.6	1.1%
in Austria	2,287.7	2,281.0	0.3%
in Bulgaria	154.4	163.4	–5.5%
in Croatia	202.1	172.1	17.4%
of which broadband lines	1,680.5	1,584.6	6.1%

Mobile communication subscribers (in '000)	31 Mar 2014	31 Mar 2013	% change
Total subscribers	19,988.1	20,206.5	–1.1%
in Austria	5,646.4	5,846.2	–3.4%
in Bulgaria	4,111.0	4,,400.6	–6.6%
in Croatia	1,807.1	1,878.2	–3.8%
in Belarus	4,938.9	4,818.0	2.5%
in Slovenia	677.9	669.6	1.2%
in the Republic of Serbia	2,044.3	1,903.5	7.4%
in the Republic of Macedonia	622.2	626.5	–0.7%
in Liechtenstein	6.4	6.2	3.1%

Employees (full-time equivalent, period-end)	16,090.1	16,498.5	–2.5%

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 quarter of 2014 Group revenues fell by 7.0% year-on-year to EUR 975.9 mn, primarily driven by a EUR 65.9 mn revenue decline versus the same period last year in the Austrian segment. Bulgaria and Croatia also saw revenue declines, while the Additional Markets segment gained thanks to rising turnover in Slovenia and in the Republic of Serbia.

In Austria revenues fell 9.7% year-on-year, as lower traffic revenues and regulatory effects further reduced mobile service revenues. Regulatory effects accounted for EUR 31.0 mn of the Austrian revenue decline, stemming primarily from the termination rate cut in November 2013. Lower gross additions in the premium segment weighed on equipment revenues. In the fixed-line business the ongoing decline in voice minutes continued to overshadow positive revenue trends in broadband and IPTV.

In Bulgaria a shrinking customer base as well as pricing and volume effects in the mobile business, plus a EUR 2.6 mn fallout from regulatory effects, continued to weigh on revenues despite positive trends in the fixed-line business. In Croatia negative regulatory effects amounted to EUR 6.3 mn and added to the strain from sinking mobile price levels in both the prepaid and postpaid business, which a positive fixed-service revenue development could not compensate. In Belarus negative FX-effects of EUR 17.9 mn resulted in a slight revenue decline, despite another strong operational quarter with continued growth in smartphone and data usage. The Additional Markets segment benefitted from the strong performance of the Republic of Serbia, which cancelled out declining revenues in the Republic of Macedonia on the back of a reduction in interconnection revenue. Excluding the negative effects from foreign exchange translations, Group revenues declined by 7.0% year-on-year.

In the first quarter of 2014 other operating income fell by EUR 0.4 mn to EUR 16.2 mn, as increases in Bulgaria and Slovenia were more than offset by declines in Austria and Croatia.

Operating expenses were considerably reduced in the first quarter of 2014, falling by 7.8% year-on-year to EUR 672.2 mn. This was primarily driven by a EUR 56.6 mn reduction in operating expenses in the Austrian segment, resulting from lower handset subsidies and interconnection expenses.

Group operating expenses reduced by EUR 56.6 mn year-on-year

The reduction in operating expenditure reduced the impact of revenue pressure on Group EBITDA comparable, which fell by 5.0% year-on-year to EUR 319.9 mn. Negative effects from foreign exchange translations amounted to EUR 9.5 mn, stemming primarily from Belarus. Excluding foreign exchange translation effects, Group EBITDA comparable declined by 2.2% year-on-year. Driven by cost savings in Austria, the Group EBITDA-comparable margin increased by 0.7 percentage points to 32.8%.

Restructuring charges in Austria amounted to EUR 7.7 mn during the first quarter of 2014 compared to EUR 2.7 mn in the same period last year. Depreciation and amortisation fell by EUR 1.5 mn, as higher charges in Austria resulting from the acquisition of mobile frequencies in the fourth quarter of 2013 were more than offset by lower charges in Bulgaria and Belarus, with the latter due to positive FX effects.

As higher restructuring charges outweighed lower depreciation and amortisation charges, operating income declined by 17.4% year-on-year to EUR 97.4 mn. The negative financial result improved slightly from EUR 47.9 mn in the first quarter of 2013 to EUR 46.4 mn in the first quarter of 2014 in consequence of a reduction in interest expense. Despite this effect, as well as a reduction in the tax expense of EUR 4.3 mn, the fall in operating income still resulted in a 26.5% year-on-year decline in net income to EUR 40.8 mn.

Group capital expenditure saw a 33.3% reduction during the first quarter of 2014, falling to EUR 99.4 mn from EUR 149.0 mn in the first quarter of 2013. The difference is primarily due to the acquisition of intellectual property rights and frequencies from Orange Austria in the first quarter of 2013 as well as lower tangible CAPEX in Austria. In addition, the Bulgarian and Serbian subsidiaries nearly halved their capital expenditure in the first quarter of 2014 compared to the same period last year, while CAPEX in Belarus almost doubled.

The Telekom Austria AG Share

The Telekom Austria share had a particularly strong first quarter, rising 31.1% between January and March 2014, outperforming the sector and the Austrian ATX Index. After a weak December, 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 Telekom Austria Group shareholder structure.

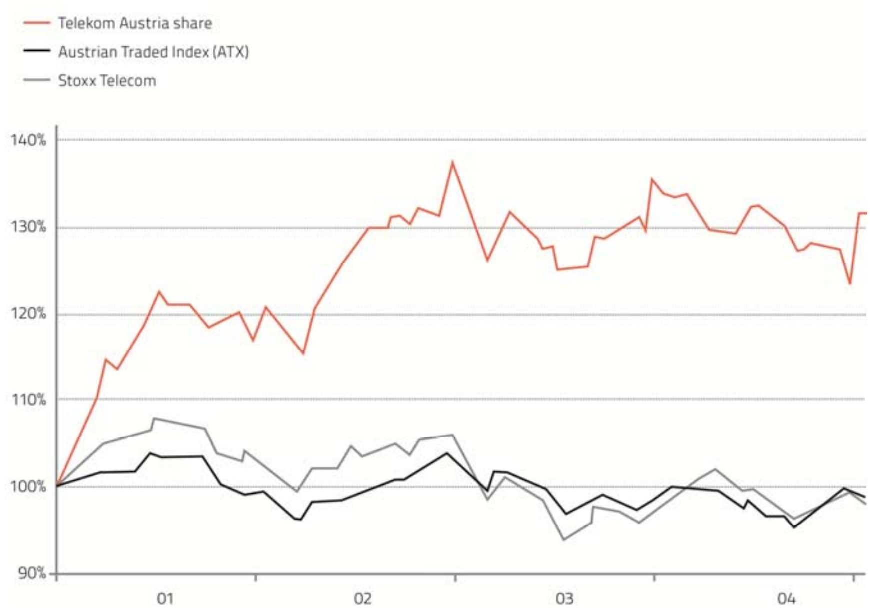
The Telekom Austria share initially rose with European markets and the sector in the first half of January, before global growth concerns cut that rally short in the latter half of the month. In contrast to its peers the share mostly held on to its January gains and continued to rally throughout the remainder of February, as America Movil confirmed early talks with ÖIAG on 25 February despite ongoing fears of a capital increase. The share subsequently reached its first quarter high of EUR 7.59 intra-day when full-year results were announced on 26 February. It subsequently came off a bit in early March as markets fell in reaction to the political crisis in the Ukraine, but rose again during the second half of the month, closing at EUR 7.21 on 31 March 2014.

After a strong performance in the second half of 2013, the Stoxx Telecom Index had a volatile first quarter and closed down 1.1% on 31 March 2014. By and large the sector moved with the wider European market, but was weighed down by drawn-out regulatory processes relating to sector M&A.

Meanwhile, the Stoxx 600 gained 1.8% in the first quarter of 2014, having reached highs last seen in 2008 several times during this period. Encouraging economic data as well as supportive comments from new Federal Reserve Chairwoman Janet Yellen, who appears to have little intention to scale down monetary easing in the near-term, helped fuel investor optimism. Dips were caused by weakness in China and the resulting concern for global growth, as well as Eurozone deflation woes and the political crisis in the Ukraine.

The Telekom Austria share was also among the top two performers of the Austrian ATX, which fell 0.9% in the first quarter 2014. The index reached highs last seen in 2011 in early 2014 but fell away in March as investors reacted negatively to potential spill-over effects from the Ukraine crisis in an index with a high exposure to the CEE markets.

Development of the 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.

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.

With 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 an ongoing fixed-to-mobile substitution, which is visible in the highly advanced but continual decline of fixed 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. However, the economic recovery in the Eurozone is beginning to positively impact some CEE markets. In April the Bulgarian Finance Ministry increased its 2014 GDP growth forecasts to 2.1% from 1.8% previously, citing expectations that domestic consumer confidence and demand will increase amidst a labour market recovery and resulting increase in household income. Croatia became the 28th member of the European Union on 1 July 2013, requiring the country to comply with the EU's prevailing interconnection and roaming regulation. Conversely, Croatia is struggling to meet EU budget-deficit limits in the absence of ambitious structural reforms and is suffering from rising unemployment, which reached 22.7% in February 2014.

