EGYÜTT. VELED

MAGYAR TELEKOM

INTERIM FINANCIAL REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2014

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Budapest – November 6, 2014 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the third quarter and first nine months of 2014, in accordance with International Financial Reporting Standards (IFRS).

1. HIGHLIGHTS

MAGYAR TELEKOM Group Financial Results - IFRS (HUF million, except indices)	Q3 2013 (Unaudited)	Q3 2014 (Unaudited)	Change (%)	1-9 months 2013 (Unaudited)	1-9 months 2014 (Unaudited)	Change (%)
Total revenues	**158,264**	**157,504**	**(0.5%)**	**471,780**	**461,183**	**(2.2%)**
Operating profit	**24,489**	**24,210**	**(1.1%)**	**62,974**	**65,406**	**3.9%**
Profit attributable to:						
Owners of the parent	9,305	10,660	14.6%	23,207	27,071	16.7%
Non-controlling interests	1,539	1,137	(26.1%)	4,403	2,303	(47.7%)
	10,844	**11,797**	**8.8%**	**27,610**	**29,374**	**6.4%**
Gross margin	104,560	103,109	(1.4%)	303,038	302,667	(0.1%)
EBITDA	51,931	49,221	(5.2%)	140,709	139,362	(1.0%)
EBITDA margin	32.8%	31.3%	n.a.	29.8%	30.2%	n.a.
Free cash flow				7,231	24,195	234.6%
Basic and diluted earnings per share (HUF)	**8.93**	**10.23**	**14.6%**	**22.26**	**25.97**	**16.7%**
CAPEX to Sales				**24.9%**	**11.6%**	**n.a.**
Net debt				**368,195**	**418,443**	**13.6%**
Net debt / total capital				**42.9%**	**44.6%**	**n.a.**
Number of employees (closing full equivalent)				**11,368**	**11,141**	**(2.0%)**

- **Revenues declined moderately in the third quarter of 2014 compared to the same period of 2013, from HUF 158.3 billion to HUF 157.5 billion.** The decline in voice and SI/IT revenues was mitigated by a combination of increased mobile internet and TV revenues and higher mobile equipment sales.
- **Gross margin declined by 1.4%, from HUF 104.6 billion to HUF 103.1 billion,** due to a higher bad debt expense related to receivables from equipment sales as well as from the waiver of HUF 0.9 billion of receivables due from a major T-Systems customer.
- **Employee-related expenses increased by HUF 2.8 billion in the third quarter of 2014** compared to the same period last year primarily driven by the HUF 3.7 billion severance expense related to the Parent Company headcount reduction program as opposed to the HUF 1.5 billion expense booked a year earlier.
- **EBITDA declined by 5.2%, from HUF 51.9 billion to HUF 49.2 billion**, owing primarily to higher bad debt and severance expenses.

Details of special, telecom and utility taxes (HUF billion)	**Q3 2013**	**Q3 2014**	**1-9 months 2013**	**1-9 months 2014**
Telecom tax	6.4	6.5	17.3	19.3
Utility tax	0.1		7.4	7.5
Total	**6.5**	**6.5**	**24.7**	**26.8**

- **Depreciation and amortization expenses declined from HUF 27.4 billion to HUF 25.0 billion** as the higher amounts of depreciation and amortization in Hungary (relating to spectrum licenses, as well as the capitalization of the annual frequency fees), were more than offset by the extension of the useful lives of assets such as radio equipment.
- **Net financial expenses declined from HUF 9.2 billion to HUF 6.6 billion** primarily due to lower charges upon FX translation where the Hungarian forint remained broadly stable against the Euro during Q3 2014 in contrast to Q3 2013 when the Hungarian forint weakened by 1.1% resulting in an FX loss.
- **Income tax expense increased from HUF 4.4 billion in Q3 2013, to HUF 5.8 billion in Q3 2014.** The primary reason for the increase is the repeated amendment in the Macedonian profit tax law in August 2014 that reinstated the profit tax at a rate of 10% with retrospective

application from January 2014. Previously, Magyar Telekom had been recognizing a deferred tax expense in proportion to its level of ownership, expected to fall due on dividend declaration; however, due to the change in the law, we had to recognize an additional tax expense of ca. HUF 0.8 billion that related to the minority's share of ownership. In addition, HUF 1.0 billion deferred tax was recognized in the books of the Macedonian subsidiaries, primarily related to the difference between the tax and book value of fixed assets.

- **Profit attributable to the owners of the parent company** (**net income**) **increased from HUF 9.3 billion to HUF 10.7 billion** as the decline in EBITDA was offset by both lower depreciation and amortization and net financial expenses.
- **Net cash generated from operating activities increased by HUF 21.4 billion year-on-year, from HUF 76.7 billion in the first nine months of 2013 to HUF 98.1 billion in the first nine months of 2014**. This increase is driven by an improved working capital performance reflecting the HUF 13 billion lower increase in installment sales in 2014 than in 2013, and the net positive operating cashflow impact from the reverse factoring of vendor invoices (albeit offset by correspondingly higher levels of financing cash outflows on repayment of these reverse factored vendor invoices).
- **Investment in tangible and intangible assets (CAPEX) decreased by HUF 63.8 billion in the first nine months of 2014 compared to the same period last year, from HUF 117.4 billion to HUF 53.6 billion.** The significant decrease is primarily attributable to the fact that costs related to the newly purchased frequency licenses have not been booked in Q3 2014. In contrast, Q3 2013 CAPEX included fees paid for the extension of frequency licenses in Hungary, amounting to HUF 38 billion in addition to the capitalization of the present value of the related future annual frequency fees which amounted to HUF 17.3 billion. Excluding these and the HUF 3.1 billion Macedonian spectrum license fee in 2013, CAPEX decreased by HUF 5.7 billion, from HUF 59.3 billion in the previous period to HUF 53.6 billion for the first nine months of 2014 – this was primarily driven by a change in the IPTV set-top box rental contracts resulting in financial lease CAPEX in 2013.
  In the first nine months of 2014, Telekom Hungary accounted for HUF 44.3 billion of total CAPEX while T-Systems Hungary accounted for HUF 2.6 billion. In Macedonia and Montenegro, CAPEX was HUF 4.0 billion and HUF 2.9 billion, respectively.
- **Free cash flow** (operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets and repayment of other financial liabilities) **increased by HUF 17.0 billion, from HUF 7.2 billion in the first nine months of 2013 to HUF 24.2 billion in the first nine months of 2014.** The improvement was primarily due to the aforementioned slowdown in the growth of installment sales of equipment.
- **Net debt rose from HUF 368.2 billion** at the end of September 2013 to **HUF 418.4 billion** at the end of September 2014, reflecting the HUF 58.65 billion frequency license liability but not yet including the ca. HUF 39 billion related to the capitalization of the present value of the future annual frequency fees, as this will be booked in Q4 2014. The **net debt ratio** (net debt to total capital) rose to **44.6%** during the quarter.

