TELEKOM AUSTRIA GROUP

Results for the First Nine Months 2017

Key financial and operating highlights third quarter 2017

- Outlook revised: Group revenues 2017 estimated to increase by approx. 3% (previously ~1%, on a reported basis), CAPEX expected at approx. EUR 745 mn in 2017 (previously ~EUR 725 mn).
- Reported net result increased by 3.4% in the third quarter of 2017 to EUR 148.1 mn.
- Group total revenues rose by 2.3% while EBITDA declined by 2.6% on a proforma basis year-on-year due to one-off effects and changes in restructuring charges.
- Excluding one-off and FX effects as well as restructuring charges, proforma revenues and EBITDA rose by 1.9% and 1.6% y-o-y.
    - Positive one-off effect in Bulgaria of EUR 5.8 mn in OOI in Q3 2017, resulting from a legal settlement.
    - Positive one-off effect in Austria of EUR 14.4 mn in Q3 2016 stemming from the reversal of an accrual for copyrights.
    - Restructuring charges in Austria: positive EUR 13.3 mn in Q3 2017 due to a revaluation, compared to a positive EUR 20.4 mn effect in Q3 2016.
    - Negative FX effects in Q3 2017: EUR 1.1 mn in revenues; EUR 1.3 mn in EBITDA.
- Operationally, revenues driven by higher equipment revenues and continuing increase in service revenues in all markets except for Slovenia and Macedonia. EBITDA growth in all CEE markets (ex Slovenia).
- Austria: Retail fixed-line revenues back to growth while mobile service revenues declined due to roaming and prepaid.
- Negative roaming effect estimated for FY 2017 at approx. 1.5% to 2.0% of Group EBITDA after high usage elasticity in Q3 2017 and higher than expected visitor roaming revenues on a Group level.
- Free cash flow grew by 133.6% in the third quarter 2017 to EUR 184.2 mn due to higher cash flow from operations, lower interest paid and lower capital expenditures paid.

Key performance indicators
Proforma view

in EUR million	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Total revenues	1,110.7	1,085.3	2.3	3,252.5	3,144.0	3.5
EBITDA	410.1	421.0	−2.6	1,109.0	1,091.7	1.6
% total revenues	36.9%	38.8%		34.1%	34.7%	
EBIT	191.1	206.4	−7.4	464.0	442.2	4.9
% total revenues	17.2%	19.0%		14.3%	14.1%	

Wireless indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Wireless subscribers (thousands)	20,828.1	20,731.7	0.5	20,828.1	20,731.7	0.5
thereof postpaid	15,364.3	14,912.8	3.0	15,364.3	14,912.8	3.0
thereof prepaid	5,463.7	5,819.0	−6.1	5,463.7	5,819.0	−6.1
MoU (per Ø subscriber)	307.3	303.5	1.3	305.6	303.7	0.6
ARPU (EUR)	8.9	9.0	−1.5	8.7	8.7	−0.3
Churn (%)	2.0%	1.9%		2.0%	1.9%	

Wireline indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
RGUs (thousands)	6,014.9	6,051.5	−0.6	6,014.9	6,051.5	−0.6

All financial figures are based on IFRS; if not stated otherwise, all comparisons are given year-on-year. EBITDA is defined as net income excluding financial result, income taxes, depreciation and amortisation 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 Group nor any other person accepts any liability for any such forward-looking statements. Telekom Austria Group 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 Group.

Information on alternative performance measures and reporting changes

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

To reflect the performance on an operational basis, the proforma figures present comparison figures for previous periods as if M&A transactions executed between the start of the comparison period and the end of the reporting period had already been fully consolidated in the relevant months of the comparison period. Alternative performance measures are used to describe the operational performance. Please therefore also refer to the financial information presented in the Consolidated Financial Statements, which do not contain proforma figures, as well as the reconciliation tables provided on page 30.

As of Q1 2017, the new company ‘A1 Digital International GmbH’ is consolidated as part of the segment ‘Corporate & other, eliminations’. The Machine-to-Machine (M2M) business, which has so far been reported in the Austrian Segment, is part of this new company. Therefore, previously reported numbers in the segments Austria as well as in ‘Corporate & other, eliminations’ will be affected, while Group numbers will not change. Comparative figures have been adjusted accordingly. The new company will focus on the B2B market and offer digital services to actively support companies in the digitalisation process with the goal of enhancing their success in their field of business.

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Group Management Report

The presentation for the conference call and key figures of the Telekom Austria Group in Excel format ('Fact Sheet Q3 2017') are available on the website at www.telekomaustria.com.

Contacts:
Investor Relations
Susanne Reindl
Head of Investor Relations
Tel.: +43 (0) 50 664 39420
Email:
susanne.reindl@
telekomaustria.com

Corporate Communications
Barbara Grohs
Director Group
Communications &
Sustainability
Tel.: +43 (0) 50 664 39693
Email:
barbara.grohs@
telekomaustria.com

Vienna, 24 October 2017 – Today, the Telekom Austria Group (VSE: TKA, OTC US: TKAGY) announces its results for the first nine months and third quarter 2017, ending 30 September 2017.

Quarterly Analysis

Summary

Income Statement

Reported view

in EUR million	Q3 2017 reported	Q3 2016 reported	% change	1-9 M 2017 reported	1-9 M 2016 reported	% change
Service revenues	987.1	961.6	2.7	2,909.6	2,804.3	3.8
Equipment revenues	123.5	111.6	10.7	342.9	309.0	11.0
Total revenues	**1,110.7**	1,073.2	**3.5**	**3,252.5**	3,113.3	**4.5**
Cost of service	–344.8	–329.0	–4.8	–1,028.6	–988.2	–4.1
Cost of equipment	–143.7	–126.3	–13.8	–400.3	–355.6	–12.6
Selling, general & administrative expenses	–209.5	–202.6	–3.4	–708.2	–689.7	–2.7
Other expenses	–2.5	0.2	n.m.	–6.3	–0.6	n.m.
Total costs and expenses	**–700.5**	–657.7	**–6.5**	**–2,143.5**	–2,034.1	**–5.4**
EBITDA	**410.1**	415.5	**–1.3**	**1,109.0**	1,079.1	**2.8**
% of total revenues	36.9%	38.7%		34.1%	34.7%	
Depreciation and amortisation	–219.1	–212.8	–2.9	–645.0	–644.7	0.0
EBIT	**191.1**	202.7	**–5.7**	**464.0**	434.4	**6.8**
% of total revenues	17.2%	18.9%		14.3%	14.0%	
Interest income	3.9	3.0	29.0	11.1	9.3	19.2
Interest expense	–24.5	–43.4	43.5	–72.7	–103.5	29.7
Other financial expense	–2.1	–3.3	37.5	–8.9	–6.1	–45.8
Foreign currency exchange differences	–6.4	1.0	n.m.	–2.2	8.2	n.m.
Equity interest in net income of affiliates	0.1	0.3	–70.3	–0.6	0.8	n.m.
Earnings before income tax	**162.1**	160.3	**1.1**	**390.8**	343.2	**13.9**
Income tax	–14.0	–17.1	18.1	–33.7	–36.5	7.8
Net result*)	**148.1**	143.2	**3.4**	**357.1**	306.7	**16.4**

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

The following analysis is presented on a proforma[1] basis if not stated otherwise.

The following factors impact the year-on-year comparison of the operating results of the Telekom Austria Group in the third quarter of 2017 and should be considered in the analysis:

> The acquisition of the fixed-line provider Garant (Gomel) in Belarus, consolidated as of 1 August 2017.

[1] Proforma figures include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.

- The acquisition of the fixed-line operator Metronet in Croatia, which was closed on 15 February 2017. The company has been consolidated as of 1 February 2017.
- The acquisition of the fixed-line provider Atlant Telecom and its subsidiary TeleSet in Belarus, consolidated as of 1 December 2016.
- Total negative FX effects amounting to EUR 1.1 mn for total revenues and EUR 1.3 mn for EBITDA in the third quarter of 2017, as FX losses in Belarus were partly offset by currency appreciations in Serbia and Croatia.
- One-off effects included in the third quarter of 2017 and the comparison period:
  - In Bulgaria, other operating income in Q3 2017 was positively affected by a EUR 5.8 mn one-off effect resulting from a legal settlement.
  - A positive EUR 14.4 mn one-off effect in Q3 2016 deriving from the reversal of an accrual for copyrights in Austria, included in cost of service.
- Restructuring charges in Austria amounted to a positive EUR 13.3 mn in the third quarter of 2017, stemming from a revaluation due to changed parameters, compared to a positive EUR 20.4 mn effect in the same period last year, which also resulted from a revaluation.

As of Q1 2017, the new company 'A1 Digital International GmbH' (A1 Digital) has been consolidated as part of the segment 'Corporate & other, eliminations'. The Machine-to-Machine (M2M) business, which was until then reported in the Austrian Segment, is now part of this new company. A1 Digital focuses on the B2B market and offers digital services to actively support companies in the digitalisation process, with the goal of enhancing their success in their field of business. In August 2017, A1 Digital acquired a majority stake in the Swiss cloud provider Akenes SA, operating under the brand Exoscale. Exoscale provides infrastructure and services for cloud applications in Europe. Following the acquisition, A1 Digital is able to offer cloud-based services over this platform.

Telekom Austria Group announced on 20 September 2017 that it has decided to harmonise its brands within the Group and to roll out the brand 'A1' throughout the Group in a gradual manner depending on local circumstances. The group-wide rollout of A1 constitutes a further step in order to strengthen the brand profile of the Group. This will trigger an amortisation of local brand values which amounted to approximately EUR 350 mn per year-end 2016. The companies will amortise the brand values until the phase-out of the old brands. This will impact Telekom Austria Group's net result. More than half of the impact is to be expected in Q4 2017 and in Q1 2018.

In the third quarter of 2017, Telekom Austria Group saw a slight increase in the mobile subscriber base of 0.5% in a year-on-year comparison, coming mainly from M2M subscribers of A1 Digital as well as from growth in the Republic of Serbia and Croatia, while the subscriber numbers in Bulgaria, Belarus and the Republic of Macedonia declined. In Austria, mobile subscribers decreased by 1.6% in the third quarter of 2017, driven by the prepaid segment. Almost all markets saw a shift from prepaid to postpaid offers. The number of revenue generating units (RGUs) in the fixed-line business of the Group declined by 0.6% year-on-year (reported: +7.3%). The decline in RGUs in Austria and Bulgaria, which was mainly driven by voice RGUs, was partly offset by increases in the other markets.

Group revenues increased by 2.3% year-on-year; 1.9% revenue increase excl. one-off and FX effects

Group total revenues increased by 2.3% year-on-year (reported: +3.5%) due to growth in all markets except for the Republic of Macedonia. Excluding the above-mentioned one-off effect in Bulgaria in Q3 2017 as well as the FX impact, Group total revenues increased by 1.9% year-on-year (reported: +3.1%). Negative effects stemming from the abolition of retail roaming in the EU as of 15 June 2017 came in slightly lower than expected and derive mostly from Austria and Slovenia, while Croatia profited from higher visitor roaming revenues. Group service revenues increased by 1.4% (reported: +2.7%) and rose by 0.8% (reported: +2.1%) excluding the above-mentioned one-off effect.

Total revenues in the Austrian segment increased by 1.2% year-on-year in the third quarter of 2017 as higher fixed-line and other revenues as well as increased equipment revenues more than offset losses in wireless service revenues. The latter were driven by the negative effects on customer roaming due to the above-mentioned abolition of retail roaming as well as losses in the prepaid segment, which were partly offset by strong growth in mobile broadband.

In the Bulgarian segment, total revenues increased by 5.5% in a year-on-year comparison, driven to a large extent by the above mentioned one-off effect. Excluding this impact, total revenues remained stable (+0.1%) as increased service revenues, driven by the fixed-line segment, were partly offset by the decline in equipment revenues. Total revenues in the Croatian segment rose by 5.2% year-on-year (reported: +12.0%), stemming from higher visitor roaming revenues and continuing growth in the fixed-line business. Total revenues in the Belarusian segment increased by 10.3% year-on-year (reported: +16.9%), driven by continuing solid operational growth. Excluding the negative FX impact of EUR 3.7 mn, total revenues in Belarus rose by 14.4% year-on-year (reported: +21.3%).

In the Slovenian segment, total revenues rose by 1.0% year-on-year in the third quarter of 2017 due to the increases in equipment revenues and in fixed-line service revenues while competition in the mobile segment remained fierce. Total revenues in the Serbian segment increased by 6.0% year-on-year due to higher mobile service revenues despite the MTR cuts as well as increased equipment revenues. In the Republic of Macedonia, total revenues came in almost stable year-on-year (-0.2%). The decline in interconnection revenues in both the mobile and the fixed-line business, driven by MTR cuts, as well as lower mobile airtime revenues, were compensated by higher national roaming revenues.

Group total costs and expenses rose by 5.4% year-on-year to EUR 700.5 mn in the third quarter of 2017 (reported: +6.5%). Excluding the above mentioned one-off effect in Q3 2016 as well as the impact of substantially lower positive restructuring charges in Austria, total costs and expenses increased by 2.1% year-on-year (reported: +3.1%) and were driven by higher cost of equipment and increased workforce costs.

Group EBITDA decline of 2.6% year-on-year; 1.6% EBITDA increase excl. one-offs, FX effects and restructuring

Group EBITDA declined by 2.6% year-on-year to EUR 410.1 mn in the third quarter of 2017 (reported: -1.3%). The comparison of Group EBITDA is affected by the substantially lower positive restructuring charges in Austria as well as the one-off effects in both the reporting and comparison period. Excluding restructuring and the abovementioned one-off effects as well as the FX impact, Group EBITDA increased by 1.6% year-on-year (reported: +3.1%). Apart from Austria and Slovenia, which were above all impacted by the roaming abolition, all other segments contributed to this growth.

In Austria, the EBITDA decline of 8.7% was mostly driven by the above mentioned positive one-off effect in Q3 2016 and restructuring effects. Restructuring charges amounted to a positive EUR 13.3 mn in the third quarter of 2017. The positive revaluation effect due to changed parameters came in lower than last year (EUR 20.4 mn). Excluding the impacts of the one-off effect and from restructuring, EBITDA decreased by 1.1% as cost increases could not be fully compensated by higher total revenues, stemming primarily from higher retail fixed-line and equipment revenues.