The Belarusian Rouble continued to fall against the Euro in the first quarter of 2014. There are concerns that the 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 reach flat output by the third quarter of 2014. After a string of downgrades rating agencies S&P and Moody's affirmed Slovenia's sovereign rating in January, with Moody's raising its outlook to stable.

Meanwhile, the Serbian dinar has remained relatively stable so far in 2014, while the country's central bank in February cut its economic growth forecast to 1.0% from 1.5%, citing limited scope for further output expansion. 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, the World Bank expects the Republic of Macedonia to post solid GDP growth of 3.0% in 2014, as the country benefits from low debt levels and a stable banking sector.

Unchanged Outlook

Telekom Austria Group outlook for the full year 2014

Telekom Austria Group's unchanged 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 seeks 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. The recently acquired spectrum adds additional momentum to the anticipated growth in fixed-line and mobile broadband customers. 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. 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 they 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 at least 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 an ongoing 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 million.

Altogether, the Management of Telekom Austria Group continues to expect Group revenues to decline by approximately 3% year-on-year and Group capital expenditures* to remain stable at approximately EUR 700 million in 2014.

Maintaining a conservative financial profile remains the number one priority of Telekom Austria Group's finance strategy. Thus, Telekom Austria Group seeks to return to its target rating of BBB (stable) with Standard & Poor's in the medium term via the use of operational cash flow, and to thus strengthen the financial flexibility of the Group (current rating by Standard & Poor's: BBB-, stable). 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	as of 8 May 2014
Revenues	approx. –3%
Capital expenditures	approx. EUR 0.7 bn
Dividend	DPS of EUR 0.05

* Does not include investments for spectrum nor acquisitions
** Intended proposal to the Annual General Meeting 2015; proposed dividend for 2013: EUR 0.05/share (AGM 2014)

Quarterly Analysis
Segment Austria

Key Performance Indicators

Financials in EUR million	Q1 2014	Q1 2013	% change
Revenues	614.1	680.0	−9.7%
EBITDA comparable	194.8	206.8	−5.8%
EBITDA incl. effects from restructuring and impairment tests	187.1	204.1	−8.3%
EBIT	58.1	76.1	−23.7%

Revenue detail	Q1 2014	Q1 2013	% change
Monthly fee and traffic	446.4	469.7	−5.0%
Data & ICT solutions	54.4	53.1	2.5%
Wholesale (incl. roaming)	40.7	41.8	−2.5%
Interconnection	44.9	68.4	−34.4%
Equipment	23.0	43.5	−47.0%
Other operating income	4.6	3.6	26.8%

Mobile communication business*	Q1 2014	Q1 2013	% change
ARPU (in EUR)	15.2	16.1	−5.7%
Mobile service revenues (in EUR million)	259.2	284.1	−8.8%
thereof interconnection	5.5%	10.1%	
Subscriber acquisition cost (SAC, in EUR million)	6.8	16.9	−59.8%
Subscriber retention cost (SRC, in EUR million)	23.8	27.5	−13.4%
Churn (3 months)	4.8%	5.1%	

	Q1 2014	Q1 2013	% change
Mobile communication subscribers (in '000)	5,646.4	5,846.2	−3.4%
Mobile market share	42.1%	42.9%	
Mobile contract share	69.6%	68.8%	
Mobile broadband subscribers (in '000)	788.3	870.4	−9.4%
Mobile penetration - total market	153.3%	160.6%	

Fixed line business	Q1 2014	Q1 2013	% change
ARPL (in EUR)	30.6	32.2	−5.0%
Fixed service revenues (in EUR million)	210.2	220.8	−4.8%
Fixed line voice minutes (in million)	484.4	556.1	−12.9%

in '000	Q1 2014	Q1 2013	% change
Access lines (without broadband lines)	872.8	948.0	−7.9%
Fixed broadband lines	1,414.9	1,333.0	6.1%
thereof fixed broadband retail lines	1,377.5	1,291.8	6.6%
thereof fixed broadband wholesale lines	37.4	41.3	−9.4%
Total access lines	2,287.7	2,281.0	0.3%
Lines unbundled	246.7	260.5	−5.3%

Austrian voice and broadband shares*

Voice market share	Q1 2014	Q1 2013	% change
Fixed Line A1 Telekom Austria	8.5%	9.2%	
Fixed Line Others	5.3%	5.6%	
Mobile	86.2%	85.1%	

Broadband market share	Q1 2014	Q1 2013	% change
Fixed line retail A1 Telekom Austria	30.5%	29.5%	
Fixed line wholesale A1 Telekom Austria	0.8%	0.9%	
Mobile broadband A1 Telekom Austria	17.5%	19.9%	
Mobile broadband other operators	30.4%	29.1%	
Cable	16.0%	15.2%	
Unbundled lines	4.8%	5.3%	
Broadband penetration - total market	121.3%	118.4%	

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

In the first quarter of 2014 A1 Telekom Austria continued to execute its turnaround strategy via a stringent focus on value-generation and the ring-fencing of its high-value customer base, in order to mitigate competitive and regulatory pressures. With regard to its tariff structure, A1 Telekom Austria shifted its focus from new customers towards its existing customer base. The adjustments announced for its existing mobile as well as fixed-line contracts will allow the company to pursue necessary network investments and make possible an improved monetisation of the strong growth in data usage. However, as these adjustments will become effective only in the second quarter of 2014, positive revenue contributions were limited in the first quarter of 2014 and churn remained low. Nevertheless, lower handset subsidies for new customers lent immediate support to profitability.

Furthermore, A1 Telekom Austria also continued to pursue its successful convergence strategy via attractive bundle products. Demand for fixed broadband appears to be on the rise, which the company has attempted to monetise through access line promotions and high-bandwidth options.

Total mobile subscriber numbers fell 3.4%, resulting from a decline in the residential prepaid and no-frills subscriber base. In consequence, market share also came down slightly from 42.9% in the first quarter of 2013 to 42.1% in the first quarter of 2014. Mobile broadband subscribers fell by approximately 82,000 subscribers in the first quarter of 2014 versus the first quarter of 2013. Over two-thirds of this reduction stemmed from a change in the counting methodology of YESSS! data tariffs; the rest is the result of less demand for single-play mobile broadband in the no-frills business.

Solid fixed broadband growth of 6.1% year-on-year

Fixed access lines again saw slight growth in the first quarter of 2014, both quarter-on-quarter as well as year-on-year. The growth was driven by fixed broadband lines which rose by 6.1% versus the first quarter of 2013 and by approximately 24,700 lines sequentially, as customers turned to attractively priced broadband offers.

Revenues in the Austrian segment fell by 9.7% year-on-year to EUR 614.1 mn, resulting primarily from lower monthly fee and traffic, interconnection and equipment revenues. The EUR 23.3 mn decline in monthly fee and traffic stemmed from both the prepaid and contract mobile business, as higher revenue from monthly fees could not compensate lower airtime revenue. Lower customer roaming revenue also contributed to the decline. In the fixed business 12.9% lower voice traffic continued to negatively impact revenues. The company also lost EUR 23.5mn in interconnection revenue versus the same period last year, as negative revenue effects from lower quantities in incoming voice, transit and messaging were exacerbated by a termination rate reduction from EURc 2.1 to EURc 0.8 in November 2013. As a result of lower premium gross additions equipment revenues nearly halved in the first quarter of 2014 versus the first quarter of last year. This was due to lower subsidies as well as the overall market slowdown already witnessed in the fourth quarter of 2013.

Other operating income fell by EUR 2.4 mn year-on-year, mainly resulting from lower own work capitalisation.

The average monthly revenue per mobile user (ARPU) continued to shrink to EUR 15.2 in the first quarter of 2014 from EUR 16.1 in the first quarter of 2013, as higher fixed fees could not compensate negative regulatory effects and lower airtime revenues. Correspondingly, mobile service revenues fell by 8.8% year-on-year.

The average monthly revenue per fixed access line (ARPL) fell by 5.0% year-on-year to EUR 30.6, as the decline in voice minutes outweighed positive effects from the strong development of IPTV and fixed broadband. Fixed-service revenues also fell by 4.8% year-on-year.

Operating expenses reduced by EUR 56.6 mn year-on-year

Operating expenses were considerably reduced by 11.4% year-on-year to EUR 436.3 mn in the first quarter of 2014, mainly in consequence of lower material expenses as well as interconnection expenses. Material expenses fell by EUR 28.9 mn resulting from lower handset subsidies primarily for subscriber acquisition. Interconnection expenses fell by EUR 25.2 mn analogous to revenues. The company also cut EUR 4.8 mn in marketing and sales expenses in the first quarter of 2014 versus the same period in 2013.