Christopher Mattheisen, CEO commented:

"I am pleased to report that we have closed a successful quarter. In the Telekom Hungary segment, in addition to increasing mobile usage, we also continued to increase our total number of subscribers and improved our customer mix in favor of postpaid subscribers. This trend, coupled with stable termination rates and a strong increase in mobile internet usage, led to a 4% increase in mobile ARPU. At the same time, we recorded growth in our market shares in both the fixed internet and TV segments. All of these positive developments led to a higher gross margin in the Telekom Hungary segment.

At T-Systems Hungary, restructuring of internal processes as part of our efficiency enhancing initiatives resulted in a lower volume of internal services. In addition, the lower number of infrastructure and equipment projects resulted in a 17% revenue decline.

In Macedonia, the main development is the announcement of the merger of two competitors, ONE and VIP. The closing of the transaction remains subject to a confirmatory due diligence of ONE and approval by the Macedonian authorities. If approved, we expect this transaction to reshape the competitive environment in the Macedonian telecoms market. In Montenegro, our performance was negatively affected by the weak tourist season and regulatory pressure.

Despite posting only a slight decline in Group revenues, higher employee-related costs in Hungary driven by an increased level of severance expenses led to a 5% decline in EBITDA.

I would also like to highlight some significant achievements. First, I am pleased to report that we have now received the frequency licences which enable Magyar Telekom to use the frequency blocks which were acquired during the recent tender process. We have also expanded our population-based nationwide outdoor 4G coverage to 73%, while at the same time increasing the nominal download speed of 4G mobile internet up to 150 Mbit/s. We believe that this is a very important milestone in the implementation of Digital Hungary, and plan to continue further network developments that will allow us to reach 93% population-based 4G coverage by the end of 2015. We are also pleased to note that the Hungarian government has retracted its initial proposal for an internet tax."

2014 public guidance:

	2013	Public guidance 2014
Revenue	HUF 637.5 billion	up to 3% decline
EBITDA	HUF 179.5 billion	up to 3% decline
Capex*	HUF 87.5 billion	ca. HUF 87 billion

*excluding spectrum acquisitions and annual frequency fee capitalization

2. CONSOLIDATED IFRS FINANCIAL STATEMENTS

2.1. Consolidated Statements of Financial Position

MAGYAR TELEKOM

Consolidated Statements of Financial Position (HUF million)	Dec 31, 2013 (Audited)	Sep 30, 2014 (Unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	14,633	12,460	(2,173)	(14.8%)
Trade and other receivables	136,712	145,135	8,423	6.2%
Other current financial assets	28,615	18,137	(10,478)	(36.6%)
Current income tax receivable	896	2,116	1,220	136.2%
Inventories	12,478	13,275	797	6.4%
Non current assets held for sale	607	768	161	26.5%
Total current assets	**193,941**	**191,891**	**(2,050)**	**(1.1%)**
Non current assets				
Property, plant and equipment	493,619	481,879	(11,740)	(2.4%)
Intangible assets	381,199	377,582	(3,617)	(0.9%)
Investments in associates and joint ventures	5	0	(5)	(100.0%)
Deferred tax assets	238	408	170	71.4%
Non current financial assets	21,619	21,527	(92)	(0.4%)
Other non current assets	627	60,263	59,636	n.m.
Total non current assets	**897,307**	**941,659**	**44,352**	**4.9%**
Total assets	**1,091,248**	**1,133,550**	**42,302**	**3.9%**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	58,682	103,469	44,787	76.3%
Other financial liabilities	100,060	128,592	28,532	28.5%
Trade payables	103,549	88,541	(15,008)	(14.5%)
Current income tax payable	759	3,703	2,944	387.9%
Provisions	4,076	5,702	1,626	39.9%
Other current liabilities	40,097	37,609	(2,488)	(6.2%)
Total current liabilities	**307,223**	**367,616**	**60,393**	**19.7%**
Non current liabilities				
Financial liabilities to related parties	239,522	192,972	(46,550)	(19.4%)
Other financial liabilities	26,214	24,007	(2,207)	(8.4%)
Deferred tax liabilities	19,075	20,344	1,269	6.7%
Provisions	8,516	8,624	108	1.3%
Other non current liabilities	1,122	1,047	(75)	(6.7%)
Total non current liabilities	**294,449**	**246,994**	**(47,455)**	**(16.1%)**
Total liabilities	**601,672**	**614,610**	**12,938**	**2.2%**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,387	27,395	8	0.0%
Treasury stock	(307)	(307)	0	0.0%
Retained earnings	281,795	308,866	27,071	9.6%
Accumulated other comprehensive income	24,318	30,230	5,912	24.3%
Total Equity of the owners of the parent	**437,468**	**470,459**	**32,991**	**7.5%**
Non-controlling interests	52,108	48,481	(3,627)	(7.0%)
Total equity	**489,576**	**518,940**	**29,364**	**6.0%**
Total liabilities and equity	**1,091,248**	**1,133,550**	**42,302**	**3.9%**