In Bulgaria, the EBITDA increase of 18.5% was positively impacted by the above mentioned one-off effect in Q3 2017. Excluding this impact, EBITDA rose by 2.5% due to growth in total service revenues and an improved equipment margin.

In Croatia, higher total service revenues, largely driven by increased visitor roaming revenues, and lower total costs and expenses led to an increase in EBITDA of 20.1% year-on-year (reported: +34.2%).

In Belarus, solid operational performance resulted in 8.0% higher EBITDA compared to Q3 2016 (reported: +12.8%). Excluding the negative FX impact of EUR 2.0 mn, EBITDA in Belarus rose by 12.6% year-on-year (reported: +17.6%).

In Slovenia, EBITDA declined by 33.7%, largely driven by roaming losses. The EBITDA in the Republic of Serbia increased by 3.1% year-on-year as the rise in total revenues was partly offset by higher costs.

In the Republic of Macedonia, cost efficiencies led to EBITDA growth of 29.4% year-on-year.

Depreciation and amortisation increased by 2.1% to EUR 219.1 mn in the third quarter of 2017 (reported: +2.9%). Altogether, this led to a decline in operating income of 7.4% year-on-year (reported: -5.7%) to EUR 191.1 mn.

EUR 148.1 mn reported net result

The reported financial result amounted to a negative EUR 29.0 mn in Q3 2017 compared to a negative EUR 42.4 mn in the same period last year. Reported income taxes amounted to EUR 14.0 mn in Q3 2017 compared to EUR 17.1 mn in Q3 2016. In summary, this resulted in a reported net result of EUR 148.1 mn in the third quarter of 2017 compared to EUR 143.2 mn in Q3 2016.

Capital expenditures declined by 25.9% year-on-year to EUR 147.1 mn in the third quarter 2017 (reported: -25.2%).

Group Overview (proforma)

The following tables are presented on a proforma basis and include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period. This affects the segments of Croatia and Belarus. The proforma view is equivalent to the reported view for the other segments. Average monthly revenue per fixed-line (ARPL) is available on a reported basis only. The reconciliation tables, including reported and proforma values, as well as the difference thereof, can be found on page 30.

Key performance indicators
Proforma view

in EUR million	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Total revenues	1,110.7	1,085.3	2.3	3,252.5	3,144.0	3.5
thereof total service revenues *)	987.1	973.7	1.4	2,909.6	2,835.0	2.6
Wireless revenues	697.0	683.4	2.0	2,004.2	1,959.1	2.3
thereof service revenues	553.7	558.1	−0.8	1,613.9	1,609.8	0.3
thereof equipment revenues	114.0	104.9	8.7	315.8	289.1	9.3
Fixed-line and other revenues	413.7	401.9	2.9	1,248.3	1,184.9	5.4
EBITDA	410.1	421.0	−2.6	1,109.0	1,091.7	1.6
% total revenues	36.9%	38.8%		34.1%	34.7%	
EBIT	191.1	206.4	−7.4	464.0	442.2	4.9
% total revenues	17.2%	19.0%		14.3%	14.1%	

Wireless indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Wireless subscribers (thousands)	20,828.1	20,731.7	0.5	20,828.1	20,731.7	0.5
thereof postpaid	15,364.3	14,912.8	3.0	15,364.3	14,912.8	3.0
thereof prepaid	5,463.7	5,819.0	−6.1	5,463.7	5,819.0	−6.1
MoU (per Ø subscriber)	307.3	303.5	1.3	305.6	303.7	0.6
ARPU (EUR)	8.9	9.0	−1.5	8.7	8.7	−0.3
Churn (%)	2.0%	1.9%		2.0%	1.9%	

Wireline indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
RGUs (thousands)	6,014.9	6,051.5	−0.6	6,014.9	6,051.5	−0.6

*) Including other operating income

Segment Information (proforma)

Segment Austria[2]

Key performance indicators

Proforma view (= Reported view)

Financials

in EUR million	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Total revenues	655.3	647.7	1.2	1,946.1	1,910.7	1.9
thereof total service revenues*)	606.1	605.5	0.1	1,816.9	1,787.9	1.6
Wireless revenues	309.7	311.1	−0.4	904.2	920.1	−1.7
thereof service revenues	255.6	263.5	−3.0	758.1	776.7	−2.4
thereof equipment revenues	40.2	35.8	12.2	104.0	104.0	0.0
Fixed-line and other revenues	345.6	336.6	2.7	1,041.9	990.5	5.2
EBITDA	254.1	278.3	−8.7	712.2	723.0	−1.5
% of total revenues	38.8%	43.0%		36.6%	37.8%	
EBIT	139.3	162.3	−14.2	356.8	355.0	0.5
% of total revenues	21.3%	25.1%		18.3%	18.6%	

Wireless indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Wireless subscribers (thousands)	5,357.3	5,443.9	−1.6	5,357.3	5,443.9	−1.6
thereof postpaid	3,721.6	3,706.6	0.4	3,721.6	3,706.6	0.4
thereof prepaid	1,635.8	1,737.3	−5.8	1,635.8	1,737.3	−5.8
MoU (per Ø subscriber)	250.8	244.6	2.5	253.0	250.3	1.1
ARPU (in EUR)	15.9	16.1	−1.5	15.6	15.8	−1.3
Churn (%)	1.8%	1.7%		1.7%	1.7%	

Wireline indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
RGUs (thousands)	3,396.6	3,501.4	−3.0	3,396.6	3,501.4	−3.0

*) Including other operating income

As there have been no mergers or acquisitions in Austria between the beginning of the comparison period and the end of the period under review, the following analysis is based on reported figures.

In Q3 2017, competition in the Austrian mobile market continued to be driven by aggressive promotions including high data allowances in the mobile no-frills business but also data monetisation in the contract business. In this environment, A1 Telekom Austria monetises the growth in demand for data via high data allowances and by including data roaming in its premium tariffs. At the same time, the price pressure in the no-frills segment is addressed with its no-frills brands bob and YESSS!, i.e. through competitive national tariffs. Moreover, the company launched attractive regional promotions and target group-oriented products, i.e. for the youth segment.

In the Austrian broadband market, mobile WiFi routers with unlimited data offerings remain a relevant element. A1 combines the fixed-line and the mobile networks with its hybrid modem and thereby enables A1 to offer fixed-line products with higher bandwidths. Convenient unlimited mobile broadband offers complete A1's data-centric high-value proposition. On 26 June 2017, A1 increased the available download speed in its

[2] Since the first quarter 2017, Machine-to-Machine (M2M) is no longer reported in the Austrian segment and is shown in "Corporate & other, eliminations". Comparative figures have been adjusted accordingly.

broadband offers to up to 300 Mbps. As of 1 August 2017, monthly fees have been increased for existing customers in the fixed-line business.

In the third quarter of 2017, the total number of mobile communication subscribers declined by 1.6% year-on-year, entirely driven by a decrease in the number of prepaid customers. At the same time, high demand for mobile WiFi routers and high-value tariffs persisted, resulting in a higher number of postpaid subscribers. Net additions came in negative at -6,700 as the growth in postpaid was not able to fully offset the decline in the prepaid segment.

TV RGU growth of 4.3% year-on-year

In the fixed-line business, total fixed-line revenue generating units (RGUs) decreased by 3.0% year-on-year in Q3 2017, mainly due to losses of voice customers. While the demand for fibre upgrades remained continuously strong and TV RGUs continued to exhibit solid growth (+4.3% year-on-year), the number of fixed-line broadband customers declined by 1.8% year-on-year as the abovementioned price increase as of 1 August 2017 and some substitution by WiFi routers led to higher churn.

In the third quarter of 2017, total revenues increased by 1.2% year-on-year as higher fixed-line service revenues and equipment revenues outweighed losses in wireless service revenues. Total service revenues remained stable (+0.1%).

Wireless service revenues were impacted by negative effects on customer roaming after the abolition of retail roaming within the EU as of 15 June 2017 as well as losses in the prepaid segment. This was partly compensated by increased revenues in the mobile broadband business. Wireless equipment revenues rose due to higher quantities and a changed handset portfolio with a shift towards high-value devices.

Average monthly revenue per user (ARPU) decreased by 1.5% from EUR 16.1 in Q3 2016 to EUR 15.9 in the third quarter of 2017, driven by losses in roaming revenues and a lower prepaid ARPU. Excluding roaming, ARPU would have been stable in Q3 2017 compared to last year.

Fixed-line and other revenues increased by 2.7% driven by higher retail fixed-line revenues and increased revenues from solutions and connectivity as well as higher equipment revenues. Interconnection revenues decreased mainly due to a changed settlement logic last year. Retail fixed-line service revenues increased as higher revenues from broadband and TV due to the solid demand for higher bandwidth products as well as the above mentioned price increases were only partly offset by lower voice revenues. Equipment revenues in the fixed-line business rose due to higher ICT equipment revenues.

ARPL increased by 6.5% to EUR 29.7 in Q3 2017

The average monthly revenue per fixed-line (ARPL) rose by 6.5% from EUR 27.9 in Q3 2016 to EUR 29.7 in Q3 2017, mainly due to upselling measures in the broadband business as well as the above mentioned price increase.

Total costs and expenses increased by 8.6% in the third quarter of 2017 compared to the same period last year. This increase was mostly driven by the positive one-off effect in the amount of EUR 14.4 mn resulting from the reversal of an accrual for copyrights in Q3 2016 as well as lower positive restructuring charges compared to Q3 2016. Restructuring charges amounted to a positive EUR 13.3 mn in the third quarter of 2017, stemming from a revaluation due to changed parameters, compared to a positive EUR 20.4 mn effect in the same period last year, also related to a revaluation of the restructuring provision. Excluding these effects, total costs and expenses rose by 2.6% due to higher cost of equipment as well as higher commissions and roaming expenses. These increases were partly offset by lower network costs and interconnection expenses. Cost of equipment increased due to the above mentioned change in the handset portfolio as well as higher ICT equipment costs. Employee costs excluding restructuring were lower compared to Q3 2016.

Subsidies for acquisition rose by 32.0% to EUR 9.0 mn in Q3 2017 due to higher gross adds and an increased subsidy per handset. Subsidies for retention rose by 25.5% to EUR 24.2 mn due to a higher subsidy level.

Including the above mentioned positive one-off effect in Q3 2016 and the lower positive restructuring charges, EBITDA declined by 8.7% year-on-year. Excluding these effects, EBITDA decreased by 1.1% as the abovementioned cost increases and the high negative roaming impact could not be fully compensated by higher total revenues.

EBITDA decrease of 8.7% year-on-year; EBITDA decline of 1.1% excl. one-off and restructuring

Depreciation and amortisation decreased by 1.0% to EUR 114.8 mn in the quarter under review. As a result, the Austrian segment reported a decrease in operating income of 14.2% year-on-year to EUR 139.3 mn in Q3 2017.

Segment Bulgaria

Key performance indicators

Proforma view (= Reported view)

Financials

in EUR million	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Total revenues	112.3	106.4	5.5	319.1	303.3	5.2
thereof total service revenues*)	100.7	93.8	7.3	279.0	272.7	2.3
Wireless revenues	88.6	84.5	4.9	249.9	238.3	4.9
thereof service revenues	70.1	71.1	−1.5	201.2	204.5	−1.6
thereof equipment revenues	11.3	12.2	−7.1	39.0	29.7	31.4
Fixed-line and other revenues	23.7	21.9	7.9	69.2	65.1	6.3
EBITDA	42.8	36.1	18.5	104.4	100.4	3.9
% of total revenues	38.1%	33.9%		32.7%	33.1%	
EBIT	0.0	4.8	n.m.	2.2	18.1	−87.8
% of total revenues	n.m.	4.5%		0.7%	6.0%	

Wireless indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Wireless subscribers (thousands)	4,055.8	4,116.8	−1.5	4,055.8	4,116.8	−1.5
thereof postpaid	3,484.3	3,496.1	−0.3	3,484.3	3,496.1	−0.3
thereof prepaid	571.5	620.7	−7.9	571.5	620.7	−7.9
MoU (per Ø subscriber)	273.4	275.6	−0.8	274.4	274.8	−0.2
ARPU (in EUR)	5.7	5.8	−1.5	5.5	5.5	−1.0
Churn (%)	2.4%	1.6%		2.1%	1.9%	

Wireline indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
RGUs (thousands)	994.4	1,019.3	−2.4	994.4	1,019.3	−2.4

*) Including other operating income

As there have been no mergers or acquisitions in Bulgaria between the beginning of the comparison period and the end of the period under review, the following analysis is based on reported figures.

In the third quarter of 2017, the competitive environment in Bulgaria remained challenging. This was still particularly visible in the business segment, which continues to improve but is still negative in a year-on-year comparison. To counter price pressure, Mobiltel maintained its focus on value-based management and enhanced efforts to retain high-value customers. As a result, the improving trends of total service revenues continued in Q3 2017. The positive development resulted from slightly reduced repricing in the business mobile segment as well as a stable development in the residential mobile segment. In Q1 2017, Mtel included exclusive sports content into its fixed-line product for new and existing customers. As of Q2 2017, this new content has been charged, which supported the growth in fixed-line service revenues.

Total mobile subscribers declined by 1.5% year-on-year in the third quarter of 2017 mainly due to losses in the prepaid segment, highly impacted by the national regulation for a limited number of prepaid card activations per person, effective since 1 July 2017. Smartphone and mobile broadband services continued to grow in Q3 2017 compared to Q3 2016 following the rise in demand for mobile data access. Total fixed-line revenue generating units (RGUs) decreased by 2.4% year-on-year as the growth in TV and broadband could only partly compensate for the loss in fixed-line voice services.

Total revenues rose by 5.5% in Q3 2017 compared to the same period last year. This was impacted by a EUR 5.8 mn positive one-off effect in other operating income, resulting from a legal settlement. Excluding this one-off effect, total revenues remained stable (+0.1%) as increased service revenues, driven by the fixed-line segment, were offset by lower equipment revenues.

Service revenues excluding the above mentioned one-off effect increased by 1.2% compared to Q3 2016 and continued to profit from the ongoing focus on value-based management. In the mobile business, the stabilisation in the residential market and higher visitor roaming revenues were not able to fully offset the decline in business revenues as well as losses from customer roaming. Fixed-line revenues increased, supported by the launch of the exclusive sports TV package and high demand for fixed-line corporate solutions as well as the growth in satellite TV subscribers.