The improvement in operating expenses resulted in a considerable slowdown in the rate of decline in EBITDA comparable compared to previous quarters, which fell 5.8% year-on-year to EUR 194.8 mn in the first quarter of 2014. The Austrian EBITDA-comparable margin thus rose from 30.4% in the first quarter of 2013 to 31.7% in the first quarter of 2014.

The lower number of gross additions and lower subsidies in the contract business more than halved mobile subscriber acquisition costs year-on-year to EUR 6.8 mn. Subscriber retention costs fell by a lesser 13.4% year-on-year to EUR 23.8 mn, resulting from a lower number of replaced handsets as well as a lower average subsidy.

Higher restructuring expenses as well as depreciation and amortisation charges exacerbated the effect of the EBITDA comparable decline on operating income, which came in 23.7% lower at EUR 58.1 mn in the first quarter of 2014 versus the same period last year. The increase in restructuring expenses was due to a low comparative base resulting from an extraordinary effect in the first quarter of 2013. Amortisation charges were driven by the mobile spectrum bought in October 2013.

Segment Bulgaria

Key Performance Indicators

in EUR million	Q1 2014	Q1 2013	% change
Revenues	91.2	97.5	−6.4%
EBITDA comparable	37.1	39.4	−5.8%
EBITDA incl. effects from restructuring and impairment tests	37.1	39.4	−5.8%
EBIT	14.1	15.5	−9.0%

Mobile communication business	Q1 2014	Q1 2013	% change
ARPU (in EUR)	6.0	6.1	−1.7%
Mobile communication subscribers (in '000)	4,111.0	4,400.6	−6.6%
Mobile market share	38.5%	41.1%	
Mobile contract share	79.4%	75.8%	
Mobile broadband subscribers (in '000)	207.6	155.1	33.9%
Mobile penetration - total market	144.6%	144.2%	

Fixed line business	Q1 2014	Q1 2013	% change
ARPL (in EUR)	14.3	13.5	5.9%
Total access lines (in '000)	154.4	163.4	−5.5%
Fixed broadband lines (in '000)	149.7	158.1	−5.3%

* 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 in 2013 have been adjusted retrospectively.

In the first quarter of 2014 the political and macroeconomic environment in Bulgaria appears to have stabilised somewhat. Competitive and regulatory pressures in the form of termination rate cuts in July 2013 and January 2014, however, continued to negatively impact performance. The new management team focussed on counteracting these pressures by means of strict cost management and a continued emphasis on value generation both in the mobile and fixed sectors. The promotion of fixed broadband services via attractively priced bundle products enabled Mobiltel to benefit from its convergent positioning. On 3rd April the company also prolonged its existing 900-MHz and 1800-MHz mobile spectrum for another 10 years at a cost of EUR 30.6 mn.

Mobiltel's mobile customer base continued to decline this quarter by 6.6% year-on-year to 4.1 mn subscribers, driven by a further decrease in prepaid customers. While contract subscribers also fell quarter-on-quarter as well as year-on-year – albeit at a lesser rate than prepaid – gross additions in the contract segment were growing against the prior year. The company also saw a further improvement in its contract share from 78.7% in the fourth quarter of 2013 to 79.4% in the first quarter of 2014. The number of mobile broadband customers rose 33.9% year-on-year, reaching 207,600 subscribers by the end of the first quarter of 2014. Fixed access lines fell 5.5% year-on-year in the first quarter of 2014 in consequence of higher churn mainly in the single fixed residential broadband services, compared with bundle products.

Revenues declined by 6.4% year-on-year in the first quarter of 2014, which represents an improvement from the double-digit percentage declines seen in 2013. Monthly fee and traffic revenues were adversely affected by the shrinking customer base as well as pricing and volume effects in the mobile business. The adoption of lower termination rates resulted in a decline in interconnection revenue. Higher equipment revenues from an increase in smartphone sales only partly cushioned the overall negative effect.

In the same vein the slight decline in average monthly revenue per mobile user (ARPU) from EUR 6.1 to EUR 6.0 was due to negative pricing trends as well as regulation. Average monthly revenue per fixed line (ARPL) increased by 5.9% year-on-year to EUR 14.3, driven by several larger deals in the business division. Fixed-line service revenues also benefitted, rising by 2.9% year-on-year to EUR 6.8 mn in the first quarter of 2014.

Other operating income increased by EUR 1.6 mn during the first quarter of 2014 compared to the same period last year, stemming mainly from own work capitalisation. The corresponding amount is included in operating expenses.

Operating expense reduced by 4.1% year-on-year

In a difficult market Mobiltel's management team continued to focus on cost efficiency, resulting in a reduction of operating expenses by 4.1% to EUR 56.3 mn in the first quarter of 2014 versus the same period last year. Besides lower interconnection expenses, this was mainly due to lower other expenses resulting from workforce optimisation, lower maintenance expenses as well as lower bad debts and administrative expenses. Some of the benefits of the above were, however, cancelled out by higher material expenses from smartphone sales and a negative effect in employee expenses stemming from the above-mentioned own work capitalisation effect.

The operating expense reduction partly softened the effect of the revenue decline on EBITDA comparable, resulting in a decrease of 5.8% year-on-year to EUR 37.1 mn,

With depreciation and amortisation charges slightly reduced, operating income still fell by 9.0%year-on-year to EUR 14.1 mn.

Segment Croatia

Key Performance Indicators

in EUR million	Q1 2014	Q1 2013	% change
Revenues	83.2	92.1	−9.6%
EBITDA comparable	22.7	29.3	−22.5%
EBITDA incl. effects from restructuring and impairment tests	22.7	29.3	−22.5%
EBIT	5.9	12.9	−54.5%

Mobile communication business	Q1 2014	Q1 2013	% change
ARPU (in EUR)	10.5	11.4	−7.8%
Mobile communication subscribers (in '000)	1,807.1	1,878.2	−3.8%
Mobile market share	37.0%	37.8%	
Mobile contract share	46.0%	43.4%	
Mobile broadband subscribers (in '000)	160.3	161.4	−0.7%
Mobile penetration - total market	113.7%	115.7%	

Fixed line business	Q1 2014	Q1 2013	% change
ARPL (in EUR)	21.6	23.4	−8.0%
Total access lines (in '000)	202.1	172.1	17.4%
Fixed broadband lines (in '000)	115.9	93.5	24.0%

In the first quarter of 2014 Croatian Vipnet continued to counteract growing macro-economic pressures as well as a fallout from roaming and interconnection revenue following the EU accession in July 2013 by way of its high-value customer focus. Nevertheless, competitive pressures, particularly in the business division, drove down prices both in the prepaid and contract segments. In response the company launched new mobile and fixed propositions with integrated high-value options as well as convergent discount offerings in April 2014.

Vipnet's mobile subscriber base declined by 3.8% year-on-year to just over 1.8 million customers in the first quarter of 2014. Continued year-on-year growth in the contract business could not make up for the shrinking prepaid subscriber base as customers continue to shed multiple SIM cards. The contract share continued to rise from 45.1% in the fourth quarter of 2013 to 46.0% in the first quarter of 2014, which was primarily due to the overall reduction in subscribers. Mobile broadband subscriber numbers fell slightly resulting from falling demand for prepaid datasticks.

The fixed-line business showed significant access line growth year-on-year as well as quarter-on-quarter to approximately 202,100 lines, partly due to fixed-line acquisitions in 2013. Fixed broadband access lines grew by 24.0% year-on-year, inter alia resulting from growing TV customer demand for high-speed internet.

Fixed broadband access line growth of 24.0% year-on-year

In terms of revenue, sinking mobile price levels in both the prepaid and postpaid business resulted in reduction in monthly fee and traffic revenues. Lower MTR rates drove a reduction in interconnection revenue; customer and visitor roaming revenue also came in considerably lower resulting from the application of the EU glidepath. A fall in equipment revenue was due to lower quantities of handset sold as well as lower handset prices. As a result of the above, total revenues fell by 9.6% to EUR 83.2 mn.

Other operating income was EUR 1.1 mn lower in the first quarter of 2014 compared to the same period last year, resulting primarily from positive acquisition and collection effects amounting to EUR 1.9 mn recorded in the first quarter 2013.

Falling price levels in prepaid and contract as well as regulatory effects hurt average monthly revenue per mobile user (ARPU), which fell from EUR 11.4 in the first quarter of 2013 to EUR 10.5 in the first quarter of 2014. The integration of companies acquired in 2013 with lower average revenue per customer reduced average monthly revenue per fixed access line (ARPL) from EUR 23.4 in the first quarter of 2013 to EUR 21.6 in the first quarter of 2014. Total fixed-line service revenues, however, increased by 9.2% to EUR 12.8 mn; approx. 70% of this growth was organic.