2.2. Consolidated Statements of Profit or loss and other comprehensive income – third quarter

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q3 2013 (Unaudited)	Q3 2014 (Unaudited)	Change	Change (%)
Revenues				
Voice - retail	42,691	41,509	(1,182)	(2.8%)
Voice - wholesale	7,334	7,128	(206)	(2.8%)
Voice - visitor	1,017	829	(188)	(18.5%)
Non-voice	17,648	18,933	1,285	7.3%
Equipment	9,369	10,671	1,302	13.9%
Other mobile revenues	1,981	3,225	1,244	62.8%
Mobile revenues	**80,040**	**82,295**	**2,255**	**2.8%**
Voice - retail	18,161	16,606	(1,555)	(8.6%)
Voice - wholesale	3,910	3,359	(551)	(14.1%)
Internet	12,679	13,198	519	4.1%
Data	4,820	4,793	(27)	(0.6%)
TV	9,426	10,363	937	9.9%
Equipment	1,586	1,238	(348)	(21.9%)
Other fixed line revenues	2,364	2,522	158	6.7%
Fixed line revenues	**52,946**	**52,079**	**(867)**	**(1.6%)**
System Integration/Information Technology revenues	16,628	14,404	(2,224)	(13.4%)
Revenue from Energy Services	8,650	8,726	76	0.9%
Total revenues	**158,264**	**157,504**	**(760)**	**(0.5%)**
Direct costs				
Mobile revenue-related payments	(20,731)	(21,293)	(562)	(2.7%)
Fixed line revenue-related payments	(10,221)	(10,142)	79	0.8%
SI/IT revenue-related payments	(10,247)	(8,934)	1,313	12.8%
Energy revenue-related payments	(8,426)	(8,600)	(174)	(2.1%)
Agent commissions	(2,673)	(2,588)	85	3.2%
Bad debt expense	(1,406)	(2,838)	(1,432)	(101.8%)
Direct costs	**(53,704)**	**(54,395)**	**(691)**	**(1.3%)**
Gross margin	**104,560**	**103,109**	**(1,451)**	**(1.4%)**
Employee-related expenses	(23,061)	(25,858)	(2,797)	(12.1%)
Other operating expenses	(29,884)	(28,693)	1,191	4.0%
Other operating income	316	663	347	109.8%
EBITDA	**51,931**	**49,221**	**(2,710)**	**(5.2%)**
Depreciation and amortization	(27,442)	(25,011)	2,431	8.9%
Operating profit	**24,489**	**24,210**	**(279)**	**(1.1%)**
Net financial result	(9,240)	(6,640)	2,600	28.1%
Share of associates' and joint ventures' profits	0	(14)	(14)	n.a.
Profit before income tax	**15,249**	**17,556**	**2,307**	**15.1%**
Income tax	(4,405)	(5,759)	(1,354)	(30.7%)
Profit for the period	**10,844**	**11,797**	**953**	**8.8%**
Change in exchange differences on translating foreign operations	2,141	199	(1,942)	(90.7%)
Revaluation of available-for-sale financial assets	(1)	0	1	100.0%
Other comprehensive income for the period	2,140	199	(1,941)	(90.7%)
Total comprehensive income for the period	**12,984**	**11,996**	**(988)**	**(7.6%)**
Profit attributable to:				
Owners of the parent	9,305	10,660	1,355	14.6%
Non-controlling interests	1,539	1,137	(402)	(26.1%)
	10,844	**11,797**	**953**	**8.8%**
Total comprehensive income attributable to:				
Owners of the parent	10,850	10,846	(4)	(0.0%)
Non-controlling interests	2,134	1,150	(984)	(46.1%)
	12,984	**11,996**	**(988)**	**(7.6%)**
Basic and diluted earnings per share (HUF)	**8.93**	**10.23**	**1.30**	**14.6%**

2.3. Consolidated Statements of Profit or loss and other comprehensive income – 1-9 months

MAGYAR TELEKOM Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	1-9 months 2013 (Unaudited)	1-9 months 2014 (Unaudited)	Change	Change (%)
Revenues				
Voice - retail	124,265	120,189	(4,076)	(3.3%)
Voice - wholesale	20,788	20,194	(594)	(2.9%)
Voice - visitor	2,145	1,644	(501)	(23.4%)
Non-voice	50,514	53,935	3,421	6.8%
Equipment	28,823	28,009	(814)	(2.8%)
Other mobile revenues	5,657	9,078	3,421	60.5%
Mobile revenues	**232,192**	**233,049**	**857**	**0.4%**
Voice - retail	55,006	50,557	(4,449)	(8.1%)
Voice - wholesale	10,631	9,334	(1,297)	(12.2%)
Internet	38,564	39,737	1,173	3.0%
Data	14,877	13,711	(1,166)	(7.8%)
TV	27,622	30,370	2,748	9.9%
Equipment	5,539	4,291	(1,248)	(22.5%)
Other fixed line revenues	8,276	7,425	(851)	(10.3%)
Fixed line revenues	**160,515**	**155,425**	**(5,090)**	**(3.2%)**
System Integration/Information Technology revenues	45,831	42,378	(3,453)	(7.5%)
Revenue from Energy Services	33,242	30,331	(2,911)	(8.8%)
Total revenues	**471,780**	**461,183**	**(10,597)**	**(2.2%)**
Direct costs				
Mobile revenue-related payments	(61,229)	(58,686)	2,543	4.2%
Fixed line revenue-related payments	(31,632)	(29,682)	1,950	6.2%
SI/IT revenue-related payments	(28,195)	(24,755)	3,440	12.2%
Energy revenue-related payments	(34,534)	(29,446)	5,088	14.7%
Agent commissions	(8,130)	(7,757)	373	4.6%
Bad debt expense	(5,022)	(8,190)	(3,168)	(63.1%)
Direct costs	**(168,742)**	**(158,516)**	**10,226**	**6.1%**
Gross margin	**303,038**	**302,667**	**(371)**	**(0.1%)**
Employee-related expenses	(69,345)	(71,564)	(2,219)	(3.2%)
Other operating expenses	(94,663)	(93,665)	998	1.1%
Other operating income	1,679	1,924	245	14.6%
EBITDA	**140,709**	**139,362**	**(1,347)**	**(1.0%)**
Depreciation and amortization	(77,735)	(73,956)	3,779	4.9%
Operating profit	**62,974**	**65,406**	**2,432**	**3.9%**
Net financial result	(23,534)	(20,453)	3,081	13.1%
Share of associates' and joint ventures' profits	0	(5)	(5)	n.a.
Profit before income tax	**39,440**	**44,948**	**5,508**	**14.0%**
Income tax	(11,830)	(15,574)	(3,744)	(31.6%)
Profit for the period	**27,610**	**29,374**	**1,764**	**6.4%**
Change in exchange differences on translating foreign operations	4,959	8,037	3,078	62.1%
Revaluation of available-for-sale financial assets	(15)	24	39	n.m.
Other comprehensive income for the period	4,944	8,061	3,117	63.0%
Total comprehensive income for the period	**32,554**	**37,435**	**4,881**	**15.0%**
Profit attributable to:				
Owners of the parent	23,207	27,071	3,864	16.7%
Non-controlling interests	4,403	2,303	(2,100)	(47.7%)
	27,610	**29,374**	**1,764**	**6.4%**
Total comprehensive income attributable to:				
Owners of the parent	26,919	32,983	6,064	22.5%
Non-controlling interests	5,635	4,452	(1,183)	(21.0%)
	32,554	**37,435**	**4,881**	**15.0%**
Basic and diluted earnings per share (HUF)	**22.26**	**25.97**	**3.71**	**16.7%**