ARPL increased by 7.4% to EUR 11.7 in Q3 2017

Average monthly revenue per user (ARPU) slightly declined from EUR 5.8 in the third quarter of 2016 to EUR 5.7 in the quarter under review, mostly due to the re-pricing in the business segment. The average monthly revenue per fixed line (ARPL) increased from EUR 10.9 in Q3 2016 to EUR 11.7 in Q3 2017, supported by the upselling of existing subscribers as well as the charging of exclusive sports content.

Total costs and expenses declined by 1.2% in a year-on-year comparison. This decrease was primarily driven by lower cost of equipment due to lower quantities sold, partly offset by higher workforce costs due to the ongoing push of sales activities as well as increased roaming expenses.

EBITDA increased by 18.5% y-o-y; excl. one-off +2.5%

EBITDA rose by 18.5%, driven by the aforementioned positive one-off effect. Excluding this impact, EBITDA increased by 2.5% due to growth in total service revenues and a decrease in total costs and expenses, driven by lower cost of equipment.

Segment Croatia

Key performance indicators

Proforma view

Financials

in EUR million	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Total revenues	121.0	115.0	5.2	328.0	313.5	4.6
thereof total service revenues*)	110.1	102.7	7.2	293.4	279.0	5.2
Wireless revenues	89.7	85.4	5.0	237.1	228.3	3.9
thereof service revenues	76.9	71.5	7.7	198.3	189.8	4.5
thereof equipment revenues	10.9	12.2	–10.8	34.1	34.0	0.4
Fixed-line and other revenues	31.4	29.7	5.6	90.9	85.2	6.7
EBITDA	41.7	34.7	20.1	88.4	77.8	13.7
% of total revenues	34.5%	30.2%		27.0%	24.8%	
EBIT	18.1	15.6	16.0	21.8	15.8	38.3
% of total revenues	15.0%	13.6%		6.7%	5.0%	

Wireless indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Wireless subscribers (thousands)	1,837.2	1,822.8	0.8	1,837.2	1,822.8	0.8
thereof postpaid	942.4	836.4	12.7	942.4	836.4	12.7
thereof prepaid	894.8	986.4	–9.3	894.8	986.4	–9.3
MoU (per Ø subscriber)	304.1	302.7	0.5	303.8	305.8	–0.6
ARPU (in EUR)	14.1	13.3	6.1	12.6	12.1	3.9
Churn (%)	2.4%	2.4%		2.3%	2.3%	

Wireline indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
RGUs (thousands)	659.9	633.2	4.2	659.9	633.2	4.2

*) Including other operating income

The following analysis is based on proforma[3] figures if not stated otherwise.

The Croatian segment continued to exhibit positive operational trends in Q3 2017, which were based on the ongoing growth of its fixed-line business and enduring solid mobile trends. Competition continues to be mostly visible in the push for larger data packages, bundles and convergent products. While Vipnet's mobile business profited from the push towards the high value-tariff portfolio and mobile WiFi routers, trends in the fixed-line business remained encouraging on the back of the strong sales focus on broadband and TV services. The fixed-line business has been further strengthened by the acquisition of Metronet, which has been consolidated as of 1 February 2017. In Q3 2017, Vipnet introduced a new convergent portfolio, with more data included and higher speeds, and introduced new data options for its WiFi routers.

Mobile subscribers increased by 0.8% year-on-year, with losses in the prepaid segment while the contract subscriber base continued to rise due to the strong growth of mobile WiFi routers as well as the ongoing general shift from prepaid to contract in the market. This led to a value enhancement of the customer base. In the fixed-line business, revenue generating units (RGUs) rose by 4.2% year-on-year (reported: +8.7%), driven by the ongoing high demand for fixed-line broadband products.

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[3] Proforma figures include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.

Total revenue increase of 5.2% year-on-year (reported: +12.0%)

The third quarter of 2017 saw an increase in total revenues in the Croatian segment of 5.2% (reported: +12.0%) year-on-year. Service revenues increased, largely driven by higher visitor roaming revenues stemming from the exponential growth of data usage after the abolition of retail roaming as of 15 June 2017. Additionally, growth was supported by the solid performance in the fixed-line segment.

Average monthly revenue per user (ARPU) increased to EUR 14.1 in the third quarter of 2017 compared to EUR 13.3 in Q3 2016, supported by visitor roaming and the strong demand for data options. Average monthly revenue per fixed line (ARPL) rose on a reported basis from EUR 23.6 in Q3 2016 to EUR 28.6 in Q3 2017 due to the consolidation of Metronet with a higher ARPL. Together with the strong growth in fixed-line RGUs this led to a 31.5% increase in reported ARPL-relevant revenues year-on-year.

In the third quarter of 2017, total costs and expenses declined by 1.3% year-on-year (reported: +3.0%). Higher sales area costs due to more sales staff and increased roaming expenses were more than outweighed by better collection of bad debt.

EBITDA increase of 20.1% year-on-year (reported: +34.2%

Higher service revenues in Croatia, together with a decrease in costs, led to an increase in EBITDA of 20.1% year-on-year (reported: +34.2%), driven by higher visitor roaming revenues and growth in the fixed-line segment.

Segment Belarus

Key performance indicators

Proforma view

Financials

in EUR million	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Total revenues	99.8	90.5	10.3	294.6	242.9	21.3
thereof total service revenues*)	80.1	74.8	7.1	244.8	200.8	21.9
Wireless revenues	92.1	83.1	10.8	272.3	223.3	21.9
thereof service revenues	68.1	63.2	7.8	209.4	174.7	19.8
thereof equipment revenues	19.8	15.8	25.2	49.8	42.0	18.4
Fixed-line and other revenues	7.8	7.4	4.5	22.3	19.6	13.8
EBITDA	46.7	43.3	8.0	144.8	115.0	25.9
% of total revenues	46.8%	47.8%		49.2%	47.3%	
EBIT	34.5	25.4	35.7	108.2	63.5	70.3
% of total revenues	34.5%	28.1%		36.7%	26.2%	

Wireless indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Wireless subscribers (thousands)	4,862.5	4,913.6	–1.0	4,862.5	4,913.6	–1.0
thereof postpaid	3,943.2	3,965.6	–0.6	3,943.2	3,965.6	–0.6
thereof prepaid	919.2	948.1	–3.0	919.2	948.1	–3.0
MoU (per Ø subscriber)	426.1	409.8	4.0	415.8	399.1	4.2
ARPU (in EUR)	4.7	4.3	8.9	4.8	4.0	20.8
Churn (%)	1.7%	1.6%		1.7%	1.6%	

Wireline indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
RGUs (thousands)	461.9	418.5	10.4	461.9	418.5	10.4

*) Including other operating income

The following analysis is based on proforma[4] figures if not stated otherwise.

In Belarus, strong operational developments continued to face macroeconomic challenges, nevertheless there are some improvements and GDP is expected to slightly grow by 0.7% in 2017 (IMF estimate; 2016: -3.0%). In this context, the government still maintains its focus on stabilising inflation, which came in at 4.9% in September 2017 and continued to remain, amongst others, caps on certain price increases.

Despite these challenges, velcom continued to deliver solid operational results in the third quarter of 2017 and benefits from its ability to position itself as a premium operator based on its superior network quality. velcom continued its fixed-line consolidation strategy with the recent acquisition of Garant (Gomel), consolidated as of 1 August 2017. Additionally, velcom is able to offer cloud services and digital products (Infrastructure as a Service, Platform as a Service) with the launch of its own data centre in September 2017. Moreover, inflation-linked price increases of 9% as of 12 April 2017 were implemented for the mobile business, following a price increase for the fixed-line business as of 1 March 2017.

The company's mobile customer base decreased by 1.0% compared to the previous year, driven by the postpaid as well as the prepaid segment. Revenue generating units in the fixed-line business amounted to 461,900, including 159,000 RGUs of the acquired fixed-line provider Garant (Gomel).

In Q3 2017, the Belarusian Rouble depreciated by 3.8% compared to the same period last year (period average). Including a negative FX effect of EUR 3.7 mn, total revenues grew by 10.3% (reported: +16.9%) year-on-year in Euro terms, while they rose by 14.4% (reported: +21.3%) on a local currency basis. This rise was driven by higher service revenues which profited from inflation-linked price increases and ongoing growth in data consumption as well as the increase in RGUs. Equipment revenues also rose due to a switch towards a more expensive handset portfolio.

Belarusian Rouble depreciated by 3.8% in Q3 2017 in a year-on-year comparison

Total costs and expenses rose on a local currency basis driven by higher cost of equipment and higher service costs as well as increased inflation-based salary increases and bad debts.

The solid operational performance resulted in an 8.0% higher EBITDA compared to Q3 2016 (reported: +12.8%). Excluding the negative FX impact of EUR 2.0 mn, EBITDA in Belarus rose by 12.6% year-on-year (reported: +17.6%).

EBITDA growth of 12.6% year-on-year in local currency

[4] Proforma figures include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.

Segment Slovenia

Key performance indicators

Proforma view (= Reported view)

Financials

in EUR million	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Total revenues	55.5	55.0	1.0	162.0	159.0	1.9
thereof total service revenues*)	44.4	45.4	−2.2	130.6	130.4	0.2
Wireless revenues	46.4	46.5	−0.1	135.4	133.7	1.3
thereof service revenues	34.3	35.9	−4.5	101.1	102.7	−1.5
thereof equipment revenues	11.1	9.6	14.7	31.1	28.3	9.7
Fixed-line and other revenues	9.1	8.5	6.9	26.6	25.3	5.0
EBITDA	10.7	16.1	−33.7	33.0	42.7	−22.7
% of total revenues	19.2%	29.2%		20.4%	26.9%	
EBIT	3.6	7.0	−49.0	10.4	18.7	−44.2
% of total revenues	6.5%	12.8%		6.4%	11.8%	

Wireless indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Wireless subscribers (thousands)	710.4	716.6	−0.9	710.4	716.6	−0.9
thereof postpaid	604.4	588.8	2.6	604.4	588.8	2.6
thereof prepaid	106.0	127.8	−17.0	106.0	127.8	−17.0
MoU (per Ø subscriber)	335.0	328.3	2.0	344.0	345.2	−0.3
ARPU (in EUR)	16.0	16.7	−4.2	15.7	16.0	−1.5
Churn (%)	1.7%	1.3%		1.7%	1.5%	

Wireline indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
RGUs (thousands)	179.8	172.0	4.6	179.8	172.0	4.6

*) Including other operating income

As there have been no mergers or acquisitions in Slovenia between the beginning of the comparison period and the end of the period under review, the following analysis is based on reported figures.

In the third quarter of 2017, the Slovenian telecommunications market was still characterised by the fierce competition in the mobile market with a focus on convergent tariffs with high discounts and competitive mobile tariffs including higher data allowances. In order to follow market demand, A1 Slovenija also increased its data allowances in September 2017.

During April 2017, Si.mobil was successfully rebranded into A1 Slovenija. The rebranding affects the entire brand presence in Slovenia and strengthens the positioning in the market as a convergent brand.

RGUs increased by 4.6% year-on-year in Slovenia

In the third quarter of 2017, the number of mobile customers slightly decreased by 0.9%, as losses in the prepaid segment could not be fully offset by an increasing number of postpaid subscribers. Total fixed-line revenue generating units (RGUs) increased by 4.6% year-on-year in the third quarter of 2017, mainly driven by higher demand for IPTV.

Total revenues in Slovenia rose by 1.0% year-on-year as lower mobile service revenues were outweighed by higher equipment revenues and increased fixed-line service revenues. Mobile service revenues decreased due to the negative roaming impact and lower fixed fees. Equipment revenues rose on the back of higher sales prices due to high-value handsets. Fixed-line service revenues increased due to price adjustments for TV products as of 1 March 2017 and RGU growth.

Total costs and expenses increased by 15.3% year-on-year, mainly driven by higher roaming expenses and cost of equipment due to a shift towards high-value handsets. Additionally, advertising costs grew due to the above-mentioned rebranding, while content costs rose following more TV RGUs and price increases for TV rights.

The above mentioned increase in total costs and expenses, which was largely impacted by roaming, led to a sharp EBITDA decline of 33.7% year-on-year.

EBITDA declined by 33.7% year-on-year

Segment Republic of Serbia

Key performance indicators

Proforma view (= Reported view)

Financials

in EUR million	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Total revenues	59.4	56.1	6.0	164.6	161.1	2.1
thereof total service revenues*)	40.3	38.4	4.9	110.5	114.0	–3.1
Wireless revenues	57.7	54.4	6.0	160.1	155.8	2.7
thereof service revenues	37.4	35.8	4.6	102.5	105.9	–3.3
thereof equipment revenues	19.1	17.7	8.3	54.1	47.1	14.8
EBITDA	11.9	11.5	3.1	28.7	30.5	–5.8
% of total revenues	20.0%	20.5%		17.5%	18.9%	
EBIT	0.6	0.4	68.4	–4.7	–4.0	–17.7
% of total revenues	1.1%	0.7%		–2.9%	–2.5%	

Wireless indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Wireless subscribers (thousands)	2,194.1	2,105.3	4.2	2,194.1	2,105.3	4.2
thereof postpaid	1,323.5	1,214.2	9.0	1,323.5	1,214.2	9.0
thereof prepaid	870.6	891.1	–2.3	870.6	891.1	–2.3
MoU (per Ø subscriber)	279.3	268.0	4.2	274.0	270.1	1.4
ARPU (in EUR)	5.3	5.7	–6.7	5.3	5.7	–5.5
Churn (%)	3.4%	3.0%		3.2%	3.2%	

*) Including other operating income

As there have been no mergers or acquisitions in the Republic of Serbia between the beginning of the comparison period and the end of the period under review, the following analysis is based on reported figures.

Vip mobile continued its focus on the repositioning with the introduction of flat tariffs for voice and SMS in June 2017 to address the highly competitive market with its aggressive convergent offers including high discounts. Additionally, results were impacted by regulatory headwinds due to termination rate cuts in January 2017.

Compared to the same period last year, the contract share increased further from 57.7% in Q3 2016 to 60.3% in Q3 2017. Total subscribers increased by 4.2% year-on-year, entirely driven by the postpaid segment which was backed by high gross additions from the above mentioned new tariffs and high demand for mobile WiFi routers.