Fixed-line service revenue increase of 9.2% driven by growth in broadband

A combination of lower handset sales, strict cost management and regulatory cuts resulted in a further reduction in operating expenses of EUR 3.4 mn to EUR 61.9 mn during the first quarter of 2014 versus the same period last year. The reduction was mostly due to material expenses which fell primarily on the back of the lower handset sales. Lower mobile termination rates drove the decline in interconnection expenses, as the company also reduced marketing and sales expenses. Other expenses rose mainly due to a positive effect from the collection of outstanding receivables, reducing bad debt expense in the first quarter of 2013.

The reduction in operating expenses could only soften the negative impact of declining revenues on EBITDA comparable, which fell by 22.5% year-on-year to EUR 22.7 mn in the first quarter of 2014. Resulting mainly from the decline in interconnection and high-margin wholesale roaming revenue, the EBITDA-margin in Croatia fell from 31.8% in the first quarter of 2013 to 27.2% in the first quarter of 2014.

Slightly higher depreciation and amortisation charges from last year's acquisitions put further pressure on operating income, which more than halved from EUR 12.9 mn in the first quarter of 2013 to EUR 5.9 mn in the first quarter of 2014.

Segment Belarus

Key Performance Indicators

in EUR million	Q1 2014	Q1 2013	% change
Revenues	81.0	81.6	–0.8%
EBITDA comparable	39.9	39.5	1.1%
EBITDA incl. effects from restructuring and impairment tests	39.9	39.5	1.1%
EBIT	19.7	16.9	16.5%

	Q1 2014	Q1 2013	% change
ARPU (in EUR)	4.7	4.8	–3.2%
Mobile communication subscribers (in '000)	4,938.9	4,818.0	2.5%
Market share	42.9%	43.6%	
Contract share	80.8%	80.6%	
Mobile broadband subscribers (in '000)	252.6	227.6	11.0%
Market penetration - total market	121.6%	116.8%	

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. In the first quarter of 2014 the devaluation of the Belarusian Rouble began to accelerate as a result of the Ukrainian crisis. The BYR thus fell 3.6% against the Euro between January and March 2014, and 18.1% since 31 March 2013. Inflation amounted to 4.9% versus 6.0% in the fourth quarter of 2013.

velcom continued to post a strong operational performance driven by smartphone and data demand in the first quarter of 2014. Subsequently its subscriber base grew by 2.5% year-on-year. Mobile broadband subscribers grew by 11.0% year-on-year to almost 253,000.

As a result of the strong operational trend, revenues increased by 20.8% year-on-year on a local currency basis. This was primarily driven by a strong rise in monthly fee and traffic revenues as well as higher equipment revenues. The former was the result of price increases in 2013 as well as organic growth stemming from a growing subscriber base as well as upselling effects and increased usage, especially in data. However, the revenue rise in local currency was mostly offset by negative foreign exchange effects of EUR 17.9 mn. Consequently, total revenues came in effectively flat in Euro terms. Local currency ARPU also increased by 17.9% on the back of price increases and upselling.

On a local currency basis operating expenses increased by 18.5%, mainly from higher material, employee and other expenses. Material expenses rose mainly as a result of higher high-value handset sales. Personnel expenses rose due to inflation-based salary increases in September 2013, as well as 139 additional full-time employees versus the first quarter of 2013, owing to an increase in the residential sales, customer service and IT divisions. Other expenses were considerably higher in the first quarter of 2014 than in the respective quarter of last year, and were driven by rental expense growth as well as higher expenses for maintenance and repair, frequency fees and bad debts. In EUR-terms foreign exchange effects outweighed these increases entirely, resulting in a slight reduction in operating expenditure of EUR 0.8 mn to EUR 42.4 mn.

EBITDA comparable growth despite EUR 8.8 mn negative FX-impact

With largely flat revenues and slightly lower OPEX, EBITDA comparable for the first quarter of 2014 amounted to EUR 39.9 mn. This is 1.1% above last year's first quarter EBITDA comparable and includes a negative FX effect of EUR 8.8 mn. In local currency EBITDA comparable rose by 24.0% year-on-year.

A reduction of EUR 2.3 mn in depreciation and amortisation charges due to a positive FX effect boosted operating income, which increased by 16.5% to EUR 19.7 mn during the first quarter of 2014 versus the same period last year.

Segment Additional Markets

Slovenia

Key Performance Indicators

in EUR million	Q1 2014	Q1 2013	% change
Revenues	50.4	49.2	2.5%
EBITDA comparable	15.1	12.8	17.8%
EBITDA incl. effects from restructuring and impairment tests	15.1	12.8	17.8%
EBIT	9.8	7.6	28.5%

	Q1 2014	Q1 2013	% change
ARPU (in EUR)	19.8	20.3	−2.5%
Mobile communication subscribers (in '000)	677.9	669.6	1.2%
Market share	29.9%	30.0%	
Contract share	78.3%	77.0%	
Mobile broadband subscribers (in '000)	21,662	19,380	11.8%
Market penetration - total market	108.9%	107.2%	

In the first quarter of 2014 the Slovenian subsidiary Si.mobil continued to focus on value generation by growing its contract customer base to counteract macro-economic headwinds and a further decline in the mobile pricing level. The Slovenian multiband auction was completed on 28 April 2014, with Si.mobil acquiring almost 50% of the auctioned spectrum at a cost of EUR 63.9 mn.

The mobile subscriber base increased by 1.2% year-on-year in the first quarter of 2014, mostly driven by the contract business. The contract share further increased to 78.3% from 78.0% in the fourth quarter of 2013. Mobile broadband subscribers also rose 11.8% year-on-year versus the same period last year.

Si.mobil mobile broadband customers grew by 11.8% year-on-year

Despite this strong trend in postpaid, lower airtime revenues resulting from lower average prices led to a slight decline in monthly fee and traffic revenues. Higher interconnection and equipment revenues, however, mitigated this decline and resulted in a 2.5% year-on-year increase in total revenues to EUR 50.4 mn. The growth in equipment revenue was primarily due to lower subsidies for acquisition and retention. Average revenue per user (ARPU) fell slightly from EUR 20.3 to EUR 19.8 as a result of price pressure on airtime inbound revenues.

Other operating income increased by EUR 0.9 mn year-on-year in the first quarter of 2013, attributable to the reclassification of site sharing revenues as well as expat revenues and intercompany service charges. These reclassifications were EBITDA-neutral.

Material expenses fell as a result of fewer prolongations in the contract business during the first quarter of 2014 as well as lower subsidies for acquisition and retention. The effects of this reduction were however partly offset by higher employee expenses and the effects of the above-mentioned reclassification to other expenses. Altogether operating expenses improved slightly in the first quarter of 2014. Resulting from this improvement, as well as the improvement in turnover, EBITDA comparable rose by 17.8% year-on-year to EUR 15.1 mn during the first quarter of 2014. The EBITDA-comparable margin also improved from 26.0% in the first quarter of 2013 to 29.9%in the first quarter of 2014.

Stable depreciation and amortisation charges further helped operating income, resulting in a 28.5% year-on-year increase to EUR 9.8 mn.

Republic of Serbia

Key Performance Indicators

in EUR million	Q1 2014	Q1 2013	% change
Revenues	49.3	42.6	15.6%
EBITDA comparable	15.3	15.0	2.0%
EBITDA incl. restructuring and impairment test	15.3	15.0	2.0%
EBIT	–3.1	–3.2	n.m.

	Q1 2014	Q1 2013	% change
ARPU (in EUR)	6.7	7.1	–5.6%
Mobile communication subscribers (in '000)	2,044.3	1,903.5	7.4%
Market share	21.5%	20.5%	
Contract share	51.8%	47.9%	
Market penetration - total market	132.4%	130.6%	

In the Republic of Serbia Vip mobile was able to carry its positive operational momentum from the fourth quarter of 2013 into the new year. The company posted solid mobile subscriber growth of 7.4% driven by the contract business, which increased 15.9% year-on-year, while the prepaid business continued to suffer from customer migration to postpaid tariffs.

Strong revenue growth of 15.6% year-on-year

The growth in the contract segment drove an increase in revenues from fixed monthly fees, which more than offset a decline in traffic and customer roaming revenues and thus slightly increased monthly fee and traffic revenues in the first quarter of 2014 versus the same period last year. However, total revenue growth of 15.6% resulted mainly from an increase in equipment revenues stemming from a change to the mobile handset offering, which also changed revenue recognition for handsets. The resulting increase in equipment revenue was only partly offset by lower interconnection revenue from reduced transit volumes and lower visitor roaming. The average monthly revenue per user (ARPU) fell by 5.6% year-on-year to EUR 6.7, as positive revenue effects from growing monthly mobile fees were outweighed by falling airtime revenues and regulatory effects.