2.4. Consolidated Statements of Cash Flows

MAGYAR TELEKOM

Consolidated Statements of Cash Flows (HUF million)	1-9 months 2013 (Unaudited)	1-9 months 2014 (Unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	27,610	29,374	1,764	6.4%
Depreciation and amortization	77,735	73,956	(3,779)	(4.9%)
Income tax expense	11,830	15,574	3,744	31.6%
Net financial result	23,534	20,453	(3,081)	(13.1%)
Share of associates' and joint ventures' loss	0	5	5	n.a.
Change in assets carried as working capital	(17,937)	(4,370)	13,567	75.6%
Change in provisions	(4,617)	1,128	5,745	n.m.
Change in liabilities carried as working capital	(14,511)	(9,303)	5,208	35.9%
Income tax paid	(10,393)	(12,809)	(2,416)	(23.2%)
Interest and other financial charges paid	(22,015)	(20,833)	1,182	5.4%
Interest received	1,167	840	(327)	(28.0%)
Other cashflows from operations	4,259	4,079	(180)	(4.2%)
Net cash generated from operating activities	**76,662**	**98,094**	**21,432**	**28.0%**
Cash flows from investing activities				
Investments in tangible and intangible assets	(117,445)	(53,633)	63,812	54.3%
Adjustments to cash purchases	54,114	(5,791)	(59,905)	n.m.
Purchase of subsidiaries and business units	(494)	(1,156)	(662)	(134.0%)
Proceeds from other financial assets - net	18,264	14,498	(3,766)	(20.6%)
Proceeds from disposal of property, plant and equipment (PPE) and intangible	548	2,262	1,714	312.8%
Net cash used in investing activities	**(45,013)**	**(43,820)**	**1,193**	**2.7%**
Cash flows from financing activities				
Dividends paid to shareholders and Non-controlling interests	(65,361)	(6,705)	58,656	89.7%
Proceeds from / (repayments of) loans and other borrowings	40,367	(34,492)	(74,859)	n.m.
Repayment of other financial liabilities	(6,154)	(15,581)	(9,427)	(153.2%)
Net cash used in financing activities	**(31,148)**	**(56,778)**	**(25,630)**	**(82.3%)**
Exchange gains on translation of cash and cash equivalents	210	331	121	57.6%
Change in cash and cash equivalents	**711**	**(2,173)**	**(2,884)**	**n.m.**
Cash and cash equivalents, beginning of period	15,211	14,633	(578)	(3.8%)
Cash and cash equivalents, end of period	15,922	12,460	(3,462)	(21.7%)
Change in cash and cash equivalents	**711**	**(2,173)**	**(2,884)**	**n.m.**

2.5. Consolidated Statements of Changes in Equity

MAGYAR TELEKOM - Consolidated Statements of Changes in Equity (unaudited)

	pieces	in HUF millions									
			Capital reserves				Accumulated Other Comprehensive Income				
	Shares of common stock	Common stock	Additional paid in capital	Reserve for equity settled share-based transactions	Treasury stock	Retained earnings	Cumulative translation adjustment	Revaluation reserve for AFS financial assets – net of tax	Equity of the owners of the parent	Non-controlling interests	Total Equity
Balance at December 31, 2012	**1,042,742,543**	**104,275**	**27,379**	**4**	**(307)**	**310,452**	**21,335**	**(82)**	**463,056**	**59,027**	**522,083**
Dividend						(52,117)			**(52,117)**		**(52,117)**
Dividend declared to Non-controlling interests									**0**	(13,312)	**(13,312)**
Equity settled share-based transactions				3					**3**		**3**
Total comprehensive income						23,207	3,720	(8)	**26,919**	5,635	**32,554**
Balance at September 30, 2013	**1,042,742,543**	**104,275**	**27,379**	**7**	**(307)**	**281,542**	**25,055**	**(90)**	**437,861**	**51,350**	**489,211**
Equity settled share-based transactions				1					**1**		**1**
Total comprehensive income						253	(630)	(17)	**(394)**	758	**364**
Balance at December 31, 2013	**1,042,742,543**	**104,275**	**27,379**	**8**	**(307)**	**281,795**	**24,425**	**(107)**	**437,468**	**52,108**	**489,576**
Dividend declared to Non-controlling interests									**0**	(6,822)	**(6,822)**
Equity settled share-based transactions				8					**8**	0	**8**
Capital reduction [1]									**0**	(1,247)	**(1,247)**
Deconsolidation effect									**0**	(10)	**(10)**
Total comprehensive income						27,071	5,898	14	**32,983**	4,452	**37,435**
Balance at September 30, 2014	**1,042,742,543**	**104,275**	**27,379**	**16**	**(307)**	**308,866**	**30,323**	**(93)**	**470,459**	**48,481**	**518,940**

[1] The AGM of Crnogorski Telekom on March 5, 2014 made a decision on share capital reduction in a total amount of EUR 17.1 million.

2.6. About Magyar Telekom

Magyar Telekom Telecommunications Public Limited Company (the Company or Magyar Telekom Plc.) with its subsidiaries form Magyar Telekom Group (Magyar Telekom or the Group). Magyar Telekom is the principal provider of telecommunications services in Hungary, Macedonia and Montenegro and alternative service provider in Bulgaria and Romania. These services are subject to various telecommunications regulations depending on the countries of operations.

The Company was incorporated in Hungary on December 31, 1991 and commenced business on January 1, 1992. The Company's registered office is Krisztina körút 55., 1013 Budapest, Hungary.

Magyar Telekom Plc. is listed on the Budapest Stock Exchange where its shares are traded. Magyar Telekom's American Depository Shares (ADSs), each representing five ordinary shares, were also traded on the New York Stock Exchange until November 12, 2010, when the ADSs were delisted. Magyar Telekom terminated the registration of its shares and ADSs in the US in February 2012. The Company maintains its American Depositary Receipt program on a Level I basis.

As of October 4, 2013 MagyarCom GmbH (MagyarCom), the immediate controlling shareholder of the Company owning 59.21% of the issued shares was merged into T-Mobile Global Holding Nr. 2 GmbH, also 100% owned by Deutsche Telekom AG. Subsequently, on December 18, 2013 T-Mobile Global Holding Nr. 2 GmbH increased the registered capital of its 100% owned subsidiary CMobil B.V. registered in the Netherlands (Stationsplein 8, 6221 BT Maastricht, the Netherlands) through in-kind contribution of Magyar Telekom shares. As a result of the transaction CMobil B.V. became a shareholder of Magyar Telekom Plc. directly owning 59.21% of the Company's voting rights (registered in Share Register on February 7, 2014). The ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG).

2.7. Basis of preparation and audit of the interim financial report

This condensed consolidated interim financial information was prepared in accordance with IAS 34 (Interim Financial Reporting) and should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

This consolidated interim financial information has not been audited. The statutory accounts for December 31, 2013 have been filed with the Budapest Stock Exchange and the Hungarian National Bank. The statutory accounts for December 31, 2013 were audited and the audit report was unqualified.

2.8. Accounting policies

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated annual financial statements for the year ended December 31, 2013 with the following exceptions.

As of January 1, 2014 the Group adopted the following IFRS Standards, amendments and interpretations:

IAS 32 (amended)

The amendments to IAS 32 clarify the IASB's requirements for offsetting financial instruments. The pronouncement clarifies:

- the meaning of "currently has a legally enforceable right of set off the recognized amounts"; and
- that some gross settlement systems may be considered equivalent to net settlement.

The application of the amended standard did not result in significant changes in the financial statements of the Group, therefore no restatement of the previously reported balances is necessary.

IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended) and IAS28 (amended)

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 – Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement, whereby the parties that have joint control have rights to the net assets.

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27 – Separate Financial Statements. The other portions of IAS 27 are replaced by IFRS 10.

IAS 28 – Investments in Associates and Joint Ventures is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

The adoption of the above new and amended standards did not result in significant changes in the financial statements of the Group, therefore no restatement of prior periods became necessary.