In Q3 2017, total revenues increased by 6.0% year-on-year due to higher mobile service revenues and increased equipment revenues. Mobile service revenues increased as rising revenues from fixed fees more than compensated for lower airtime revenues and decreased interconnection revenues resulting from termination rate cuts. Equipment revenues rose due to higher sales prices.

Total revenues increased by 6.0% year-on-year.

Total costs and expenses rose by 6.7% year-on year in the third quarter of 2017, mostly due to higher cost of equipment stemming from mobile WiFi routers and increased handset prices. Additionally, higher costs were driven by increased workforce costs and commissions due to sales initiatives as well as increased network costs and higher regulatory fees. These increases were partly compensated by lower interconnection expenses due to the above-mentioned termination rate cuts.

EBTIDA increase of 3.1% in the Republic of Serbia

EBITDA in the Republic of Serbia increased by 3.1% year-on-year as the rise in revenues more than outweighed the above mentioned cost increases.

Segment Republic of Macedonia

Key performance indicators

Proforma view (= Reported view)

Financials

in EUR million	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Total revenues	30.2	30.3	−0.2	85.5	88.4	−3.3
thereof total service revenues*)	28.3	28.5	−0.8	80.6	84.1	−4.1
Wireless revenues	23.7	23.6	0.1	65.9	67.9	−2.9
thereof service revenues	21.6	21.8	−0.7	60.8	62.7	−3.2
thereof equipment revenues	1.8	1.7	7.0	4.7	4.3	9.1
Fixed-line and other revenues	6.5	6.6	−1.1	19.5	20.5	−4.8
EBITDA	9.3	7.2	29.4	23.5	20.2	16.1
% of total revenues	30.9%	23.8%		27.5%	22.9%	
EBIT	2.2	−3.3	n.m.	−3.2	−19.6	83.9
% of total revenues	7.2%	−11.0%		−3.7%	−22.1%	

Wireless indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
Wireless subscribers (thousands)	1,112.0	1,137.5	−2.2	1,112.0	1,137.5	−2.2
thereof postpaid	646.2	629.8	2.6	646.2	629.8	2.6
thereof prepaid	465.8	507.7	−8.3	465.8	507.7	−8.3
MoU (per Ø subscriber)	407.0	409.2	−0.5	395.7	393.1	0.7
ARPU (in EUR)	6.5	6.4	2.6	6.1	6.1	0.4
Churn (%)	1.6%	2.6%		1.9%	2.4%	

Wireline indicators	Q3 2017 reported	Q3 2016 proforma	% change	1-9 M 2017 reported	1-9 M 2016 proforma	% change
RGUs (thousands)	322.4	307.1	5.0	322.4	307.1	5.0

*) Including other operating income

As there have been no mergers or acquisitions in the Republic of Macedonia between the beginning of the comparison period and the end of the period under review, the following analysis is based on reported figures.

The development in the Macedonian segment remained driven by high competition. Both the consumer and business segments face a fierce competitive environment. Customer retention is becoming a major challenge for all market players. In the fixed-line market, customers are leaning towards multiple-play offers rather than maintaining multiple single-play subscriptions, which increases the competitive advantage of convergent operators, like one.Vip. In order to profit from the demand for data and to be able to address a higher number of customers with broadband products, one.vip introduced WiFi routers in May 2017.

one.Vip's mobile customer base declined by 2.2% year-on-year in the third quarter of 2017 as customers continued to move from multiple prepaid to single contract subscriptions. In the fixed-line business, the number of revenue generating units (RGU) increased by 5.0% compared to the previous year, RGU growth was driven by strong demand for broadband products.

Total revenues remained almost stable year-on-year (-0.2%) as the decline in interconnection revenues in both the mobile and the fixed-line business, as well as the decrease in mobile airtime revenues was mostly mitigated by higher visitor and national roaming revenues. In the mobile business the decrease in interconnection revenues resulted from a mobile termination rate cut in December 2016 and lower international traffic revenues. The fixed-line business was affected by lower interconnection and transit revenues.

Total costs and expenses fell by 9.5% in a year-on-year comparison, mainly driven by cost synergies deriving from the merger with ONE as well as lower interconnection expenses.

In the Republic of Macedonia, almost stable total revenues together with the decline in costs resulted in EBITDA growth of 29.4% year-on-year.

EBITDA grew by 29.4% in Q3 2017 year-on-year

Year-To-Date-Comparison

Summary

The following analysis is based on proforma[5] figures if not stated otherwise.

Following factors impact the year-on-year comparison of the operating results of the Telekom Austria Group in the first nine months of 2017 and should be considered in the analysis:

- The acquisition of the fixed-line provider Garant (Gomel) in Belarus, consolidated as of 1 August 2017.
- The acquisition of the fixed-line operator Metronet in Croatia, which was closed on 15 February 2017. The company has been consolidated as of 1 February 2017.
- The acquisition of the fixed-line provider Atlant Telecom and its subsidiary TeleSet in Belarus, consolidated as of 1 December 2016.
- One-off effects included in the first nine months of 2017:
    - A positive one-off effect in Austria in the amount of EUR 10.6 mn in Q1 2017 in fixed-line and other revenues (in solutions & connectivity) stemming from the reversal of an accrual for wholesale services.
    - A positive one-off effect of EUR 3.6 mn in the Austrian segment in Q1 2017 in other operating income, stemming from a release of an asset retirement obligation.
    - In Bulgaria, other operating income in Q3 2017 was positively affected by a EUR 5.8 mn one-off effect resulting from a legal settlement.
- One-off effects included in the first nine months of 2016:
    - A positive EUR 7.0 mn one-off effect in Austria in cost of equipment in Q1 2016, stemming from the harmonisation of value adjustments for handsets.
    - A positive EUR 14.4 mn one-off effect deriving from the reversal of an accrual for copyrights in Austria in Q3 2016, included in cost of service.
- EBITDA growth in Austria was supported by some higher than usual project-driven revenue contributions as well as some non-cash relevant items in Q2 2017.
- Total positive FX effects amounting to EUR 19.7 mn for total revenues and EUR 8.4 mn for EBITDA in the first nine months of 2017, stemming mostly from Belarus and to a lesser extent from Croatia and Serbia.
- Restructuring charges in Austria amounted to positive EUR 13.2 mn in the first nine months of 2017, stemming from a revaluation due to changed parameters, compared to positive EUR 19.5 mn in the same period last year, also related to a revaluation of the restructuring provision.

[5] Proforma figures include effects of M&A transactions executed between the start of the comparison period and the end of the reporting period.

In the first nine months of 2017, Telekom Austria Group saw a slight increase in the mobile subscriber base of 0.5% with a shift from prepaid to postpaid subscribers. The number of revenue generating units (RGUs) in the fixed-line business of the Group declined by 0.6% year-on-year (reported: +7.3%).

RGUs declined by 0.6% (reported: +7.3%)

Revenues

In the first nine months of 2017, group total revenues increased by 3.5% year-on-year on a proforma basis (reported: +4.5%). Excluding one-off and FX effects in the first nine months of 2017 and in the comparison period, revenues grew by 2.1% (reported: +3.1%). Total revenue growth was driven by the strong operational performance in Belarus, as well as higher total revenues in Austria, Bulgaria, Croatia, the Republic of Serbia and Slovenia. These increases were only partly offset by lower total revenues in the Republic of Macedonia. In total, Group service revenues increased by 2.6% (reported: +3.8%) and rose by 1.9% (reported: +3.0%) excluding the above-mentioned one-off effects.

Group total revenues rose by 3.5% year-on-year; 2.1% revenue increase excl. one-offs and FX effects

Negative effects stemming from the stepwise abolition of retail roaming in the EU as of 30 April 2016 and 15 June 2017 came in lower than expected and derive mostly from Austria, with further impacts in Slovenia and Bulgaria. In Croatia the impact was a positive one.

Total revenues in the Austrian segment increased by 1.9% year-on-year in the first nine months of 2017, including the above-mentioned positive one-off effects in the total amount of EUR 14.2 mn in Q1 2017. Excluding these effects, total revenues rose by 1.1%. Higher fixed-line and other revenues rose partly due to project-driven contributions from solutions and connectivity, especially in Q2 2017, as well as due to higher interconnection revenues and outweighed losses in wireless service revenues. The latter suffered from roaming losses and a decline in the prepaid segment.

In the Bulgarian segment, total revenues rose by 5.2% in the first nine months of 2017 compared to the same period last year and were mostly driven by the increase in equipment revenues and the above mentioned one-off effect. Excluding this one-off, total revenues rose by 3.3% year-on-year. Total service revenues rose by 2.3% year-on-year, also due to the one-off effect in Q3 2017, as well as higher fixed-line service revenues.

Total revenues in the Croatian segment rose by 4.6% year-on-year (reported: +11.1%) and continued to profit especially from strong growth in the fixed-line business as well as an increase in visitor roaming due to high data usage elasticities. Apart from this, Croatia showed a continuing solid performance in the mobile business. Additionally, reported fixed-line revenues in the Croatian segment benefitted from the acquisition of Metronet in Q1 2017.

Total revenues in the Belarusian segment increased by 21.3% year-on-year (reported: +27.9%), driven by continuing solid operational growth on the back of inflation-linked price increases and strong demand for data as well as the supportive FX development in the first half of 2017. The latter was partly compensated by a depreciation in Q3 2017. Overall, the Belarusian rouble appreciated by 5.1% compared to the same period last year (period average used respectively, in line with IFRS). Total revenues still rose by 15.4% on a local currency basis (reported: +21.7%).

In the Slovenian segment, total revenues increased by 1.9% year-on-year, driven by higher mobile equipment revenues as well as increased fixed-line service revenues while competition in the mobile business remained fierce. Total revenues in the Serbian segment rose by 2.1% year-on-year, driven by higher retail mobile service revenues and increased equipment revenues, which offset the negative effect of MTR cuts on interconnection revenues. In the Republic of Macedonia, total revenues decreased by 3.3% year-on-year, mostly due to a decline in interconnection revenues, mainly stemming from a mobile termination rate cut.

Total Costs and Expenses

Group total costs and expenses increased by 4.4% year-on-year to EUR 2,143.5 mn in the first nine months of 2017 (reported: +5.4%). Investments in high-value customers led to a rise in cost of equipment and higher sales area costs. The cost of services increased, amongst others, due to roaming expenses and network engineering costs, while RGU growth drove content costs higher.

Moreover, restructuring charges in Austria amounted to positive EUR 13.2 mn in the first nine months of 2017 stemming from a revaluation due to changed parameters, compared to positive EUR 19.5 mn in the same period last year, also related to a revaluation of the restructuring provision. Excluding this impact and the above mentioned one-off effects from 2016, group total costs and expenses rose by 3.0% (reported: +3.9%).

EBITDA

Group EBITDA increase of 1.6% year-on-year (reported: +2.8%)

Group EBITDA increased by 1.6% year-on-year to EUR 1,109.0mn in the first nine months of 2017 (reported: +2.8%). Excluding the above mentioned one-off effects, the impact from positive restructuring charges and the FX effects Group EBITDA increased also by 1.6% (reported: +2.8%). Higher total revenues mitigated the above-mentioned increase in costs.

In the Austrian segment, EBITDA decreased by 1.5% in the first nine months of 2017. Adjusted for the above mentioned one-off effects in total revenues and costs as well as the impact of positive restructuring charges, EBITDA rose by 0.4% in a year-on-year comparison as higher revenues offset the increase in costs. On the same basis, costs and expenses in the Austrian segment increased by 1.5% year-on-year in the first nine months of 2017, driven by higher interconnection expenses due to a changed settlement logic and increased volumes as well as roaming expenses. These increases were partly compensated by lower administration expenses due to lower workforce costs. Cost of equipment rose mainly due to increased subsidies and ICT equipment expenses. Restructuring charges in Austria amounted to positive EUR 13.2 mn in the first nine months of 2017, stemming from a revaluation due to changed parameters, compared to positive EUR 19.5 mn in the same period last year, also related to a revaluation of the restructuring provision.

In the Bulgarian segment, increased total revenues were partly offset by higher costs and expenses which resulted in an EBITDA increase of 3.9% in the first nine months of 2017. Excluding the positive one-effect in Q3 2017 EBITDA declined by 1.9% year-on-year. The increase in total costs and expenses was almost entirely driven by higher cost of equipment following increased sales of smart devices. Furthermore, higher sales area costs and increased bad debts were partly compensated by a decrease in interconnection expenses and network maintenance.

EBITDA increase of 13.7% (reported: +27.6%) in Croatia

In the Croatian segment, the increase in total revenues more than outweighed higher total costs and expenses which led to 13.7% year-on-year growth in EBITDA (reported: +27.6%). Total costs and expenses increased by 1.6% (reported: +6.0%) and were driven by higher cost of equipment and intensified sales initiatives. This was mitigated by better collection of bad debt.

In the Belarusian segment, EBITDA rose by 19.8% (reported: +24.2%) on a local currency basis in the first nine months of 2017 compared to the same period last year, as the increase in total revenues more than offset higher total costs and expenses which increased by 11.4% (reported: +19.3%) on a local currency basis. The increase resulted mostly from higher cost of equipment as well as higher employee costs due to inflation-linked salary increases. In Euro terms, EBITDA increased by 25.9% (reported: +30.5%), including a positive FX translation effect of EUR 7.0 mn.

EBITDA in Slovenia declined by 22.7% year-on-year as the increase in total costs and expenses more than outweighed the increase in total revenues. Total costs and expenses rose by 10.9%, driven by higher equipment costs and roaming expenses as well as increased costs due to the rebranding. Furthermore, costs for content rose due to the RGU growth.

In the Republic of Serbia, higher total revenues were more than offset by the increase in total costs and expenses resulting in an EBITDA decline of 5.8%. Total costs and expenses increased by 4.0% year-on-year in the first nine months of 2017. This development was mostly driven by higher cost of equipment and increased workforce costs as well as rising advertising costs, partly offset by lower interconnection expenses.

In the Republic of Macedonia, EBITDA showed a 16.1% year-on-year growth as 9.1% lower total costs and expenses more than compensated the total revenue decrease. The decline in total costs and expenses was driven by lower interconnection expenses due to termination rate cuts as well as savings in the administration and technical areas due to cost synergies following the merger with ONE.