The new accounting treatment of handset sales also increased material expenses and, subsequently, operating expenses by EUR 6.5 mn. While interconnection expenses fell, employee expenses increased, due to a higher number of employees and higher salaries as well as changes in the accounting treatment related to salary capitalisation and intercompany compensation. Despite the rise in operating expenses EBITDA comparable rose by 2.0% year-on-year to EUR 15.3 mn. The EBITDA-comparable margin fell by 4.2 percentage points versus the same period last year to 31.1%.

Slightly higher depreciation and amortisation charges only partly reduced the positive effect of the increase in EBITDA comparable on the operating loss, leading to a smaller loss of EUR 3.1 mn in the first quarter of 2014 versus EUR 3.2 mn during the same period last year.

The Serbian Dinar fell 2.3% over the course of the first quarter of 2014 versus the Euro and 3.4% since 31 March 2013, resulting in negative foreign exchange translation 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	Q1 2014	Q1 2013	% change
Revenues	13.5	15.3	–11.6%
EBITDA comparable	2.5	1.8	34.2%
EBITDA incl. effects from restructuring and impairment tests	2.5	1.8	34.2%
EBIT	0.3	–0.3	n.m.

	Q1 2014	Q1 2013	% change
ARPU (in EUR)	6.6	7.5	–12.8%
Mobile communication subscribers (in '000)	622.2	626.5	–0.7%
Market share	28.3%	28.1%	
Contract share	49.2%	43.4%	
Market penetration - total market	107.1%	108.7%	

In the Republic of Macedonia Vip operator's continued focus on value generation resulted in another quarter of contract subscriber growth of 12.5% year-on-year. This growth, as well as continued fierce competition in a saturated market did, however, come at the expense of subscriber numbers in the prepaid segment, as competitive postpaid bundle offers reduced the demand for multiple SIM cards. Subsequently, total mobile subscriber numbers also declined slightly.

Revenues fell by 11.6% year-on-year in the first quarter of 2014, primarily driven by the reduction in interconnection revenue resulting from lower national termination rates. Visitor roaming revenues also suffered somewhat as a consequence of lower prices charged. Despite posting subscriber growth in the contract business, equipment revenue also declined as a result of less postpaid handsets sold following the introduction of SIM-only tariffs in 2013 and lower average postpaid handset prices in a strongly contested market versus the same period last year. The average monthly revenue per user (ARPU) fell to EUR 6.6, stemming from interconnection, lower postpaid prices and lower usage in the prepaid segment.

EBITDA growth of 34.2% year-on-year

Operational expenses decreased by EUR 2.4 mn in the first quarter of 2014 as lower interconnection rates also reduced the associated cost position. Reduced marketing and sales costs due to lower costs for classical advertising as well as higher credit notes for marketing support was another factor. Material expenses declined slightly following lower quantities of handsets sold. Resulting from these cost savings, EBITDA comparable grew by 34.2% year-on-year to EUR 2.5 mn. The EBITDA comparable margin improved from 12.0% in the first quarter of 2013 to 18.2% in the first quarter of 2014.

This increase in EBITDA comparable combined with stable depreciation and amortisation charges also led to a better operating result, which improved from a loss EUR 0.3 mn in the first quarter of 2013 to an operating profit of EUR 0.3 mn in the first quarter of 2014.

Consolidated Net Income

In the first quarter of 2014 the financial result improved from a negative EUR 47.9 mn to a negative EUR 46.4 mn mainly due to lower interest expenses, as refinancing activities in 2013 resulted in a slightly lower average cost of debt of 4.1% in the first quarter of 2014 versus 4.2% for the period January to March 2013.

Tax expenses fell in the first quarter of 2014 by 29.5% year-on-year to EUR 10.2 mn, in line with the reduction in income before income tax. The improvement in the financial result and lower taxes somewhat cushioned the negative effects from the decline in operating income on net income, which nevertheless fell by 26.5% year-on-year to EUR 40.8 mn during the first quarter of 2014.

Balance Sheet and Net Debt

Total assets of Telekom Austria Group remained practically stable with a reduction of 0.8% year-on-year to EUR 7,795.0 mn as of 31 March 2014. This was the result of declining non-current assets, which outweighed higher current assets. Current assets grew by 3.7% in the first quarter of 2014 to EUR 1,266.6 mn, as an increase in cash and cash equivalents and higher prepaid expenses early in the year negated a reduction in accounts receivable due to lower revenues. Non-current assets fell by 1.7% in the first quarter of 2014 to EUR 6,528.4 mn, as depreciation and amortisation of property, plant and equipment and intangible assets was higher than the additions. This was primarily the result of lower capital expenditure, especially in Austria.

Current liabilities also declined this quarter by 4.7% to EUR 1,373.9 mn, as lower accounts payable more than offset higher short-term borrowings and other current liabilities. Accounts payable fell also as a result of lower operating expenses and capital expenditure mainly in Austria. Short-term borrowings increased due to the first drawdown from the ABS-programme set up in 2012, and the increase in other current liabilities was due to higher liabilities to the fiscal authorities in Austria and Bulgaria. Non-current liabilities were slightly lower in the first quarter of 2014 at EUR 4,896.1 mn.

Similarly, total stockholders' equity changed only marginally, growing 0.8% to EUR 1,525.0 mn.

Net debt

in EUR million	31 Mar 2014	31 Dec 2013	% change
Net debt	3,670.5	3,695.8	–0.7%
Net debt / EBITDA comparable (12 months)	2.9x	2.9x	0.6%

As of 31 March 2014 company net debt had fallen by 0.7% versus 31 December 2013 to EUR 3,670.5 mn, as the cash inflow offset the increase in short-term borrowings from the first ABS drawdown. Net debt to EBITDA comparable remained stable at 2.9x.

Cash Flow

Cash flow

in EUR million	Q1 2014	Q1 2013	% change
Cash flow from operating activities	148.9	191.8	–22.4%
Cash flow from investing activities	–94.3	–892.7	n.m.
Cash flow from financing activities	–13.0	520.4	n.m.
Effect of exchange rate changes	0.6	1.0	–38.1%
Monetary loss on cash and cash-equivalents	–0.1	–0.8	n.m.
Net increase / decrease in cash and cash equivalents	**42.1**	–180.3	n.m.

In the first quarter of 2014 cash flow from operating activities fell by 22.4% to EUR 148.9 mn versus the same period of last year, as the cash outflow from working capital increased by 28.2% to EUR 135.1 mn. The change in working capital over the first quarter of 2014 was mostly the consequence of a reduction in accounts payable, and – to a lesser extent – higher prepaid expenses as well as lower provisions and accrued liabilities pertaining to customer allowances and personnel provisions in Austria.

The cash outflow from investing activities fell by EUR 798.3 mn to EUR 94.3 mn versus the first quarter of 2013. This was in part due to the reinvestment of proceeds from the EUR 600 mn hybrid issuance as well as the acquisition of YESSS! from Orange Austria, which resulted in a cash outflow in the first quarter of 2013. The cash outflow over the course of the first quarter of 2014 was mostly the result of capital expenditure in Austria.

The cash inflow from financing activities of EUR 520.4 mn in the first quarter of 2013 turned to a cash outflow of EUR 13.0 mn in the first quarter of 2014, after the above-mentioned issuance of hybrid bond had resulted in an inflow of approximately EUR 600 mn in the first quarter of 2013. The cash outflow over the first quarter of 2014 was the result of the payment of the hybrid bond coupon, shown as dividends paid, in February 2014, which completely offset positive effects from an increase in short-term borrowings relating to the first drawdown from the ABS programme.

In summary, driven by investing activities cash and cash equivalents saw an inflow of EUR 42.1 mn versus an outflow of EUR 180.3 mn in the first quarter of 2013.

Cash inflow of EUR 42.1 mn driven by operating cashflow

Capital Expenditures

Capital expenditures in EUR million	Q1 2014	Q1 2013	% change
Austria	61.5	102.1	–39.8%
Bulgaria	6.6	11.1	–40.3%
Croatia	12.6	14.4	–12.1%
Belarus	8.3	4.2	98.5%
Additional Markets	10.4	17.2	–39.6%
Corporate & Other, Eliminations	0.0	0.0	n.a.
Total capital expenditures	**99.4**	149.0	–33.3%
thereof tangible	71.4	97.2	–26.5%
thereof intangible	28.0	51.7	–45.9%

In the first quarter of 2014 Group capital expenditures fell by 33.3% versus the same period last year to EUR 99.4 mn, driven by a major reduction of EUR 40.6 mn in the Austrian segment.