IAS 39 (amended)

The IASB published "Novation of Derivatives and Continuation of Hedge Accounting", amendments to IAS 39 – Financial Instruments: Recognition and Measurement in June 2013. Magyar Telekom has not applied hedge accounting to any of its derivatives, therefore the amendment has not had any impact on the financial statements of the Group.

IFRIC 21

IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The new interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. As Magyar Telekom's interpretation of IAS 37 has been in line with the newly issued IFRIC, the adoption of the Interpretation does not have impact on the Group's financial statements.

Change in the revenue recognition policy

In addition to the above changes in accounting policies due to new and amended standards, Magyar Telekom Group has changed one element of its accounting policy for revenue recognition from January 1, 2014 to fully align our revenue recognition policies to those of Deutsche Telekom Group that we are a member of due to Deutsche Telekom's power over Magyar Telekom. This change relates to the allocation of revenue to the individual elements of multiple deliverable arrangements.

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used. The Group considers the various elements of these arrangements to be separate earnings processes and classifies the revenue for each of the deliverables into the categories. Until the end of 2013 we made these allocations using the residual method for each of the elements, i.e. the amount of consideration allocated to the delivered elements of the arrangements equaled the total consideration less the fair value of the undelivered elements. To become fully in line with Deutsche Telekom's revenue recognition policies, from January 1, 2014, we apply the following change to the allocation method for multiple element arrangements.

The revenue allocable to a delivered item is limited to the amount that is not contingent upon the delivery of additional items (the non-contingent amount). The revenue to be recognized is therefore restricted by the amount received that is not contingent upon undelivered elements of the arrangement. The retrospective application of the above extension of the Group's revenue recognition policy would not result in significant changes in the financial statements of the Group issued for prior years, therefore no restatement of the financial statements of the Group issued for prior years became necessary.

3. CONSOLIDATED MANAGEMENT REPORT

3.1. Operating and financial review – Group

3.1.1 Exchange rate information

Exchange rate	Q3 2013	Q3 2014	Change	1-9 months 2013	1-9 months 2014	Change
HUF/EUR beginning of period	295.16	310.19	**5.1%**	291.29	296.91	**1.9%**
HUF/EUR period-end	298.48	310.36	**4.0%**	298.48	310.36	**4.0%**
HUF/EUR cumulative monthly average	297.81	308.90	**3.7%**	297.81	308.90	**3.7%**
HUF/MKD beginning of period	4.79	5.03	**5.0%**	4.74	4.83	**1.9%**
HUF/MKD period-end	4.85	5.03	**3.7%**	4.85	5.03	**3.7%**
HUF/MKD cumulative monthly average	4.84	5.01	**3.5%**	4.84	5.01	**3.5%**

In Q3 2014, foreign exchange rates had an effect on the revenue and expense lines of our foreign subsidiaries expressed in HUF as these are translated at the cumulative average rates.

3.1.2 Revenues

Total revenues amounted to HUF 157.5 billion in Q3 2014 compared to HUF 158.3 billion in Q3 2013, representing a 0.5% decrease quarter over quarter caused by the following:

Mobile revenues amounted to HUF 82.3 billion in Q3 2014, compared to HUF 80.0 billion in the same period of the previous year representing a 2.8% increase. Higher mobile equipment, non-voice and other mobile revenues were only partly offset by the lower mobile voice revenues.

Mobile voice revenues, which represent the largest portion of revenues within mobile telecommunications services, declined by 3.1% to HUF 49.5 billion in Q3 2014 compared to HUF 51.0 billion in Q3 2013.

Voice-retail revenues decreased by 2.8% to HUF 41.5 billion in Q3 2014. This was mainly due to lower outgoing mobile voice revenues in Hungary as in the prepaid segment both minutes of use (MOU) and the number of customers decreased, partly offset by the higher prepaid outgoing tariff. In the postpaid segment, growth in MOU and in the customer base could offset the decrease in average price per minutes. In Hungary, the significantly lower roaming revenues were caused by EU regulated average tariff erosion, effective from July 1, 2014. In Macedonia, mobile voice-retail revenues declined despite the increased volume of outgoing minutes quarter over quarter, as average price per minute decreased after the introduction of new offers and promotion in response to competitive pressures in the market. In Montenegro, lower voice-retail revenues were driven by the decrease in average customer base as well as lower tariff levels quarter over quarter.

Voice-wholesale revenues were down by 2.8% and amounted to HUF 7.1 billion in Q3 2014, mainly due to lower mobile termination rates applicable as of November 1, 2013 and as of September 1, 2014 and decrease in international incoming traffic in Macedonia. In Hungary, voice-wholesale revenues increased driven by higher incoming traffic.

Non-voice revenues amounted to HUF 18.9 billion in Q3 2014, compared to HUF 17.6 billion in Q3 2013, representing a 7.3% increase. Higher non-voice revenues primarily came from higher mobile Internet revenues in Hungary, as both subscriber numbers and usage increased in Q3 2014.

Mobile equipment revenues increased by 13.9% to HUF 10.7 billion in Q3 2014 compared to HUF 9.4 billion in Q3 2013, mostly attributable to our Hungarian operation. Higher revenues were driven by the increase in the number of handsets sold and the growing average handset prices owing to the increased ratio of higher priced smartphones in the sales mix. In Montenegro, mobile equipment revenues increased due to the higher sale of handsets on installments thanks to the intensive marketing campaigns carried out in Q3 2014. In Macedonia, growth in equipment revenues was mainly caused by the higher number of handsets sold at an increased average price per handset in Q3 2014.

Other mobile revenues grew from HUF 2.0 billion in Q3 2013 to HUF 3.2 billion in Q3 2014 owing to higher revenues derived from penalty charges and from mobile handset insurance in Hungary.

Fixed line revenues amounted to HUF 52.1 billion in Q3 2014, compared to HUF 52.9 billion in the same period of the previous year, representing a 1.6% decline. The decrease was driven by falling voice and equipment revenues, partly offset by increased TV, Internet and other revenues.

Voice-retail revenues decreased by 8.6% to HUF 16.6 billion in Q3 2014 compared to HUF 18.2 billion in Q3 2013, mainly driven by the continuous decline in the number of revenue producing PSTN lines and lower average tariff levels.

Voice-wholesale revenues decreased by 14.1% to HUF 3.4 billion in Q3 2014. In Hungary, primarily the tariff decline caused lower domestic revenues from LTOs and from mobile operators. Call origination and termination also decreased in Hungary owing to mobile substitution and the intense competition with cable TV service providers. Lower international incoming traffic revenues in Montenegro and in Hungary mainly driven by lower volume of traffic also contributed to the decline in voice-wholesale revenues.