Operating Income

Depreciation and amortisation declined by 0.7% to EUR 645.0 mn in the first nine months of 2017 in a year-on-year comparison (reported: 0.0%), as decreases in the Republic of Macedonia and Belarus were offset by higher depreciation in Bulgaria and Croatia. The decrease in Austria was related to the depreciation of equipment in Q2 2016 in connection with intercompany transactions. These were eliminated at a Group level and hence did not affect Group figures. Altogether, this led to an increase in operating income of 4.9% year-on-year to EUR 464.0 mn (reported: +6.8%).

The following analysis is presented on a reported basis if not stated otherwise.

Consolidated Net Result

Reported net result of EUR 357.1 mn

The negative financial result decreased from EUR 91.3 mn in the first nine months of 2016 to EUR 73.3 mn in the year under review, mainly resulting from lower interest expenses on financial liabilities as a consequence of the repayment of a EUR 500 mn bond in January 2017. Income taxes decreased by 7.8% year-on-year to EUR 33.7 mn. In total, the reported net result increased by 16.4% to EUR 357.1 mn in the first nine months of 2017.

Balance Sheet

Balance sheet

Reported view

in EUR million	30 Sep 2017 reported	31 Dec 2016 reported	% change		30 Sep 2017 reported	31 Dec 2016 reported	% change
Cash, cash equivalents & other short term investments	273.2	464.2	−41.1	Short-term debt*	0.7	500.1	−99.9
Accounts receivable	683.2	636.5	7.3	Accounts payable	823.7	852.6	−3.4
Other current assets	260.2	255.7	1.7	Other current liabilities	471.3	495.1	−4.8
Inventories	90.6	82.5	9.8	Current liabilities	1,295.7	1,847.8	−29.9
Current assets	1,307.2	1,438.9	−9.2				
Property, plant & equipment	2,575.4	2,550.8	1.0	Long-term debt	2,532.8	2,303.5	10.0
Intangibles	2,204.0	2,321.4	−5.1	Other liabilities	982.0	1,021.2	−3.8
Goodwill	1,273.7	1,241.8	2.6	Non current liabilities	3,514.9	3,324.7	5.7
Investments in affiliates & long-term investments	46.8	49.2	−4.9				
Other non-current assets	342.2	341.2	0.3	Shareholder's equity	2,938.6	2,770.7	6.1
Non current assets	6,442.0	6,504.3	−1.0				
Total assets	7,749.2	7,943.2	−2.4	Total liabilites and equity	7,749.2	7,943.2	−2.4

*) Includes current portion of long term debt.

As of 30 September 2017, the balance sheet total declined by 2.4% to EUR 7,749.2 mn compared with EUR 7,943.2 mn as of 31 December 2016.

Current assets fell by 9.2% to EUR 1,307.2 mn in the reported period, resulting from the reduction in cash and cash equivalents which was partly offset by an increase in accounts receivables. The decrease in cash and cash equivalents was primarily driven by the repayment of a EUR 500 mn bond on 27 January 2017, partially offset by the tap issuance in the amount of EUR 250 mn on 10 July 2017.

Non-current assets decreased by 1.0% year-on-year to EUR 6,442.0 mn as the growth in goodwill as well as in property, plant and equipment was more than offset by the reduction in other intangible assets. The increase in goodwill as well as in property, plant and equipment was above all attributable to the acquisition of Metronet in Croatia, while the increase in property, plant and equipment was also impacted by the fibre and LTE rollout in Austria. The reduction in other intangible assets resulted from the amortisation of licences and software which was partly compensated by the increase of intangible assets due to the acquisition of Metronet and a new IRU (Indefeasible Rights of Use) contract in Slovenia.

Current liabilities decreased by 29.9% to EUR 1,295.7 mn in the reporting period, primarily as a result of the aforementioned repayment of the EUR 500 mn Eurobond. Accounts payable also decreased, mainly due to payments for capital expenditures from the previous year.

Non-current liabilities rose by 5.7% to EUR 3,514.9 mn in the reporting period due to the tap issuance in the amount of EUR 250 mn on 10 July 2017. Non-current provisions declined, mainly driven by payments for restructuring and social plans which were only partly offset by an increase in asset retirement obligation.

The rise in stockholder's equity from EUR 2,770.7 mn to EUR 2,938.6 mn was driven by the net result which outweighed the dividend and hybrid coupon payments. This increase was partly reduced by the decrease in other comprehensive income (loss) items stemming from FX translation effects. The equity ratio increased from 34.9% as of 31 December 2016 to 37.9% as of 30 September 2017.

Net Debt

Net debt

Reported

in EUR million	30 Sep 2017 reported	31 Dec 2016 reported	% change
Net debt	2,260.4	2,339.4	−3.4
Net Debt / EBITDA (12 months)	1.6x	1.7x	

Telekom Austria Group's net debt decreased by 3.4% to EUR 2,260.4 mn in the reporting period as the dividend payments and the outflow from the acquisition of Metronet were more than offset by the free cash flow. Combined with higher EBITDA, this resulted in a net debt to EBITDA ratio of 1.6x as of 30 September 2017, compared to a ratio of 1.7x as of 31 December 2016.

Cash Flow

Cash flow

Reported

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change
Earnings before income tax (EBT)	390.8	343.2	13.9
Net cash flow from operating activities	910.1	867.8	4.9
Net cash flow from investing activities	−589.7	−601.8	2.0
Net cash flow from financing activities	−504.4	−1,106.0	54.4
Net change in cash and cash equivalents	−185.2	−841.7	78.0
Adjustment to cash flows due to exchange rate fluctuations	−1.2	−1.8	32.6

Earnings before income tax (EBT) rose by 13.9% year-on-year to EUR 390.8 mn. Additional needs for working capital in the first nine months of 2017 in the amount of EUR 190.0 mn were to a large extent driven by the payments for restructuring as well as accounts receivable. Furthermore, accounts payable and accrued liabilities as well as income taxes paid also contributed to the change in working capital. All in all, this resulted in an increase in net cash flow from operating activities of 4.9% year-on-year to EUR 910.1 mn.

Net cash flow from investing activities declined by 2.0% to EUR 589.7 mn in the reporting period as the impact from the acquisition of Metronet was more than compensated by a decrease in capital expenditures paid. The latter declined compared to the same period last year as in the first nine months of 2016 capital expenditures paid included substantial payments for capital expenditures from 2015, such as the spectrum investment in the Republic of Serbia in Q4 2015.

Net cash flow from financing activities decreased from EUR -1,106.0 mn in the first nine months of 2016 by 54.4% to EUR -504.4 mn in the reporting period. This was driven by the principal payments on long-term debt with a EUR 750 mn bond in Q1 2016 and a EUR 500 mn bond maturing in Q1 2017. The latter was partly mitigated by the proceeds from the issuance of long-term debt due to the abovementioned tap issuance as well as lower interest paid. The dividend and hybrid coupon payments increased from EUR 67.1 mn in the first nine months of 2016 to EUR 166.7 mn in the first nine months of 2017 due to the increase in the dividend from EUR 0.05 to EUR 0.20 per share.

Overall, this resulted in a decrease in cash and cash equivalents of EUR 185.2 mn in the reporting period compared to a decrease of EUR 841.7 mn in the previous year.

Free cash flow, which is calculated as net cash flow from operating activities less capital expenditures paid and interest paid plus proceeds from the sale of equipment, increased from EUR 130.4 mn in the previous year to EUR 336.1 mn in the reported period. This was mainly attributable to the lower levels of capital expenditures paid and of interest paid, while the higher net cash flow from operating activities also supported the increase in the free cash flow.

Capital Expenditures

In the first nine months of 2017, capital expenditures decreased by 7.3% year-on-year to EUR 498.4 mn. This was driven by lower investments in Belarus, Austria and the Republic of Macedonia which were only partly offset by higher capital expenditures in Slovenia, the Republic of Serbia, Croatia and Bulgaria.

Tangible capital expenditures declined by 13.9% in the first nine months of 2017 to EUR 396.8 mn, as higher investments in Bulgaria, the Republic of Serbia and Croatia were more than outweighed by lower tangible CAPEX in Belarus, Austria, the Republic of Macedonia and Slovenia. The decrease in Austria in tangible capital expenditures resulted from lower investments in the fibre rollout. In Belarus, tangible CAPEX declined compared to the first nine months of 2016 as last year's comparison period was affected by the solar power plant project.

The increase in intangible capital expenditures to EUR 101.6 mn (1-9M 2016: EUR 76.7 mn) was mainly driven by the capitalisation of a long-term IRU (Indefeasible Rights of Use) contract for fibre-optic lines in Slovenia as well as higher investments in the Republic of Serbia, Croatia, Austria and Bulgaria.

Personnel

Personnel (full-time equivalent)

Reported

Average of period	1-9 M 2017 reported	1-9 M 2016 reported	% change
Austria	8,287	8,437	–1.8
International operations	10,124	9,023	12.2
Corporate & other	283	219	29.2
Total	**18,694**	17,679	**5.7**

Personnel (full-time equivalent)

Reported

End of period	30 Sep 2017 reported	30 Sep 2016 reported	% change
Austria	8,278	8,422	–1.7
International operations	10,362	9,040	14.6
Corporate & other	304	222	37.0
Total	**18,944**	17,684	**7.1**

M&A drove the increase in International Operations' headcount

Telekom Austria Group had 18,944 employees at the end of Q3 2017. The 7.1% year-on-year growth resulted mainly from M&A activities. Headcount in the Austrian segment was reduced by 1.7% to 8,278 employees as part of restructuring measures. Around 47% of existing employees have civil servant status. The segments outside of Austria saw an increase of 14.6% to 10,362 employees with rising headcount across all countries except from the Republic of Macedonia, which was mainly driven by M&A in Croatia and Belarus as well as higher salesforce numbers.

Outlook revised
Telekom Austria Group outlook for the full year 2017

In the first nine months of 2017, Telekom Austria Group managed to increase revenues and EBITDA with a focus on high-value customers and attractive fixed-line propositions. Nevertheless, most of the Group's mobile markets continued to be characterised by intense competition, partly resulting from ongoing macroeconomic headwinds, which however, continued to flatten out a bit in some segments. Also, results in the first nine months of 2017 were supported by a 5.1% appreciation of the Belarusian Rouble versus the EUR (period average), and cost efficiencies which enabled the translation of the solid service revenue growth into an EBITDA increase. Results were negatively affected by regulatory headwinds, especially from the stepwise abolition of retail roaming in the EU as of 30 April 2016 and 15 June 2017. Nevertheless, the roaming impact came in lower than previously expected, mostly due to high usage elasticity and higher-than-expected positive impacts from visitor roaming. EBITDA growth was also supported by project-driven revenue contributions in Austria as well as higher-than-usual noncash relevant items in Q2 2017.

For the remaining months of 2017, most of these business conditions are expected to remain intact. In Austria, strong competition in the mobile market is anticipated to persist. The project-driven revenue contribution in the second quarter of the year cannot be extrapolated to the rest of the financial year. In the CEE region, a mixed economic forecast is expected to lend only weak support. While competition in the mobile markets remains high, operational results in CEE increasingly reflect the successful measures taken. The negative roaming impact is expected to amount to approximately 1.5% to 2.0% of Group EBITDA for the full year 2017 (previous estimate: max. EUR 35 mn) due to lower-than-expected negative impacts in the first nine months of 2017.

On a positive note, demand for fixed-line services is expected to remain supportive across Telekom Austria Group's convergent markets with additional support from acquisitions of fixed-service providers in Croatia in February 2017 and in Belarus in December 2016 and August 2017.

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

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

For the year 2017, the Management of Telekom Austria Group is confident to more than offset the negative roaming impact given the solid operative performance in the first nine months. Management's expectation of growth in Group revenues is increased to approximately 3% (on a reported basis), partly also helped by equipment revenues.

In order to monetise the strong data growth, Telekom Austria Group will further invest in the LTE rollout across its markets as well as the accelerated fibre deployment in Austria. On top of the initial guidance of EUR 725 mn, CAPEX in the first nine months included EUR 20 mn additional non-cash relevant investments which are not likely to be offset by other CAPEX decreases. Therefore, capital expenditures before spectrum investments and acquisitions are expected to come in slightly higher than previously forecasted, at approximately EUR 745 mn in 2017.

On 22 July 2016, América Móvil and Österreichische Bundes- und Industriebeteiligungen GmbH (ÖBIB) agreed on a new expected dividend level starting with the financial year 2016. This decision was based on the improved operational and financial performance of the Group. This new dividend expectation entails the payment of EUR 0.20 per share to be maintained or increased on a sustainable basis in line with the operational and financial developments of the Group. For the financial year 2017, Management intends to propose again a dividend of EUR 0.20 per share to the Annual General Meeting in 2018.

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

The outlook is based on constant exchange rates, with the exception of the Belarusian Rouble. Whilst the Management of Telekom Austria Group acknowledges the limited predictability of the Belarusian Rouble, it expects the currency to devalue by approximately 0-5% versus the EUR (period average) in 2017.

With regards to frequencies, in the Republic of Macedonia NRA announced that tenders for 2X10MHz on 900 MHz band and 2X10MHz on 1800 MHz band will be published in 2017, but the procedure has not yet started.

Please note that this a list of expected spectrum awards procedures. Whether Telekom Austria Group is planning and sees a need to participate and acquire spectrum in the abovementioned procedures, the Group is not permitted to comment on.

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 2016, pp. 74 ff.

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.

The reported results 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, e.g. for divisions by zero.

Reconciliation tables – Proforma values and additional performance measures

The following tables present all the proforma tables from the previous section on a reported as well as on a proforma basis. Additionally, the difference between reported and proforma values is also provided and is stemming from the M&A-activities between the start of the comparison period and the end of the reporting period mentioned on page 4. Alternative performance measures are used to describe the operational performance. Further explanations are provided to give additional, useful and relevant detail on the company's performance.