Group capital expenditures reduction after acquisition of Orange Austria assets in Q1 2013

In Austria tangible capital expenditures fell by EUR 17.6 mn versus the first quarter of 2013, as A1 Telekom Austria completed its Next Generation Voice programme and reduced investments in radio access and IT. Intangible capital expenditure fell by EUR 23.0 mn on a comparative basis following the acquisition of intellectual property rights and frequencies from Orange Austria in the first quarter of 2013.

In Bulgaria capital expenditure also fell by 40.3% year-on-year, as both tangible and intangible CAPEX for access, IT (e.g. billing) and retail was lower. Croatia saw a 12.1% year-on-year reduction in capital expenditure, as Management curtailed tangible CAPEX for transport and operations. In Belarus capital expenditure nearly doubled from EUR 4.2 mn in the first quarter of 2013 to EUR 8.3 mn in the first quarter of 2014, as a result of investment postponements in the first quarter of 2013. The Additional Markets segment saw a 39.6% capital expenditure reduction primarily resulting from the changed accounting treatment for handset sales in the Republic of Serbia.

Personnel

Personnel (full-time equivalent) End of period	31 Mar 2014	31 Mar 2013	% change
Austria	8,895.2	9,235.2	–3.7%
International Operations	7,019.7	7,104.7	–1.2%
Total	**16,090.1**	16,498.5	2.5%

Personnel (full-time equivalent) Average of period	Q1 2014	Q1 2013	% change
Austria	8,866.4	9,191.0	–3.5%
International Operations	7,072.7	7,143.6	–1.0%
Total	**16,110.5**	16,494.9	–2.3%

Headcount falls 2.5% year-on-year driven by Austria and Bulgaria

As of 31 March 2014 Telekom Austria Group had 16,090 full-time employees (FTEs), a reduction of 408 full-time employees versus 31 March 2013. The primary drivers of this change were Austria with a reduction of 340 FTEs and Bulgaria, where the ongoing outsourcing of services reduced the Bulgarian headcount by 259 FTEs. The former was part of the continued restructuring efforts in Austria. Net additions of 139 were recorded in Belarus, owing to an increase in the residential sales, customer service and IT divisions. The Croatian net additions of 31 FTEs were primarily the result of the acquisition of four cable operators – three in June and one in September 2013.

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 2014, pp. 101 ff.

Other and Subsequent Events

For details on other and subsequent events please refer to page 34.

Waiver of Review

This financial report of the Telekom Austria Group contains quarterly results, which have not been 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.

Condensed Consolidated Financial Statements Telekom Austria Group

Condensed Consolidated Statements of Profit or Loss

in EUR million, except per share information	Q1 2014 unaudited	Q1 2013 unaudited
Operating revenues	975.9	1,049.0
Other operating income	16.2	16.6
Materials	−104.6	−131.1
Employee expenses, including benefits and taxes	−218.6	−213.2
Other operating expenses	−349.0	−384.5
Operating expenses	−672.2	−728.8
EBITDA comparable	**319.9**	336.9
Restructuring	−7.7	−2.7
Impairment and reversal of impairment	0.0	0.0
EBITDA incl. effects from restructuring and impairment testing	**312.3**	334.2
Depreciation and amortisation	−214.9	−216.4
Operating result	**97.4**	117.8
Interest income	3.3	3.7
Interest expense	−49.1	−51.3
Foreign exchange differences	−0.7	−0.2
Other financial result	0.1	−0.1
Result from investments in affiliates	0.0	0.0
Financial result	−46.4	−47.9
Earnings before income taxes	**51.0**	69.9
Income taxes	−10.2	−14.5
Net Result	**40.8**	55.5
Attributable to:		
Owners of the parent	34.5	50.1
Non-controlling interests	0.0	0.0
Hybrid capital owners	6.2	5.4
Basic and fully diluted earnings per share	**0.08**	0.11
Weighted-average number of ordinary shares outstanding	**442,584,841**	442,563,969

Condensed Consolidated Statements of Comprehensive Income

in EUR million	Q1 2014 unaudited	Q1 2013 unaudited
Net Result	**40.8**	55.5
Realised result on securities available-for-sale	0.0	0.1
Income tax (expense) benefit	0.0	0.0
Unrealised result on hedging activities	0.0	1.0
Income tax (expense) benefit	0.0	–0.3
Realised result on hedging activities	1.6	0.0
Income tax (expense) benefit	–0.4	0.0
Foreign currency translation adjustment	–2.5	3.8
Items that may be reclassified to profit or loss	– 1.3	4.6
Remeasurements of defined benefit obligations	–1.2	–0.7
Income tax (expense) benefit	0.3	0.2
Items that are not reclassified to profit or loss	– 0.9	– 0.5
Other comprehensive income (loss)	–2.2	4.1
Total comprehensive income (loss)	38.6	59.5
Attributable to:		
Owners of the parent	32.3	54.2
Non-controlling interests	0.0	0.0
Hybrid capital owners	6.2	5.4

Condensed Consolidated Statements of Financial Position

in EUR million	31 March 2014 unaudited	31 Dec. 2013 audited
ASSETS		
Current assets		
Cash and cash equivalents	243.4	201.3
Short-term investments	6.9	9.9
Accounts receivable - trade, net of allowances	661.2	683.8
Receivables due from related parties	0.1	0.1
Inventories	134.0	127.3
Prepaid expenses	119.1	101.7
Income tax receivable	26.2	22.2
Non-current assets held for sale	0.8	1.0
Other current assets	74.9	74.0
Total current assets	**1,266.6**	**1,221.2**
Non-current assets		
Investments in associates	4.1	5.0
Financial assets long-term	5.3	5.2
Goodwill	1,581.6	1,581.9
Other intangible assets, net	2,554.5	2,590.3
Property, plant and equipment, net	2,229.0	2,308.1
Other non-current assets	28.9	25.2
Deferred tax assets	125.0	123.0
Total non-current assets	**6,528.4**	**6,638.8**
TOTAL ASSETS	**7,795.0**	**7,860.0**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	−253.3	−230.3
Accounts payable - trade	−456.3	−573.8
Current provisions and accrued liabilities	−302.3	−301.4
Payables due to related parties	−4.0	−5.9
Income tax payable	−34.0	−34.7
Other current liabilities	−159.8	−137.1
Deferred income	−164.2	−159.1
Total current liabilities	**−1,373.9**	**−1,442.3**
Non-current liabilities		
Long-term debt	−3,735.5	−3,737.7
Employee benefit obligation	−167.4	−164.3
Non-current provisions	−871.4	−881.4
Deferred tax liabilities	−105.2	−105.3
Other non-current liabilities and deferred income	−16.6	−16.4
Total non-current liabilities	**−4,896.1**	**−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	118.9	132.6
Available-for-sale reserve	0.0	0.0
Hedging reserve	44.5	45.7
Translation adjustments	444.8	442.3
Equity attributable to equity holders of the parent	**−1,524.0**	**−1,511.5**
Non-controlling interests	−1.0	−1.1
Total stockholders' equity	**−1,525.0**	**−1,512.6**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**−7,795.0**	**−7,860.0**

Condensed Consolidated Statements of Cash Flows

in EUR million	Q1 2014 unaudited	Q1 2013 unaudited
Net Result	40.8	55.5
Adjustments to reconcile net result to operating cash flow		
Depreciation and amortisation	214.9	216.4
Employee benefit obligation - non-cash	1.9	2.1
Bad debt expenses	8.5	12.1
Change in deferred taxes	–0.6	4.0
Result from investments in affiliates	0.9	0.2
Share-based compensation	1.0	–1.8
Change in asset retirement obligation - non-cash	1.7	1.7
Provision for restructuring - non-cash	12.0	7.4
Result on sale of investments	–0.1	0.1
Result on disposal / retirement of equipment	0.4	0.9
Gain on monetary items - non-cash	0.0	–0.2
Other	2.6	–1.1
Gross cash flow	284.0	**297.1**
Accounts receivable - trade	13.3	5.7
Inventories	–6.6	–9.8
Prepaid expenses and other assets	–27.7	–32.5
Accounts payable - trade	–116.8	–65.7
Employee benefit obligation	0.0	–0.1
Provisions and accrued liabilities	–23.7	–28.7
Other liabilities and deferred income	28.4	27.7
Payables due to related parties	–1.9	–1.8
Changes in assets and liabilities	–135.1	–105.4
Cash flow from operating activities	148.9	**191.8**
Capital expenditures	–99.4	–149.0
Acquisitions of subsidiaries, net of cash acquired	0.0	–325.6
Sale of property, plant, equipment and intangible assets	2.3	1.1
Purchase of investments	–0.2	–504.5
Sale of investments	2.9	85.3
Cash flow from investing activities	–94.3	**–892.7**
Principal payments on long-term debt	–3.3	0.0
Changes in short-term borrowings	24.1	–38.5
Issuance of hybrid bond	0.0	588.2
Dividends paid	–33.8	0.0
Deferred consideration paid for business combinations	0.0	–29.3
Cash flow from financing activities	–13.0	**520.4**
Effect of exchange rate changes	0.6	**1.0**
Monetary loss on cash and cash equivalents	–0.1	**–0.8**
Change in cash and cash equivalents	42.1	**–180.3**
Cash and cash equivalents at beginning of period	201.3	600.8
Cash and cash equivalents at end of period	243.4	420.5