Internet revenues increased from HUF 12.7 billion in Q3 2013 to HUF 13.1 billion in Q3 2014, representing a 4.1% growth. In Hungary, DSL connections slightly increased together with cablenet and fiber optic connections. The broadband volume increase could compensate for the effect of the lower ARPU caused by lower prices due to strong competition and by the migration towards double- and triple-play packages, resulting in higher Internet access revenues. Revenues from content services also increased in Hungary. At our foreign subsidiaries, higher revenues were due to the growth in the number of DSL connections.

Data revenues remained at the same level and amounted to HUF 4.8 billion in Q3 2014. In Hungary and at our foreign subsidiaries, the lower number of domestic and international leased line customers caused a decrease in data narrowband revenues, which was largely offset by the increase in broadband revenues owing to new contracts. Broadband data price erosion also had a negative effect on data revenues.

TV revenues amounted to HUF 10.4 billion in Q3 2014 compared to HUF 9.4 billion in Q3 2013, representing an increase of 9.9%. This increase is mainly attributable to higher IPTV revenues driven by the growing IPTV subscriber base, both in Hungary and at our foreign subsidiaries. The fast growth of the IPTV customer base demonstrates the increasing popularity of interactive television. Growth in satellite TV revenues was due to the higher number of customers compared to the same quarter last year. These increases were partly offset by lower Cable TV revenues owing to the fact that an increasing number of existing subscribers have been migrating over to IPTV services in Hungary.

Fixed equipment revenues amounted to HUF 1.2 billion in Q3 2014 compared to HUF 1.6 billion in Q3 2013. The decrease is mainly owing to the lower sale of tablets, TV sets and notebooks in Hungary. In Macedonia, the decrease in fixed equipment revenues was driven by the lower sale of TV sets, home appliances and PCs in Q3 2014. The decline was somewhat mitigated by the higher sale of TV sets and laptops in Montenegro.

Other fixed line revenues increased by 6.7% in Q3 2014 compared to the same period previous year, and amounted to HUF 2.5 billion. The increase was mainly due to Click Shop revenues as well as higher revenues derived from sales of materials in Hungary.

System Integration ("SI") and IT revenues decreased by 13.4% from HUF 16.6 billion in Q3 2013 to HUF 14.4 billion in the same period of 2014. Lower revenues were due to the decrease in infrastructure and outsourcing revenues driven by fewer large projects in Q3 2014.

Energy Services revenues remained at the same level and amounted to HUF 8.7 billion in Q3 2014. The increase in revenues from gas services due to the higher consumption could more than offset the decrease in revenues from electricity services. As at September 30, 2014, the number of gas points of delivery amounted to 66,818, while the number of electricity points of delivery decreased to 105,788. The universal service provider price reductions from November 2013, April 2014 and September 2014 also had a negative effect on the energy revenues.

3.1.3 Direct costs

Direct costs increased by 1.3% quarter over quarter and amounted to HUF 54.4 billion in Q3 2014.

Mobile services-related payments increased by 2.7% in Q3 2014 quarter over quarter, and amounted to HUF 21.3 billion. Mobile equipment costs increased due to higher volume of smartphone sales in Hungary and Macedonia. This increase was partly offset by lower mobile voice payments primarily due to lower interconnection cost at our foreign subsidiaries and lower roaming payments in Hungary.

Fixed line-related payments decreased slightly by 0.8% to HUF 10.1 billion in Q3 2014. The decrease was mainly driven by lower equipment sales in Hungary and in Macedonia, due to the decrease in tablet, PC and TV-set sales quarter over quarter. Continuously declining voice-related payments and lower data payments also contributed to the decrease. These decreases were partly counterbalanced by higher TV payments, owing to the increasing subscriber base in Hungary.

Fewer large application and infrastructure projects at T-Systems Hungary caused SI/IT-related payments to decrease from HUF 10.2 billion in Q3 2013 to HUF 8.9 billion in Q3 2014.

Energy-related payments in Hungary increased (from HUF 8.4 billion in Q3 2013 to HUF 8.6 billion in Q3 2014), due to higher consumption in Q3 2014.

Agent commissions decreased by 3.2% in Q3 2014 as a result of fewer partner shops operating in 2014.

Bad debt expenses increased by 101.8% from HUF 1.4 billion in Q3 2013 to HUF 2.8 billion in Q3 2014, primarily due to the waiver of HUF 0.9 billion of the receivables due from a major T-Systems customer.

3.1.4 Gross margin

Gross margin decreased slightly from HUF 104.6 billion in Q3 2013 to HUF 103.1 billion in Q3 2014, as direct costs increased and revenues decreased quarter over quarter.

3.1.5 Employee-related expenses

Employee-related expenses increased by 12.1% from HUF 23.1 billion in Q3 2013 to HUF 25.9 billion in Q3 2014. The increase is mostly due to the HUF 2.2 billion higher amount of severance-related expenses recognized in Q3 2014 primarily due to the expected costs of the employment terminations concluded by the end of December 2014.

3.1.6 Other operating expenses

Other operating expenses decreased by 4.0%, from HUF 29.9 billion in Q3 2013 to HUF 28.7 in Q3 2014.

The decrease is primarily due to the decrease in fees and levies as a combined impact of the reduction of the annual frequency fees and the capitalization of these fees in Hungary in Q3 2013.

Other service fees decreased by 7.9% and amounted to HUF 5.4 billion in Q3 2014 mainly due to lower IT costs as a result of the renegotiation of the IT support contracts and lower R&D expenses. Material and maintenance expenses decreased by 2.6% and amounted to HUF 6.9 billion, primarily due to an energy saving project in Hungary.

These decreases were somewhat offset by higher marketing expenses, rental and consultancy fees and other expenses. Marketing expenses increased by 8.0% and amounted to HUF 3.3 billion, mainly due to higher advertising costs in Macedonia. Rental fees increased by 5.6% and amounted to HUF 3.5 billion mainly due to higher car rental fees at MT Plc. Hungary. Consultancy expenses increased from HUF 0.9 billion to HUF 1.1 billion, owing to an internal enterprise resource planning system development project.

Crisis tax amounting to HUF 6.5 billion remained stable quarter over quarter.

3.1.7 Other operating income

Other operating income increased from HUF 0.3 billion to HUF 0.7 billion quarter over quarter. The increase is primarily due to higher profits on real estate sales in Q3 2014.

3.1.8 EBITDA

EBITDA decreased by 5.2% from HUF 51.9 billion in Q3 2013 to HUF 49.2 billion in Q3 2014, primarily due to lower gross margin and to higher employee related expenses in Q3 2014, which were only partly counterbalanced by lower other operating expenses.

3.1.9 Depreciation and amortization

Depreciation and amortization expenses decreased by 8.9% from HUF 27.4 billion in Q3 2013 to HUF 25.0 billion in Q3 2014, mainly due to the lower depreciation of telecom equipment in Q3 2014, as a result of the extension of useful lives of certain assets as well as to the shrinking asset portfolio.