ARPL (reported)

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

ARPL-relevant revenues (in EUR million)	Q3 2017 reported	Q3 2016 reported	% change
Austria	190.6	184.9	3.1
Bulgaria	18.6	17.7	5.2
Croatia	25.9	19.7	31.5
Belarus	5.1	n.a.	n.a.
Slovenia	7.4	7.3	0.6
Republic of Serbia	n.a.	n.a.	n.a.
Republic of Macedonia	5.3	5.3	0.3

Access lines (in thousands)	Q3 2017 reported	Q3 2016 reported	% change
Austria	2,128.7	2,208.0	–3.6
Bulgaria	528.3	541.6	–2.5
Croatia	300.4	281.2	6.8
Belarus	309.7	n.a.	n.a.
Slovenia	70.4	71.5	–1.5
Republic of Serbia	n.a.	n.a.	n.a.
Republic of Macedonia	144.5	140.5	2.8

ARPU (proforma)

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

Free Cashflow (reported)

(in EUR million)	1-9 M 2017 reported	1-9 M 2016 reported	% change
Net cash flow from operating activities	910.1	867.8	4.9
Capital expenditures paid	–521.1	–622.0	16.2
Proceeds from sale of plant, property and equipment	11.8	15.4	–23.4
Interest paid	–64.7	–130.8	50.6
Free cash flow	**336.1**	130.4	**157.7**

Belarus Key Financials in EUR and BYN

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

in EUR million	Q3 2017 reported	Q3 2016 reported	% change
Total revenues	99.8	85.4	16.9
Total costs and expenditures	–53.1	–44.0	–20.8
EBITDA	46.7	41.4	12.8

in BYN million	Q3 2017 reported	Q3 2016 reported	% change
Total revenues	228.0	187.9	21.3
Total costs and expenditures	–120.7	–96.7	–24.8
EBITDA	107.2	91.2	17.6

in EUR million	Q3 2017 reported	Q3 2016 proforma	% change
Total revenues	99.8	90.5	10.3
Total costs and expenditures	–53.1	–47.3	–12.3
EBITDA	46.7	43.3	8.0

in BYN million	Q3 2017 reported	Q3 2016 proforma	% change
Total revenues	228.0	199.3	14.4
Total costs and expenditures	–120.7	–104.1	–16.0
EBITDA	107.2	95.3	12.6

Proforma and reported results

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

- The acquisition of the fixed-line provider Garant (Gomel) in Belarus, consolidated as of 1 August 2017.
- The acquisition of the fixed-line operator Metronet in Croatia, which was closed on 15 February 2017. The company has been consolidated as of 1 February 2017.
- The acquisition of the fixed-line provider Atlant Telecom and its subsidiary TeleSet in Belarus, consolidated as of 1 December 2016.

Group Overview – Third Quarter of 2017

Key performance indicators

in EUR million	Q3 2017 reported	Q3 2016 reported	% change	Q3 2016 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	1,110.7	1,073.2	3.5	1,085.3	2.3	12.1
thereof total service revenues*)	987.1	961.6	2.7	973.7	1.4	12.1
Wireless revenues	697.0	682.8	2.1	683.4	2.0	0.5
thereof service revenues	553.7	558.1	−0.8	558.1	−0.8	0.0
thereof equipment revenues	114.0	104.9	8.7	104.9	8.7	0.0
Fixed-line and other revenues	413.7	390.3	6.0	401.9	2.9	11.6
EBITDA	410.1	415.5	−1.3	421.0	−2.6	5.5
% total revenues	36.9%	38.7%		38.8%		
EBIT	191.1	202.7	−5.7	206.4	−7.4	3.7
% total revenues	17.2%	18.9%		19.0%		

Wireline indicators	Q3 2017 reported	Q3 2016 reported	% change	Q3 2016 proforma	% change proforma	Absolute change (proforma - reported)
RGUs (thousands)	6,014.9	5,607.1	7.3	6,051.5	−0.6	444.4

*) Including other operating income
The reconciliation table does not show wireless indicators as the M&A transactions only comprise the fixed-line business.

Group Overview – First Nine Months of 2017

Key performance indicators

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change	1-9 M 2016 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	3,252.5	3,113.3	4.5	3,144.0	3.5	30.8
thereof total service revenues*)	2,909.6	2,804.3	3.8	2,835.0	2.6	30.8
Wireless revenues	2,004.2	1,958.5	2.3	1,959.1	2.3	0.6
thereof service revenues	1,613.9	1,609.9	0.2	1,609.8	0.3	−0.1
thereof equipment revenues	315.8	289.1	9.3	289.1	9.3	0.0
Fixed-line and other revenues	1,248.3	1,154.8	8.1	1,184.9	5.4	30.2
EBITDA	1,109.0	1,079.1	2.8	1,091.7	1.6	12.6
% total revenues	34.1%	34.7%		34.7%		
EBIT	464.0	434.4	6.8	442.2	4.9	7.8
% total revenues	14.3%	14.0%		14.1%		

*) Including other operating income
The reconciliation table does not show wireless indicators as the M&A transactions only comprise the fixed-line business.

Revenues

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change	1-9 M 2016 proforma	% change proforma	Absolute change (proforma - reported)
Austria	1,946.1	1,910.7	1.9	1,910.7	1.9	0.0
Bulgaria	319.1	303.3	5.2	303.3	5.2	0.0
Croatia	328.0	295.2	11.1	313.5	4.6	18.3
Belarus	294.6	230.3	27.9	242.9	21.3	12.5
Slovenia	162.0	159.0	1.9	159.0	1.9	0.0
Republic of Serbia	164.6	161.1	2.1	161.1	2.1	0.0
Republic of Macedonia	85.5	88.4	–3.3	88.4	–3.3	0.0
Corporate & other, eliminations	–47.2	–34.8	–35.6	–34.8	–35.6	0.0
Total revenues	**3,252.5**	3,113.3	**4.5**	3,144.0	**3.5**	**30.8**

EBITDA

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change	1-9 M 2016 proforma	% change proforma	Absolute change (proforma - reported)
Austria	712.2	723.0	–1.5	723.0	–1.5	0.0
Bulgaria	104.4	100.4	3.9	100.4	3.9	0.0
Croatia	88.4	69.3	27.6	77.8	13.7	8.5
Belarus	144.8	110.9	30.5	115.0	25.9	4.1
Slovenia	33.0	42.7	–22.7	42.7	–22.7	0.0
Republic of Serbia	28.7	30.5	–5.8	30.5	–5.8	0.0
Republic of Macedonia	23.5	20.2	16.1	20.2	16.1	0.0
Corporate & other, eliminations	–26.0	–17.9	–45.0	–17.9	–45.0	0.0
Total EBITDA	**1,109.0**	1,079.1	**2.8**	1,091.7	**1.6**	**12.6**

Depreciation and Amortisation

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change	1-9 M 2016 proforma	% change proforma	Absolute change (proforma - reported)
Austria	355.4	368.0	–3.4	368.0	–3.4	0.0
Bulgaria	102.2	82.4	24.1	82.4	24.1	0.0
Croatia	66.6	58.6	13.5	62.0	7.4	3.3
Belarus	36.6	50.1	–26.9	51.5	–28.8	1.4
Slovenia	22.6	24.0	–6.1	24.0	–6.1	0.0
Republic of Serbia	33.4	34.5	–3.1	34.5	–3.1	0.0
Republic of Macedonia	26.7	39.8	–33.0	39.8	–33.0	0.0
Corporate & other, eliminations	1.6	–12.6	n.m.	–12.6	n.m.	0.0
Total D&A	**645.0**	644.7	**0.0**	649.4	**–0.7**	**4.7**

EBIT

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change	1-9 M 2016 proforma	% change proforma	Absolute change (proforma - reported)
Austria	356.8	355.0	0.5	355.0	0.5	0.0
Bulgaria	2.2	18.1	–87.8	18.1	–87.8	0.0
Croatia	21.8	10.6	105.1	15.8	38.3	5.1
Belarus	108.2	60.9	77.8	63.5	70.3	2.7
Slovenia	10.4	18.7	–44.2	18.7	–44.2	0.0
Republic of Serbia	–4.7	–4.0	–17.7	–4.0	–17.7	0.0
Republic of Macedonia	–3.2	–19.6	83.9	–19.6	83.9	0.0
Corporate & other, eliminations	–27.5	–5.3	n.m.	–5.3	n.m.	0.0
Total EBIT	**464.0**	434.4	**6.8**	442.2	**4.9**	**7.8**

Capital Expenditures*)

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change	1-9 M 2016 proforma	% change proforma	Absolute change (proforma - reported)
Austria	304.2	328.1	–7.3	328.1	–7.3	0.0
Bulgaria	55.4	49.1	12.8	49.1	12.8	0.0
Croatia	53.0	49.7	6.5	53.3	–0.6	3.5
Belarus	28.5	56.4	–49.4	58.3	–51.1	1.9
Slovenia	30.2	17.4	73.7	17.4	73.7	0.0
Republic of Serbia	23.3	17.6	32.4	17.6	32.4	0.0
Republic of Macedonia	9.8	23.7	–58.7	23.7	–58.7	0.0
Corporate & other, eliminations	–6.0	–4.7	–28.2	–4.7	–28.2	0.0
Total capital expenditures	**498.4**	537.4	**–7.3**	542.8	**–8.2**	**5.5**

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

Capital Expenditures – Tangible

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change
Austria	256.4	282.1	–9.1
Bulgaria	38.4	33.9	13.3
Croatia	46.9	45.9	2.2
Belarus	24.5	52.8	–53.5
Slovenia	9.7	13.1	–26.6
Republic of Serbia	18.4	16.0	15.5
Republic of Macedonia	8.0	21.6	–63.0
Corporate & other, eliminations	–5.5	–4.6	–18.5
Total capital expenditures - tangible	**396.8**	460.7	**–13.9**

Capital Expenditures – Intangible

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change
Austria	47.9	46.0	3.9
Bulgaria	17.0	15.2	11.8
Croatia	6.1	3.9	56.9
Belarus	4.0	3.6	11.0
Slovenia	20.5	4.2	n.m.
Republic of Serbia	4.8	1.6	200.7
Republic of Macedonia	1.8	2.1	–13.9
Corporate & other, eliminations	–0.5	–0.1	n.m.
Total capital expenditures - intangible	**101.6**	76.7	**32.6**

Segment Croatia – Third Quarter of 2017

Key performance indicators

in EUR million	Q3 2017 reported	Q3 2016 reported	% change	Q3 2016 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	121.0	108.1	12.0	115.0	5.2	7.0
thereof total service revenues*)	110.1	95.7	15.0	102.7	7.2	7.0
Wireless revenues	89.7	85.4	5.0	85.4	5.0	0.0
thereof service revenues	76.9	71.5	7.6	71.5	7.7	0.0
thereof equipment revenues	10.9	12.2	–10.8	12.2	–10.8	0.0
Fixed-line and other revenues	31.4	22.7	38.0	29.7	5.6	7.0
EBITDA	41.7	31.1	34.2	34.7	20.1	3.6
% of total revenues	34.5%	28.8%		30.2%		
EBIT	18.1	13.3	36.8	15.6	16.0	2.4
% of total revenues	15.0%	12.3%		13.6%		

Wireline indicators	Q3 2017 reported	Q3 2016 reported	% change	Q3 2016 proforma	% change proforma	Absolute change (proforma - reported)
RGUs (thousands)	659.9	607.4	8.7	633.2	4.2	25.9

*) Including other operating income

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

Segment Croatia – First Nine Months of 2017

Key performance indicators

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change	1-9 M 2016 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	328.0	295.2	11.1	313.5	4.6	18.4
thereof total service revenues*)	293.4	260.7	12.5	279.0	5.2	18.4
Wireless revenues	237.1	228.2	3.9	228.3	3.9	0.1
thereof service revenues	198.3	189.9	4.4	189.8	4.5	–0.1
thereof equipment revenues	34.1	34.0	0.4	34.0	0.4	0.0
Fixed-line and other revenues	90.9	67.0	35.7	85.2	6.7	18.2
EBITDA	88.4	69.3	27.6	77.8	13.7	8.5
% of total revenues	27.0%	23.5%		24.8%		
EBIT	21.8	10.6	105.1	15.8	38.3	5.1
% of total revenues	6.7%	3.6%		5.0%		

*) Including other operating income

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

Segment Belarus – Third Quarter of 2017

Key performance indicators

in EUR million	Q3 2017 reported	Q3 2016 reported	% change	Q3 2016 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	99.8	85.4	16.9	90.5	10.3	5.2
thereof total service revenues*)	80.1	69.6	15.1	74.8	7.1	5.2
Wireless revenues	92.1	82.6	11.5	83.1	10.8	0.5
thereof service revenues	68.1	63.2	7.8	63.2	7.8	0.0
thereof equipment revenues	19.8	15.8	25.2	15.8	25.2	0.0
Fixed-line and other revenues	7.8	2.8	177.9	7.4	4.5	4.6
EBITDA	46.7	41.4	12.8	43.3	8.0	1.8
% of total revenues	46.8%	48.5%		47.8%		
EBIT	34.5	24.1	43.0	25.4	35.7	1.3
% of total revenues	34.5%	28.2%		28.1%		

Wireline indicators	Q3 2017 reported	Q3 2016 reported	% change	Q3 2016 proforma	% change proforma	Absolute change (proforma - reported)
RGUs (thousands)	461.9	n.a.	n.a.	418.5	10.4	n.a.