Condensed Consolidated Statements of Changes in Stockholders' Equity

in EUR million (unaudited)	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	40.8	0.0	40.8	0.0	40.8
Other comprehensive income (loss)	0.0	0.0	0.0	0.0	–0.9	–1.3	–2.2	0.0	–2.2
Total comprehensive income (loss)	**0.0**	**0.0**	**0.0**	**0.0**	**39.9**	**–1.3**	**38.6**	**0.0**	**38.6**
Distribution of dividends	0.0	0.0	0.0	0.0	–31.7	0.0	–31.7	–0.1	–31.8
Hyperinflation adjustment	0.0	0.0	0.0	0.0	5.5	0.0	5.5	0.0	5.5
Balance at 31 March 2014	**966.2**	**–7.8**	**582.6**	**591.2**	**–118.9**	**–489.3**	**1,524.0**	**1.0**	**1,525.0**

in EUR million (unaudited)	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	55.4	0.0	55.4	0.0	55.5
Other comprehensive income (loss)	0.0	0.0	0.0	0.0	–0.5	4.6	4.1	0.0	4.1
Total comprehensive income (loss)	0.0	0.0	0.0	0.0	54.9	4.6	59.5	0.0	59.5
Hyperinflation adjustment	0.0	0.0	0.0	0.0	36.6	0.0	36.6	0.0	36.6
Issuance of hybrid capital	0.0	0.0	0.0	591.2	0.0	0.0	591.2	0.0	591.2
Balance at 31 March 2013	966.2	–8.2	582.9	591.2	–144.6	–482.1	1,505.3	1.1	1,506.4

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	31 March 2014 unaudited	31 Dec. 2013 audited
Long-term debt	3,735.5	3,737.7
Short-term borrowings	255.2	232.2
Cash and cash equivalents and short-term investments	–250.3	–211.2
Long-term investments, instalment sale and finance lease receivables	–69.9	–62.9
Net debt	**3,670.5**	3,695.8
Net debt/EBITDA comparable (last 12 months)	**2.9x**	2.9x

The purchase price not yet paid related to the acquisition of SOBS is included in short-term borrowings.

Condensed Operating Segments

in EUR million (unaudited)	Q1 2014 Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Elimina-tions	Consoli-dated
External revenues	609.8	90.6	81.4	80.9	113.2	0.0	0.0	975.9
Intersegmental revenues	4.3	0.6	1.8	0.0	2.2	0.0	–8.9	0.0
Total revenues	**614.1**	**91.2**	**83.2**	**81.0**	**115.4**	**0.0**	**–8.9**	**975.9**
Other operating income	16.9	2.1	1.4	1.4	2.8	6.5	–15.0	16.2
Segment expenses	–436.3	–56.3	–61.9	–42.4	–85.9	–13.3	23.9	–672.2
EBITDA comparable	**194.8**	**37.1**	**22.7**	**39.9**	**32.3**	**–6.8**	**0.0**	**319.9**
Restructuring	–7.7	0.0	0.0	0.0	0.0	0.0	0.0	–7.7
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	**187.1**	**37.1**	**22.7**	**39.9**	**32.3**	**–6.8**	**0.0**	**312.3**
Depreciation and amortisation	–129.1	–23.0	–16.8	–20.2	–26.0	0.0	0.2	–214.9
Operating result	**58.1**	**14.1**	**5.9**	**19.7**	**6.2**	**–6.8**	**0.2**	**97.4**
Interest income	0.5	0.3	0.0	2.4	0.2	8.6	–8.6	3.3
Interest expense	–11.5	–0.2	–2.5	–0.5	–0.3	–42.7	8.6	–49.1
Result from investments in affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial result	0.3	0.0	–0.6	0.3	–0.1	224.0	–224.4	–0.6
Earnings before income taxes	**47.3**	**14.1**	**2.7**	**21.9**	**6.1**	**183.0**	**–224.2**	**51.0**
Income taxes								–10.2
Net result								**40.8**
Segment assets	4,917.0	1,268.4	531.4	565.5	752.0	7,920.1	–8,159.3	7,795.0
Segment liabilities	–2,803.7	–118.6	–353.8	–65.2	–155.9	–4,479.0	1,706.2	–6,270.0
Capital expenditures - intangible	21.2	1.9	1.3	0.8	2.8	0.0	0.0	28.0
Capital expenditures - tangible	40.3	4.7	11.3	7.5	7.6	0.0	0.0	71.4
Total capital expenditures	**61.5**	**6.6**	**12.6**	**8.3**	**10.4**	**0.0**	**0.0**	**99.4**
EBITDA comparable margin	31.7%	40.6%	27.2%	49.3%	28.0%	n.a	n.a	32.8%

in EUR million (unaudited)	Q1 2013 Austria	Bulgaria	Croatia	Belarus	Additional Markets	Corporate & Other	Elimina-tions	Consoli-dated
External revenues	675.3	96.3	89.8	81.6	106.1	0.0	0.0	1,049.0
Intersegmental revenues	4.8	1.2	2.3	0.0	2.6	0.0	–10.9	0.0
Total revenues	680.0	97.5	92.1	81.6	108.7	0.0	–10.9	1,049.0
Other operating income	19.4	0.6	2.5	1.1	1.8	6.0	–14.7	16.6
Segment expenses	–492.6	–58.7	–65.3	–43.2	–81.6	–12.9	25.7	–728.8
EBITDA comparable	206.8	39.4	29.3	39.5	28.9	–6.9	0.0	336.9
Restructuring	–2.7	0.0	0.0	0.0	0.0	0.0	0.0	–2.7
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	204.1	39.4	29.3	39.5	28.9	–6.9	0.0	334.2
Depreciation and amortisation	–128.0	–23.9	–16.4	–22.6	–25.8	0.0	0.2	–216.4
Operating result	76.1	15.5	12.9	16.9	3.1	–6.9	0.2	117.8
Interest income	0.8	0.3	0.1	1.6	0.3	5.9	–5.2	3.7
Interest expense	–10.8	–0.8	–3.2	–0.4	0.1	–41.4	5.2	–51.3
Result from investments in affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial result	0.4	0.0	–0.8	0.2	0.2	115.6	–115.9	–0.3
Earnings before income taxes	66.5	14.9	9.0	18.3	3.7	73.1	–115.7	69.9
Income taxes								–14.5
Net result								55.5
Segment assets	4,362.2	1,302.1	518.9	642.4	783.0	7,913.0	–7,664.2	7,857.4
Segment liabilities	–2,214.6	–205.4	–354.1	–43.9	–179.9	–4,685.6	1,332.5	–6,351.0
Capital expenditures - intangible	44.2	3.5	1.1	0.5	2.5	0.0	0.0	51.7
Capital expenditures - tangible	57.9	7.6	13.3	3.7	14.8	0.0	0.0	97.2
Total capital expenditures	102.1	11.1	14.4	4.2	17.2	0.0	0.0	149.0
EBITDA comparable margin	30.4%	40.4%	31.8%	48.4%	26.6%	n.a	n.a	32.1%

Results by Segments

in EUR million	Q1 2014 unaudited	Q1 2013 unaudited	% change
Revenues			
Austria	614.1	680.0	–9.7%
Bulgaria	91.2	97.5	–6.4%
Croatia	83.2	92.1	–9.6%
Belarus	81.0	81.6	–0.8%
Additional markets	115.4	108.7	6.1%
Corporate & Other & Eliminations	–8.9	–10.9	–18.2%
Total revenues	**975.9**	1,049.0	–7.0%
EBITDA comparable			
Austria	194.8	206.8	–5.8%
Bulgaria	37.1	39.4	–5.8%
Croatia	22.7	29.3	–22.5%
Belarus	39.9	39.5	1.1%
Additional markets	32.3	28.9	11.7%
Corporate & Other & Eliminations	–6.8	–6.9	–1.7%
Total EBITDA comparable	**319.9**	336.9	–5.0%
EBITDA incl. effects from restructuring and impairment testing			
Austria	187.1	204.1	–8.3%
Bulgaria	37.1	39.4	–5.8%
Croatia	22.7	29.3	–22.5%
Belarus	39.9	39.5	1.1%
Additional markets	32.3	28.9	11.7%
Corporate & Other & Eliminations	–6.8	–6.9	–1.7%
Total EBITDA incl. effects from restructuring and impairment testing	**312.3**	334.2	–6.6%
Operating result			
Austria	58.1	76.1	–23.7%
Bulgaria	14.1	15.5	–9.0%
Croatia	5.9	12.9	–54.5%
Belarus	19.7	16.9	16.5%
Additional markets	6.2	3.1	99.3%
Corporate & Other & Eliminations	–6.6	–6.7	–1.1%
Total operating result	**97.4**	117.8	–17.4%
EBITDA comparable margin			
Austria	31.7%	30.4%	
Bulgaria	40.6%	40.4%	
Croatia	27.2%	31.8%	
Belarus	49.3%	48.4%	
Additional markets	28.0%	26.6%	
EBITDA comparable margin total	**32.8%**	32.1%	