3.1.10 Operating profit

Operating profit decreased from HUF 24.5 billion in Q3 2013 to HUF 24.2 billion in Q3 2014 for the reasons described above.

3.1.11 Net financial result

Net financial expenses decreased by 28.1%, from HUF 9.2 billion in Q3 2013 to HUF 6.6 billion in Q3 2014. The improvement was primarily due to the HUF 0.2 billion gain on foreign exchange translation and hedges, compared to the HUF 2.4 billion loss in Q3 2013, resulting a HUF 2.3 billion improvement quarter over quarter, as the HUF weakened by 0.05% against the EUR in Q3 2014, compared to the 1.12% weakening in Q3 2013. Lower interest expenses also contributed to the decrease, due to the lower average interest rates.

3.1.12 Income tax

The income tax expense increased from HUF 4.4 billion in Q3 2013 to HUF 5.8 billion in Q3 2014. The profit tax law amended in Macedonia again in August 2014 reinstated the profit tax at a rate of 10% with a retrospective application from January 2014. Magyar Telekom generally expects to distribute the annual profit of Maktel as dividend therefore we had been recognizing deferred tax expense (in proportion to our ownership) expected to realize on the declaration of dividends. The reinstated corporate tax in Macedonia consequently had a tax expense impact in the minority's portion of ownership. In addition, HUF 1.0 billion deferred tax was also recognized in the standalone books of Maktel, mostly related to fixed assets.

The above described negative impacts on the Group's tax expense was partly offset by the lower share of non controlling interests (HUF 0.8 billion) in the Profit for the year.

3.1.13 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests in Q3 2014 decreased by 26.1% compared to the same period in 2013. The decrease was predominantly due to the profit tax recognized according to the new profit tax law introduced in Macedonia which resulted in HUF 0.8 billion decrease in non-controlling interests. This effect was partly offset by the 42% higher profit before tax in Macedonia.

3.1.14 Cash flows

HUF millions	1-9 months 2013	1-9 months 2014	Change
Operating cash flow	76,662	98,094	21,432
Investing cash flow	(45,013)	(43,820)	1,193
Less: Proceeds from other financial assets - net	(18,264)	(14,498)	3,766
Investing cash flow excluding Proceeds from other financial assets – net	(63,277)	(58,318)	4,959
Repayment of other financial liabilities	(6,154)	(15,581)	(9,427)
Free cash flow	**7,231**	**24,195**	**16,964**
Proceeds from other financial assets - net	18,264	14,498	(3,766)
Proceeds from / (repayments of) loans and other borrowings	40,367	(34,492)	(74,859)
Dividend paid to shareholders and Non-controlling interests	(65,361)	(6,705)	58,656
Exchange gains on cash and cash equivalents	210	331	121
Change in cash and cash equivalents	**711**	**(2,173)**	**(2,884)**

Free cash flow

Operating cash flow

Net cash generated from operating activities amounted to HUF 98.1 billion in 2014, compared to HUF 76.7 billion in 2013. Main reasons for the increase of HUF 21.4 billion were the following:

- HUF 13 billion change due to lower increase of receivables in 2014 due to heavy investment in 0-24 equipment sale in 2013 (smart phones, TV, tablet, etc.)
- HUF 10 billion higher operating cash flow in 2014 due to opex vendor invoices factored in 2013 and 2014 and paid as financial liability in 2014
- HUF 4 billion change due to higher decrease in energy related receivables in 2014 than in 2013
- HUF 3 billion change due to lower utilization of severance and legal provisions in 2014 than in 2013
- HUF 1 billion lower interest paid on loans in 2014 primarily due to lower average interest rate in 2014
- HUF -3 billion change due to higher tax payments in Macedonia as a result of the changes of the tax law in 2014, which brought the payment of the dividend related taxes earlier
- HUF -1billion change due to higher increase of visitor receivables in Macedonia in 2014 than in 2013
- HUF -1 billion change due to recovery of 2012 crisis tax overpayment in Q3 2013
- HUF -4 billion change due to various smaller other effects of working capital

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF -58.3 billion in 2014, compared to HUF -63.3 billion in 2013. Main reasons for the HUF 5.0 billion lower cash outflow were the following:

- HUF 7 billion change due to less amount of capex creditors paid in 2014
- HUF -3 billion change from capex to be paid in cash as financing cash flow due to vendor factoring was higher in 2013 than in 2014
- HUF 1 billion higher proceeds from PPE sale in 2014 than in 2013, mainly due to the Q2 2014 real estate sale in Győr

Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF -6.2 billion in 2013 to HUF -15.6 billion in 2014. Main reasons for the higher payments of HUF 9.4 billion were the following:

- HUF -7 billion due to higher payments on reverse factored vendor invoices in 2014 than in 2013
- HUF -1 billion higher payments on finance lease liabilities in 2014 than in 2013 mainly due to the amendment of the STB lease contract in Q2 2013
- HUF -1 billion higher payment on annual frequency fees in 2014 (recognized as financial liability in Q3 2013), than in 2013

Free cash flow (FCF) overall increased from HUF 7.2 billion in 2013 to HUF 24.2 billion in 2014 due to the reasons described above.

Proceeds from other financial assets - net

Proceeds from other financial assets - net decreased by HUF 3.8 billion. Main reasons for the decrease were the following:

- HUF -21 billion lower amount of MKT's bank deposits over 3 months were converted into cash in 2014 in a net term
- HUF 15 billion lower amount of CT's cash was invested as bank deposits over 3 months in 2014 in a net term
- HUF 2 billion lower cash outflows related to derivatives in 2014

Proceeds from loans and other borrowings - net

MT had net loan repayments in 2014 as opposed to net loan proceeds in 2013 primarily due to no dividend payment to MT's shareholders in 2014.

Dividend paid to shareholders and Non-controlling interest

Dividend paid to shareholders and Non-controlling interest decreased by HUF 58.7 billion. Main reasons for the decrease were the following:

- HUF 52 billion - There was no MT dividend payment in 2014
- HUF 7 billion - MKT's minority owners received lower amount of dividends in 2014 than in 2013

Exchange gains on cash and cash equivalents

Higher exchange gain on cash and cash equivalents as the depreciation of HUF was higher in 2014 than in 2013.

3.1.15 Statements of Financial Position

The most significant change in the balances of the Statements of Financial Position from December 31, 2013 to September 30, 2014 relates to the shift in the balances of the current and non- current portion of the Financial liabilities to related parties. The current portion of the balances increased primarily as a result of the over-one-year loans becoming falling due within one year, with a corresponding decrease in the non current balances.