*) Including other operating income

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

Segment Belarus – First Nine Months of 2017

Key performance indicators

in EUR million	1-9 M 2017 reported	1-9 M 2016 reported	% change	1-9 M 2016 proforma	% change proforma	Absolute change (proforma - reported)
Total revenues	294.6	230.3	27.9	242.9	21.3	12.5
thereof total service revenues*)	244.8	188.3	30.0	200.8	21.9	12.5
Wireless revenues	272.3	222.7	22.3	223.3	21.9	0.6
thereof service revenues	209.4	174.7	19.8	174.7	19.8	0.0
thereof equipment revenues	49.8	42.0	18.4	42.0	18.4	0.0
Fixed-line and other revenues	22.3	7.6	191.8	19.6	13.8	11.9
EBITDA	144.8	110.9	30.5	115.0	25.9	4.1
% of total revenues	49.2%	48.2%		47.3%		
EBIT	108.2	60.9	77.8	63.5	70.3	2.7
% of total revenues	36.7%	26.4%		26.2%		

*) Including other operating income

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

Condensed Consolidated Financial Statements Telekom Austria Group

Condensed Consolidated Statements of Comprehensive Income

in EUR million, except per share information	Q3 2017 unaudited	Q3 2016 unaudited	1-9 M 2017 unaudited	1-9 M 2016 unaudited
Service Revenues (incl. other operating income)	987.1	961.6	2,909.6	2,804.3
Equipment revenues	123.5	111.6	342.9	309.0
Total revenues (incl. other operating income - OOI)	**1,110.7**	1,073.2	**3,252.5**	3,113.3
Cost of service	−344.8	−329.0	−1,028.6	−988.2
Cost of equipment	−143.7	−126.3	−400.3	−355.6
Selling, general & administrative expenses	−209.5	−202.6	−708.2	−689.7
Other expenses	−2.5	0.2	−6.3	−0.6
Total cost and expenses	**−700.5**	−657.7	**−2,143.5**	−2,034.1
Earnings before interest, tax, depreciation and amortisation - EBITDA	**410.1**	415.5	**1,109.0**	1,079.1
Depreciation and amortisation	−219.1	−212.8	−645.0	−644.7
Operating income - EBIT	**191.1**	202.7	**464.0**	434.4
Interest income	3.9	3.0	11.1	9.3
Interest expense on financial liabilities	−24.5	−43.4	−72.7	−103.5
Interest on employee benefits and restructuring and other financial items, net	−2.1	−3.3	−8.9	−6.1
Foreign currency exchange differences, net	−6.4	1.0	−2.2	8.2
Equity interest in net income of associated companies	0.1	0.3	−0.6	0.8
Financial result	**−29.0**	−42.4	**−73.3**	−91.3
Earnings before income tax - EBT	**162.1**	160.3	**390.8**	343.2
Income tax	−14.0	−17.1	−33.7	−36.5
Net result	**148.1**	143.2	**357.1**	306.7
Attributable to:				
Equity holders of the parent	141.6	136.7	337.8	287.4
Non-controlling interests	0.2	0.2	0.3	0.3
Hybrid capital owners	6.4	6.4	19.9	19.0
Basic and diluted earnings per share attributable to equity holders of the parent	**0.2**	0.2	**0.5**	0.4
Weighted-average number of ordinary shares outstanding	664,084,841	664,084,841	664,084,841	664,084,841
Other comprehensive income items:				
Items that may be reclassified to profit or loss:				
Effect of translation of foreign entities	−13.4	8.4	−29.2	−24.2
Realised result on hedging activities, net of tax	1.1	1.1	3.3	3.3
Unrealised result on securities available-for-sale, net of tax	0.1	0.2	0.2	0.1
Items that will not be reclassified to profit or loss:				
Remeasurements of defined benefit obligations, net of tax	−0.9	−12.0	−2.7	−18.0
Total other comprehensive income (loss)	**−13.1**	−2.3	**−28.4**	−38.7
Total comprehensive income (loss)	**135.0**	141.0	**328.6**	268.0
Attributable to:				
Equity holders of the parent	128.4	134.4	309.4	248.7
Non-controlling interests	0.2	0.2	0.3	0.3
Hybrid capital owners	6.4	6.4	19.0	19.0

Condensed Consolidated Statements of Financial Position

in EUR million	30 Sept. 2017 unaudited	31 Dec. 2016 audited
ASSETS		
Current assets		
Cash and cash equivalents	272.3	457.5
Short-term investments	0.9	6.7
Accounts receivable: Subscribers, distributors and other, net	683.2	636.5
Receivables due from related parties	1.3	0.9
Inventories, net	90.6	82.5
Income tax receivable	1.5	12.8
Other current assets, net	257.4	242.0
Total current assets	**1,307.2**	**1,438.9**
Non-current assets		
Property, plant and equipment, net	2,575.4	2,550.8
Intangibles, net	2,204.0	2,321.4
Goodwill	1,273.7	1,241.8
Investments in associated companies	34.7	40.8
Long-term investments	12.1	8.4
Deferred income tax assets	288.6	286.4
Other non-current assets, net	53.6	54.7
Total non-current assets	**6,442.0**	**6,504.3**
TOTAL ASSETS	**7,749.2**	**7,943.2**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt and current portion of long-term debt	–0.7	–500.1
Accounts payable	–823.7	–852.6
Accrued liabilities and current provisions	–277.0	–299.0
Income tax payable	–30.4	–26.5
Payables due to related parties	–0.5	–6.4
Deferred revenues	–163.4	–163.2
Total current liabilities	**–1,295.7**	**–1,847.8**
Non-current liabilities		
Long-term debt	–2,532.8	–2,303.5
Deferred income tax liabilities	–59.1	–63.1
Deferred revenues and other non-current liabilities	–38.4	–20.0
Asset retirement obligation and restructuring	–668.8	–731.8
Employee benefits	–215.8	–206.3
Total non-current liabilities	**–3,514.9**	**–3,324.7**
Stockholders' equity		
Capital stock	–1,449.3	–1,449.3
Treasury shares	7.8	7.8
Additional paid-in capital	–1,100.1	–1,100.1
Hybrid capital	–591.2	–591.2
Retained earnings	–502.3	–306.3
Other comprehensive income (loss) items	698.9	670.4
Equity attributable to equity holders of the parent	**–2,936.3**	**–2,768.7**
Non-controlling interest	–2.3	–2.0
Total stockholders' equity	**–2,938.6**	**–2,770.7**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**–7,749.2**	**–7,943.2**

Condensed Consolidated Statements of Cash Flows

in EUR million	Q3 2017 unaudited	Q3 2016 unaudited	1-9 M 2017 unaudited	1-9 M 2016 unaudited
Earnings before income tax - EBT	162.1	160.3	390.8	343.2
Items not requiring the use of cash and other reconciliation:				
Depreciation	131.5	132.7	397.8	404.4
Amortisation of intangible assets	87.5	80.0	247.2	240.3
Equity interest in net income of associated companies	−0.1	−0.3	0.6	−0.8
Result on sale of investments	0.0	−1.1	−0.1	−4.9
Result on sale of property, plant and equipment	1.3	0.4	3.9	−2.9
Net period cost of labor obligations and restructuring	−9.3	−13.3	−1.5	−2.1
Foreign currency exchange differences, net	6.4	−1.0	2.2	−8.2
Interest income	−3.9	−3.0	−11.1	−9.3
Interest expense	25.1	44.0	76.1	105.2
Other adjustments	−0.5	−0.4	−5.7	−0.7
Changes in working capital and other financial positions:				
Accounts receivable from subscribers, distributors and other	13.7	−16.8	−43.8	−38.9
Prepaid expenses	6.8	−0.7	−7.3	−6.3
Due from related parties	−0.3	−0.2	−0.4	−0.2
Inventories	−0.4	4.9	−8.9	−14.2
Other assets	−17.6	−7.3	−9.3	−11.2
Employee benefits and restructuring	−25.4	−27.5	−78.8	−80.3
Accounts payable and accrued liabilities	−36.8	−42.7	−26.2	−24.5
Due to related parties	−1.8	1.7	−5.9	1.2
Deferred revenues	1.2	1.9	0.1	1.9
Interest received	3.9	3.0	11.1	9.3
Income taxes paid	−9.6	−9.1	−20.7	−33.2
Net cash flow from operating activities	**333.9**	305.6	**910.1**	867.8
Capital expenditures paid	−142.9	−205.1	−521.1	−622.0
Proceeds from sale of plant, property and equipment	1.7	3.3	11.8	15.4
Purchase of investments	0.0	−0.4	0.0	−1.9
Proceeds from sale of investment	2.0	0.4	2.5	5.5
Acquisition of businesses, net of cash acquired	−16.2	0.0	−86.7	0.0
Sale of shares of associated companies	3.9	0.0	3.9	0.0
Net cash flow from investing activities	**−151.5**	−201.0	**−589.7**	−601.8
Long-term debt obtained	248.8	0.0	248.8	0.0
Repayments of long-term debt	0.0	−152.6	−522.0	−905.3
Interest paid	−8.6	−24.9	−64.7	−130.8
Change in short-term debt	−196.4	2.4	1.3	−2.8
Dividends paid	0.0	0.0	−166.7	−67.1
Aquisition of non-controlling interest	0.0	0.0	−1.0	0.0
Net cash flow from financing activities	**43.7**	−175.1	**−504.4**	−1,106.0
Adjustment to cash flows due to exchange rate fluctuations, net	**−0.3**	0.7	**−1.2**	−1.8
Net change in cash and cash equivalents	**226.0**	−69.8	**−185.2**	−841.7
Cash and cash equivalents beginning of period	46.3	137.3	457.5	909.2
Cash and cash equivalents end of period	272.3	67.5	272.3	67.5

Capital expenditures

in EUR million	Q3 2017 unaudited	Q3 2016 unaudited	% change	1-9 M 2017 unaudited	1-9 M 2016 unaudited	% change
Capital expenditures paid	**142.9**	205.1	–30.3%	**521.1**	622.0	–16.2%
Reconciliation of additions in accounts payable	4.2	–8.6	–148.8%	–22.8	–84.7	–73.1%
Total capital expenditures	**147.1**	196.5	–25.2%	**498.4**	537.4	–7.3%
Thereof tangible	119.7	171.5	–30.2%	396.8	460.7	–13.9%
Thereof intangible	27.4	25.0	9.4%	101.6	76.7	32.6%

Total capital expenditures are defined as additions to intangibles and to property, plant and equipment ("tangibles"), excluding additions related to asset retirement obligation and including interest capitalised.
Reconciliation of additions in accounts payable include the adjustment of capital expenditures of current period not yet paid as well as capital expenditures of prior periods paid in the current period in accordance with IAS 7.43.

Condensed Consolidated Statements of Changes in Stockholders' Equity

in EUR million (unaudited)	Capital stock	Treasury shares	Additional paid-in capital	Hybrid capital	Retained earnings	Other comprehensive items	Total	Non-controlling interest	Total stockholders' equity
Balance at 1 January 2017	**1,449.3**	**–7.8**	**1,100.1**	**591.2**	**306.3**	**–670.4**	**2,768.7**	**2.0**	**2,770.7**
Net Result	0.0	0.0	0.0	0.0	356.7	0.0	356.7	0.3	357.1
Other comprehensive income (loss)	0.0	0.0	0.0	0.0	0.0	–28.4	–28.4	0.0	–28.4
Total comprehensive income (loss)	**0.0**	**0.0**	**0.0**	**0.0**	**356.7**	**–28.4**	**328.3**	**0.3**	**328.6**
Distribution of dividends	0.0	0.0	0.0	0.0	–160.3	0.0	–160.3	–0.2	–160.4
Acquisition of non-controlling interests	0.0	0.0	0.0	0.0	–0.5	0.0	–0.5	0.2	–0.3
Balance at 30 Sept. 2017	**1,449.3**	**–7.8**	**1,100.1**	**591.2**	**502.3**	**–698.9**	**2,936.3**	**2.3**	**2,938.6**

in EUR million (unaudited)	Capital stock	Treasury shares	Additional paid-in capital	Hybrid capital	Retained earnings	Other comprehensive items	Total	Non-controlling interest	Total stockholders' equity
Balance at 1 January 2016	1,449.3	–7.8	1,100.1	591.2	–48.0	–660.7	2,424.1	1.9	2,426.0
Net Result	0.0	0.0	0.0	0.0	306.4	0.0	306.4	0.3	306.7
Other comprehensive income (loss)	0.0	0.0	0.0	0.0	0.0	–38.7	–38.7	0.0	–38.7
Total comprehensive income (loss)	0.0	0.0	0.0	0.0	306.4	–38.7	267.7	0.3	268.0
Distribution of dividends	0.0	0.0	0.0	0.0	–60.6	0.0	–60.6	–0.2	–60.8
Balance at 30 Sept. 2016	1,449.3	–7.8	1,100.1	591.2	197.8	–699.4	2,631.1	2.0	2,633.2

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 Sept. 2017 unaudited	31 Dec. 2016 audited
Long-term debt	2,532.8	2,303.5
Short-term debt and current portion of long-term debt	0.7	500.1
Cash and cash equivalents and short-term investments	–273.2	–464.2
Net debt	**2,260.4**	2,339.4
Net debt/EBITDA (last 12 months)	**1.6x**	1.7x

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 IAS 34 “Interim Financial Reporting” and are not audited or reviewed and should be read in connection with the audited Telekom Austria Group’s annual consolidated financial statements according to IFRS for the year ended 31 December 2016. 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 2016.

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

Telekom Austria Group 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 2016. The following standards are effective from 1 January 2017:

all IFRSs	Annual Improvements 2014 – 2016
IAS 7	Statement of Cash Flows - Disclosure Initiative (Amendments to IAS 7)
IAS 12	Income taxes - Recognition of Deferred Tax Assets for Unrealised Losses

At the time of preparation of these condensed interim financial statements, the EU endorsement was still pending. None of these changes are expected to have a material impact on the condensed consolidated interim financial statements.

Regarding IFRS 15 Telekom Austria Group is currently in phase II of the project. The relevant IT-systems that allow for the evaluation of mass data are currently implemented and their functionality verified in a dry run with test data only. The effects of the first-time application of IFRS 15 therefore cannot be quantified yet, because the major effects will result from the mass data.

Compared to other economic sectors, the telecommunications industry is in general less cyclical. Within the telecommunication sector, the seasonality of the Telekom Austria Group’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.

In the first quarter of 2017 the Austrian subsidiary Telekom Austria Group M2M GmbH (M2M) was renamed to A1 Digital International GmbH (A1 Digital). A1 Digital offers innovative digital products, cloud and IoT services as well as the Machine-to-Machine (M2M) business. Business activities focus on the CEE region and Germany and will be further expanded internationally. In previous periods M2M was presented in the Segment Austria. Starting 2017 A1 Digital is presented in Corporate, Other & Eliminations. Comparative figures were adjusted accordingly.