Capital Expenditures

in EUR million	Q1 2014 unaudited	Q1 2013 unaudited	% change
Austria	61.5	102.1	−39.8%
Bulgaria	6.6	11.1	−40.3%
Croatia	12.6	14.4	−12.1%
Belarus	8.3	4.2	98.5%
Additional markets	10.4	17.2	−39.6%
Corporate & Other & Elimination	0.0	0.0	n.a
Total capital expenditures	**99.4**	149.0	−33.3%
Thereof tangible	71.4	97.2	−26.5%
Thereof intangible	28.0	51.7	−45.9%

Selected Explanatory Notes to the Consolidated Interim Financial Statements (unaudited)

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" are not audited or reviewed and should be read in connection with the 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 IFRS 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 program and from impairment testing, if any. The restructuring program 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 first quarter 2014 and 2013 see "Provisions and Accrued Liabilities".

Non-Current and Current Liabilities

In the first quarter 2014, no long-term debt was issued and EUR 3.3 million of long-term debt was repaid.

In March 2014, velcom entered into factoring of instalment sale receivables with recourse under which EUR 7.4 million debt were drawn as of 31 March 2014. Instalment sale receivables in the amount of EUR 7.4 million were sold under this programme but, due to the recourse, they are recognised in the consolidated financial statements.

Additionally, EUR 50.0 million were drawn for the first time under the Asset Backed Security (ABS) program in Austria and accounts receivable – trade in the amount of EUR 382.8 million were sold. The resulting increase in short-term borrowings due to the drawing was partly compensated by the payment of accrued interest.

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

Provisions and Accrued Liabilities

The provision for restructuring amounting to EUR 775.4 million as of 31 December 2013 decreased to EUR 761.6 million as of 31 March 2014, mainly due to the usage of the provision, partly compensated by the accretion and additions to the provision. In the first quarter 2014 and 2013, a restructuring expense of EUR 2.6 million and of EUR 0.9 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 25.8 million as of 31 March 2014. In the first quarter 2014 and 2013, a restructuring expense of EUR 5.1 million and EUR 1.8 million, respectively, was recorded.

Income Taxes

The effective tax rate for the first quarter 2014 and 2013 was 20.0% and 20.7%. In the first quarter 2014 and 2013, the effective tax rate was less than the Austrian statutory tax rate of 25% mainly due to tax incentives and foreign tax rate differentials.

Net deferred tax assets of EUR 17.7 million as of 31 December 2013 increased to EUR 19.8 million as of 31 March 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 2.1 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 consolidated statements of profit or loss and equals the recognised interest for the first quarter according to local GAAP amounting to EUR 8.3 million, net of the related tax benefit of EUR 2.1 million, which is recognised in stockholders' equity according to IAS 12.

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	31 March 2014 Carrying amount unaudited	Fair value unaudited	31 Dec. 2013 Carrying amount audited	Fair value audited
Cash and cash equivalents	**243.4**	**243.4**	**201.3**	**201.3**
Accounts receivable - trade	661.2	661.2	683.8	683.8
Receivables due from related parties	0.1	0.1	0.1	0.1
Other current financial assets	45.7	45.7	42.6	42.6
Other non-current financial assets	21.2	21.2	18.1	18.1
Loans and receivables	**728.1**	**728.1**	**744.6**	**744.6**
Long-term investments	4.8	4.8	4.7	4.7
Short-term investments	6.9	6.9	9.9	9.9
Available-for-sale investments	**11.6**	**11.6**	**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	31 March 2014 Carrying amount unaudited	Fair value unaudited	31 Dec. 2013 Carrying amount audited	Fair value audited
Liabilities to financial institutions	0.6	0.6	0.0	0.0
Bonds	3,026.5	3,303.1	3,025.5	3,206.8
Assets backed security debt	57.4	57.4	0.0	0.0
Other current financial liabilities	68.1	68.1	68.2	68.2
Non-current liabilities to financial institutions	845.5	908.9	848.8	911.4
Other non-current liabilities	0.9	0.9	0.9	0.9
Accounts payable - trade	456.3	456.3	573.8	573.8
Payables due to related parties	4.0	4.0	5.9	5.9
Accrued interest	58.7	58.7	93.7	93.7
Financial liabilities at amortised cost	**4,518.1**	**4,858.1**	**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.

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:

31 March 2014 in EUR million (unaudited)	Level 1	Level 2	Level 3	Total
Available-for-sale & other investments	6.3	5.3	0.0	11.6
Financial assets measured at fair value	**6.3**	**5.3**	**0.0**	**11.6**

31 Dec. 2013 in EUR million (unaudited)	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

On 3 April 2014, the Bulgarian subsidiary Mobiltel prolonged its existing 2 x 11.2 MHz in the 900-MHz spectrum band and 2 x 10 MHz in the 1800-MHz spectrum band for a total amount of EUR 30.6 million. The allocated spectrum remains the same. In addition to the one-off prolongation cost, Mobiltel must pay an annual spectrum fee of EUR 2.2 million, which remains unchanged. The spectrum has a maturity of 10 years, until 8 June 2024. The terms of the prolongation were set by the Communications Regulation Commission (CRC). The one-off fee for the prolongation was paid on 22 April 2014.

On 8 April 2014, the supervisory board of Telekom Austria Group and Chief Financial Officer Hans Tschuden agreed to prematurely dissolve his contract by 31 May 2014 and, therefore, after the annual general meeting for the year 2013. At the supervisory board meeting on 6 May 2014 Siegfried Mayrhofer was appointed as successor as of 1 June 2014 for a one-year term.

On 23 April 2014, América Móvil, S.A.B. de C.V. ("AMX") entered, through its wholly owned subsidiary Carso Telecom B.V. ("Carso Telecom"), into a shareholders' agreement (the "Shareholders' Agreement") with Österreichische Industrieholding AG ("ÖIAG"), with respect to their participations in Telekom Austria AG ("Telekom Austria").

As part of the transaction, ÖIAG and AMX have agreed, subject to the closing of the Public Offer (as defined below) and the approval by Telekom Austria's shareholders meeting, to vote in favour and support a capital increase in Telekom Austria of EUR 1,000 million. The capital increase will strengthen Telekom Austria's capital structure and financial position and will allow Telekom Austria to continue to invest in state-of-the-art infrastructure, research and development, innovation of products and services, amongst others, and to position Telekom Austria to benefit from investment opportunities arising in the countries in which it currently operates and in emerging markets in Central and Eastern Europe.

As a result of the Shareholders' Agreement, AMX, through Carso Telecom, will launch a public takeover offer pursuant to the Austrian Takeover Act, for all outstanding Telekom Austria shares not held by AMX, Carso Telecom, ÖIAG or Telekom Austria (the "Public Offer"). The offer price of the Public Offer will be EUR 7.15 (seven euros and fifteen cents), per Telekom Austria share. The publication of the offer document will take place in the coming weeks and in accordance with the Austrian legal framework.

This Shareholders' Agreement and the Public Offer are subject to certain approvals by competition authorities as well as the regulatory authority. Once the approvals are obtained, the Shareholders' Agreement will become effective and AMX will obtain operational responsibilities in Telekom Austria.

On 28 April 2014, Si.mobil acquired 2 x 90 MHz of FDD spectrum and 1 x 45 MHz of TDD spectrum at the combinatorial clock auction in Slovenia, equivalent to approximately 48% of total auctioned spectrum, for a total consideration of EUR 63.9 million. The new 800-MHz spectrum and the 2600-MHz spectrum licenses are valid from mid-2014 until mid-2029. The 2100-MHz TDD spectrum license, also valid from mid-2014, has been granted until September 2021. The 900-MHz and 1800-MHz spectrum license will be valid from January 2016 until January 2031. Considering the existing spectrum and the planned strategy of future network investments especially in rural areas, Si.mobil focused on the acquisition of the spectrum in the 800-MHz frequency band, with moderate increases of its position in the 900-MHz and 1800-MHz bands. Si.mobil intends to cover 50% of the Slovenian population with LTE technology already this year, and reach a population coverage of 95% within three years. It will thereby fulfil regulatory coverage obligations as well as the objectives of the European digital agenda concerning the coverage of so-called 'whitespots'. The consideration for the acquired spectrum must be paid in full within 15 days of receiving the official notice from the regulator.