Business combinations

On 15 February 2017 Telekom Austria Group acquired 97.68% of Metronet telekomunikacije via its Croatian subsidiary Vipnet. Metronet is a leading alternative fixed business solutions provider in Croatia and delivers a diverse product offering, focussed on providing services to the business segment. The fair values of the assets acquired and liabilities assumed at the acquisition date were determined based on the preliminary allocation of consideration transferred and are reported in the segment Croatia:

Acquisition of Metronet

in EUR million (unaudited)	Fair values on acquisition
Property, plant and equipment	28.9
Intangible assets	29.7
Other assets and receivables	9.6
Cash and cash equivalents	0.1
Short-term debt and current portion of long-term debt	−2.0
Debt due to related parties	−34.1
Deferred income tax liabilities	−3.4
Accounts payable - trade and other liabilities	−7.9
Net identifiable assets and liabilities	**20.9**
Goodwill on acquisition	20.0
Debt paid on behalf of Metronet	34.1
Non-controlling interest	−0.5
Total purchase consideration	**74.6**
Purchase price not yet paid	−2.5
Cash acquired	−0.1
Net cash outflow	**72.0**

The factors contributing to goodwill are expectations of positive returns due to a favourable development of the market share in Croatia and cost synergies. Since the acquisition date, Metronet has contributed revenues of EUR 19.2 million and a net income of EUR 2.5 million The gross contractual amounts of acquired receivables are EUR 5.9 million. Management's best estimate at the acquisition date of the contractual cash flows not expected to be collected is EUR 0.7 million, thus the fair value amounts to EUR 5.2 million.

In the second quarter 2017 the non-controlling interest of Metronet of 2.32% amounting to EUR 0.5 million, was acquired for a consideration of EUR 1.0 million. The excess of the purchase price over the book value of the non-controlling interest is recorded in retained earnings.

On 1 August 2017 Telekom Austria Group acquired 96.50% of Gomelsky OTTC Garant, Gomel ("Garant") via its Belarusian subsidiary velcom. Gomel is the third largest broadband operator in Belarus providing services mainly for residential customers in Gomel, the 2nd largest city in Belarus, and other six cities in the region. The fair values of the assets acquired and liabilities assumed at the acquisition date were determined based on the preliminary allocation of consideration transferred and are reported in the segment Belarus:

Acquisition of Garant

in EUR millions (unaudited)	Fair values on acquisition
Property, plant and equipment	5.1
Intangible assets	2.0
Other assets and receivables	0.3
Cash and cash equivalents	0.4
Deferred income tax liabilities	–0.1
Accounts payable - trade and other liabilities	–2.8
Net identifiable assets and liabilities	**5.0**
Goodwill on acquisition	3.7
Non-controlling interest	–0.2
Total purchase consideration	**8.5**
Cash acquired	–0.4
Net cash outflow	**8.1**

The factors contributing to goodwill are expectations of positive returns due to harvest regional synergies, upselling of cable TV customers and further cost synergies. Since the acquisition date, Garant has contributed revenues of EUR 1.1 million and a net loss of EUR 0.4million.

On 4 August 2017 Telekom Austria Group acquired 88.83 % of Akenes S.A. ("Akenes"), Lausanne, via its subsidiary A1 Digital International GmbH. Akenes offers pure-play Infrastructure as a Service (IaaS) open cloud with clear focus on two core markets: Software as a Service (SaaS) and Big Data operators. The share purchase agreement includes a put and call option for the exit of the remaining shareholders. The total purchase consideration includes the fair value of the option. Based on the put option and other terms of the contract no non-controlling interest is recorded. The fair values of the assets acquired and liabilities assumed at the acquisition date were determined based on the preliminary allocation of consideration transferred and are reported in Corporate, Other & Eliminations:

Acquisition Akenesin EUR million (unaudited)	Fair values on acquisition
Property, plant and equipment	0.7
Intangible assets	1.9
Deferred income tax assets	0.1
Other assets and receivables	0.1
Cash and cash equivalents	0.1
Accounts payable - trade and other liabilities	–1.2
Net identifiable assets and liabilities	**1.8**
Goodwill on acquisition	7.6
Total purchase consideration	**9.4**
Purchase price not yet paid	–3.1
Cash acquired	–0.1
Net cash outflow	**6.2**

The factors contributing to goodwill are expectations of positive returns due to a favourable development of the market share and cost synergies. Since the acquisition date, Akenes has contributed revenues of EUR 0.3 million and a net loss of EUR 0.2million.

The final allocation of considerations transferred for the above mentioned subsidiaries acquired in the first nine months 2017 will be determined once all necessary information regarding identifiable assets is available (IFRS 3.45). Since the effect of the acquired entities on the

Consolidated Financial Statements of Telekom Austria Group is not considered significant, no pro-forma information is presented. Acquisition-related costs totalling EUR 0.7 million for the aquisitons are reported in selling, general and administrative expenses.

On 18 June 2017 Telekom Austria Group sold its 25.3% stake in media.at for a consideration paid in cash of EUR 3.9 million and recognised a loss of EUR 0.3 million in Equity interest in net income of associated companies.

Comprehensive Income

The following table shows the other operating income included in service revenues, the net amount of write-down (negative sign) and reversals of write-down (positive sign) of inventories and employee benefit expenses:

	1-9 M 2017	1-9 M 2016
Other operating income	74.5	59.6
Write-down/ reversals of write-down of inventories	–1.7	6.9
Employee benefit expenses	–588.3	–561.4

The increase in other operating income is mainly the result of the Belarusian solar power plant operation starting its operation at the end of July 2016 and a EUR 5.8 million refund from the purchase price of Blizoo Bulgaria which was acquired in 2015 following a settlement with former Blizoo owners.

Inventories are measured at the lower of cost or net realisable value. Net realisable value of merchandise is the estimated selling price in the ordinary course of business less the estimated selling expense. Starting 2016 the methodology of calculating the net realisable value was changed resulting in a positive effect of EUR 8.2 million. Thereof EUR 7.0 million are the result of increasing the contract term from 12 to 24 months in the Segment Austria used for calculating the selling price.

Non-Current and current assets

The increase in property, plant and equipment is mainly the result of the increase due to the aquisiton of Metronet in the segment Croatia as well as the fibre-roll-out and the increase in asset retirement obligation (see Provisions and Accrued Liabilities) in Austria which is partly compensated by a decrease due to the the development of the Belarusian Rouble and depreciation exceeding additions.

The decrease in intangibles is mainly a result of amortisation of licences, rights of use and software exceeding their additions. On 20 September 2017 it was decided to harmonise the brands within the Telekom Austria Group and to roll out the brand "A1" throughout the Group until Q3 2019 latest, depending on the market. In September 2017 this leads to an additional amortisation of brand names in the amount of EUR 14.6 million.

The increase in Accounts receivable: Subscribers, distributors and other, net is mainly a result of business combinations, higher revenues and a one-off effect in Austria of EUR 10.6 million stemming from the recognition of a previously variable consideration contained in a customer contract.

Non-Current and Current Liabilities

In the first nine months 2017 a EUR 500 million bond was repaid resulting in a decrease in short-term debt. Long-term bank debt amounting to EUR 22.0 million was redeemed prematurely in the first nine months 2017. On 14 July 2017 a tap issuance in the amount of EUR 250 million relating to Telekom Austria Group's benchmark bond issued in December 2016, maturing in 2026 with a coupon of 1.5% p.a., was settled. In August 2017 the outstanding bond and the tap were consolidated and have the same terms in all respect. Discount and issue cost of EUR 1.2 million are amortised over the related term of the bond.

The decrease in accounts payable is mainly due to the reduction in accounts payable to suppliers due to less CAPEX in 2017 as well as the payment of accounts payable of prior year.

In 2010, Telekom Austria Group has introduced a Long Term Incentive Programme (LTI). On 26 April 2017, the Supervisory Board approved the seventh tranche (LTI 2017). Grant date was 1 June 2017, the performance period is 1 January 2017 to 31 December 2019. Return on Invested Capital (ROIC) and Telekom Austria Group Revenue Market Share (weighted with 50% each) were defined as key performance indicators. Participants of LTI 2017 are only the Members of the Management Board of Telekom Austria Group, Alejandro Plater and Siegfried Mayrhofer. As of reporting date a liability for LTI 2017 measured at fair value for the portion of expected future expense, which has already vested, in the amount of EUR 0.2 million is recognised.

Provisions and Accrued Liabilities

The provision for restructuring (employees who will no longer provide services) and social plans and for civil servants who voluntarily changed to the Austrian government to take on administrative tasks is shown in the following table:

in EUR million	30 Sept. 2017 unaudited	31 Dec. 2016 audited
Restructuring and social plans	509.2	589.5
Civil servants changed to the government	20.3	24.1
Total restructuring	**529.5**	613.5

In the first nine months 2017, the discount rates and the rates of compensation increase (other than those for civil servants released from work) applied to the calculation of the provision for restructuring and social plans as well as for employee benefit obligations are the same as those applied as of 31 December 2016. The rate of compensation increase for civil servants released from work was reduced from 3.90% to 3.50%, leading to a reduction in the provision for restructuring in the amount of EUR 7.3 million. The further reduction of restructuring is mainly due to the usage of the provision.

In the first nine months 2017 the asset retirement obligation and the corresponding tangible assets increased in the amount of EUR 23.5 million in the Segment Austria mainly as a result of increased estimated cost of dismantling of masts and base stations as well as an increase in inflation rate used for the calculation from 1.5% to 2.0% in order to reflect the current market expectations.

Income Taxes

	1-9 M 2017	1-9 M 2016
Effective tax rate	8.6%	10.6%

in EUR million	30 Sept. 2017	31 Dec. 2016
Net deferred taxes	229.5	223.4

Net deferred tax assets increased slightly due to the derecognition of deferred tax liabilities previously recognised and the reduction of deferred tax liabities due to foreign exchange differences in Belarus. This reduction was only partly offset by the recognition of deferred tax liabilities resulting from the acquisition of Metronet in the first quarter of 2017.

Stockholders' Equity

In February 2017 and 2016, the Telekom Austria Group paid the 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 6.3 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 allocation of the net result in the condensed consolidated statements of comprehensive income and equals the recognised interest for the first nine months according to local GAAP amounting to EUR 25.2 million, net of the related tax benefit of EUR 6.3 million, which is recognised in stockholders' equity according to IAS 12.

In June 2017 and 2016, Telekom Austria Group paid dividend to its shareholders in the amount of EUR 132.8 million and EUR 33.2 million.

Other comprehensive income (loss) items in the Condensed Consolidated Statements of Changes in Stockholders' Equity include the remeasurement of defined benefit plans, available-for-sale reserve, hedging reserve and translation adjustments. The effect of translation of foreign entities in the first nine months 2017 and 2016 is mainly a result of the development of the Belarusian Rouble.

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 Sept. 2017 Carrying amount unaudited	Fair value unaudited	31 Dec. 2016 Carrying amount audited	Fair value audited
Cash and cash equivalents	**272.3**	**272.3**	457.5	457.5
Accounts receivable: Subscribers, distributors and other, net	683.2	683.2	636.5	636.5
Receivables due from related parties	1.3	1.3	0.9	0.9
Other current financial assets	99.3	99.3	93.1	93.1
Other non-current financial assets	45.0	45.0	46.2	46.2
Loans and receivables	**828.8**	**828.8**	776.7	776.7
Long-term investments	10.5	10.5	6.9	6.9
Short-term investments	0.9	0.9	6.7	6.7
Available-for-sale investments	**11.5**	**11.5**	13.6	13.6
Investments at cost	**1.5**	**1.5**	1.5	1.5

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

Other current and non-current financial assets comprise instalment sales receivables, finance lease receivables and other financial assets decreased by allowance for financial assets.

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 Sept. 2017 Carrying amount unaudited	Fair value unaudited	31 Dec. 2016 Carrying amount audited	Fair value audited
Bonds	2,532.5	2,825.1	2,781.4	3,093.8
Other current financial liabilities	171.2	171.2	162.8	162.8
Non-current liabilities to financial institutions	0.0	0.0	22.0	23.6
Lease obligations	1.1	1.1	0.1	0.1
Other non-current liabilities	6.6	6.6	0.8	0.8
Accounts payable - trade	502.7	502.7	553.7	553.7
Payables due to related parties	0.5	0.5	6.4	6.4
Accrued interest	45.7	45.7	49.6	49.6
Financial liabilities at amortised cost	**3,260.3**	**3,552.9**	3,577.0	3,891.1

The carrying amounts of accounts payable and other liabilities approximate their fair values, therefore no further information on the classification in the fair value hierarchy is provided.

The fair values of liabilities to financial institutions are measured at the present values of the cash flows associated with the debt and are thus classified as Level 2 of the fair value hierarchy.

The fair values of the quoted bonds (EMTN bonds and Eurobonds) equal the face value multiplied by the price quotations at the reporting date and are thus classified as Level 1 of the fair value hierarchy.

The 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 Sept. 2017 in EUR million (unaudited)	Level 1	Level 2	Level 3	Total
Available-for-sale & other investments	10.7	0.7	0.0	11.5
Financial assets measured at fair value	**10.7**	**0.7**	**0.0**	**11.5**

31 Dec. 2016 in EUR million (audited)	Level 1	Level 2	Level 3	Total
Available-for-sale & other investments	12.7	0.9	0.0	13.6
Financial assets measured at fair value	12.7	0.9	0.0	13.6

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

Regarding the tax audit in Mobiltel in Bulgaria described in Note (34) Commitments and Contingent Assets and Liabilities in the Consolidated Financial Statements 2016 Mobiltel has won the amount regarding the amortisation of customer base of EUR 15.0 million including interest and lost the amount of EUR 7.7 million for brand name for amortisation and interest for the year 2007 at Supreme Administrative Court. Furthermore Mobiltel received tax assessments for the years 2008, 2009 and 2010, which once again included brand name and customer base not to be tax deductible totalling EUR 61,5 million including interest calculated as per 30 September 2017. On 14 July 2017 Mobiltel filed an appeal to the administrative court in Sofia concerning the tax assessments for 2008 and 2009 and subsequently to the Supreme Administrative Court if necessary. On 26 September 2017 Mobiltel filed an appeal at the competent administrative authority regarding the tax assessment for the year of 2010. As of 30 September 2017 Mobiltel has issued bank guarantees covering up to EUR 62.9 million covering the tax assessment acts for the financial years 2008, 2009 and 2010 to secure the possible tax claims and interest.

Moreover, the subsequent tax audit covering the years 2011 to 2013 is still ongoing, and Mobiltel expects the final outcome to be based on the decision of the supreme administrative court for the year 2007. Tax and interest for brand name for the years 2008 to 2012 is provided for. In case of an unfavourable outcome, Mobiltel might face a further potential additional claim for the years 2011 and 2012 for customer base and brand name of up to EUR 26.5 million including penalty interest, calculated till 30 September 2017.