In addition, on September 29, 2014, Magyar Telekom received the Authority's Decision closing the tender for spectrum licenses related to broadband services. The Company won the rights of use of blocks in 800, 900, 1800 and 2600 MHz. Pursuant to the Decision, Magyar Telekom is entitled to use the above listed frequency bands - considering that by fulfilling the respective conditions the term of rights of use for frequencies is extended by five years – until June 15, 2034. The contract with the Authority for the use of the frequency blocks was yet to be signed in Q4 2014. Based on the Decision, Magyar Telekom was required to pay a price of HUF 58.65 billion for these frequency blocks in Q4 2014. With the Decision the Company had incurred the liability to pay this amount, whereas – as of September 30, 2014 - we had not yet received the right to use the frequencies. Consequently, we recognized a short term financial liability for the payment of the initial price of the right of use of the frequencies with a corresponding other non current non financial asset representing the Company's well founded expectation to obtain in Q4 2014 the ultimate right to use the frequencies allocated to the Company in the tender result. This transaction resulted in the increase of the aforementioned balances in the Consolidated Statement of Financial Position.

The contract with the Authority for the use of the frequency blocks was signed on October 15, 2014. The radio license and the frequency usage permission were issued on October 17, 2014, on the same date Magyar Telekom started its mobile service in the newly acquired 800 MHz and 1800 MHz bands.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2013 to September 30, 2014. The less significant changes in balances of the Consolidated Statements of Financial Position are explained by the items of the Consolidated Statement of Cash Flows for 2014, and the related explanations provided above in section 3.1.14 Cash flows.

3.1.16 Key Performance Indicators / Key operating statistics

The financial and operating statistics are available on the following website:

http://www.telekom.hu/investor_relations/financial

3.2. Segment information

3.2.1 Description of segments

The Group's operating segments are Telekom Hungary, T-Systems Hungary, Macedonia and Montenegro.

The Telekom Hungary segment operates in Hungary providing mobile and fixed line telecommunications and TV distribution and energy retail services to millions of residential and small and medium business customers mainly under the Telekom brand. The Telekom brand name is gradually expanded to cover all services offered to the general public as well as to small and medium-sized companies. The Telekom Hungary segment is also responsible for the wholesale mobile and fixed line services in Hungary, and performs strategic and cross-divisional management and support functions including Procurement, Treasury, Real Estate, Accounting, Tax, Legal, Internal Audit and similar shared services and other central functions of the Group's management. This segment is also responsible for the Group's points of presence in Bulgaria and Romania providing mainly wholesale services to local companies and operators.

T-Systems operates in Hungary providing mobile and fixed line telecommunications, infocommunications and system integration services mainly under the T-Systems brand to key business customers (large corporate and public sector customers).

The Group also has full-scale mobile and fixed line telecommunications operations in Macedonia and Montenegro, which represent two additional operating segments of the Group.

Information regularly provided to the Management Committee

The following tables present the information by reportable segment regularly provided to the Management Committee (MC) of the Company, reconciled to the corresponding Group numbers. The information regularly provided to the MC includes several measures of profit which are considered for the purposes of assessing performance and allocating resources. These items vary year-over-year in nature and magnitude. Management believes that Revenue, EBITDA and Capex are the segment measures that are most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements.

HUF millions	Q3 2013	Q3 2014	1-9 months 2013	1-9 months 2014
Total Telekom Hungary revenues	112,461	115,485	343,007	339,961
Less: Telekom Hungary revenues from other segments	(6,740)	(6,307)	(20,995)	(18,899)
Telekom Hungary revenues from external customers	**105,721**	**109,178**	**322,012**	**321,062**
Total T-Systems Hungary revenues	32,070	26,635	90,103	81,851
Less: T-Systems Hungary revenues from other segments	(4,620)	(1,879)	(11,230)	(7,775)
T-Systems Hungary revenues from external customers	**27,450**	**24,756**	**78,873**	**74,076**
Total Macedonia revenues	16,030	14,673	46,191	41,610
Less: Macedonia revenues from other segments	(7)	16	(20)	(36)
Macedonia revenues from external customers	**16,023**	**14,689**	**46,171**	**41,574**
Total Montenegro revenues	9,091	8,903	24,745	24,495
Less: Montenegro revenues from other segments	(10)	(22)	(22)	(37)
Montenegro revenues from external customers	**9,081**	**8,881**	**24,723**	**24,458**
Total consolidated revenue of the segments	158,275	157,504	471,779	461,170
Measurement differences to Group revenue	(11)	(13)	1	0
Total revenue of the Group	**158,264**	**157,491**	**471,780**	**461,170**
Segment results (EBITDA)				
Telekom Hungary	36,997	36,391	100,470	102,963
T-Systems Hungary	4,618	1,997	12,111	8,980
Macedonia	6,224	6,994	18,450	17,564
Montenegro	3,709	3,680	9,763	9,764
Total EBITDA of the segments	**51,548**	**49,062**	**140,794**	**139,271**
Measurement differences to Group EBITDA	383	169	(85)	91
Total EBITDA of the Group	**51,931**	**49,231**	**140,709**	**139,362**
Total depreciation and amortization of the Group	(27,442)	(25,011)	(77,735)	(73,956)
Total operating profit of the Group	**24,489**	**24,220**	**62,974**	**65,406**

3.2.2 Telekom Hungary

HUF millions	Q3 2013	Q3 2014	Change	Change (%)	1-9 months 2013	1-9 months 2014	Change	Change (%)
Voice revenues	38,575	38,304	(271)	(0.7%)	112,439	110,854	(1,585)	(1.4%)
Non-voice revenue	13,039	14,248	1,209	9.3%	37,652	40,881	3,229	8.6%
Equipment revenues	8,179	9,189	1,010	12.3%	25,362	23,860	(1,502)	(5.9%)
Other mobile revenues	1,400	2,680	1,280	91.4%	3,953	7,580	3,627	91.8%
Total mobile revenues	**61,193**	**64,421**	**3,228**	**5.3%**	**179,406**	**183,175**	**3,769**	**2.1%**
Voice revenues	14,177	12,843	(1,334)	(9.4%)	42,586	38,652	(3,934)	(9.2%)
Internet revenues	9,800	10,173	373	3.8%	29,911	30,751	840	2.8%
TV revenues	8,069	8,770	701	8.7%	23,702	25,829	2,127	9.0%
Equipment revenues	1,095	812	(283)	(25.8%)	3,839	2,865	(974)	(25.4%)
Other fixed line revenues	9,107	9,221	114	1.3%	29,304	26,999	(2,305)	(7.9%)
Total fixed line revenues	**42,248**	**41,819**	**(429)**	**(1.0%)**	**129,342**	**125,096**	**(4,246)**	**(3.3%)**
SI/IT revenues	370	519	149	40.3%	1,017	1,359	342	33.6%
Revenue from Energy Services	8,650	8,726	76	0.9%	33,242	30,331	(2,911)	(8.8%)
Total revenues	**112,461**	**115,485**	**3,024**	**2.7%**	**343,007**	**339,961**	**(3,046)**	**(0.9%)**
Direct cost	**(36,397)**	**(38,562)**	**(2,165)**	**(5.9%)**	**(119,861)**	**(113,907)**	**5,954**	**5.0%**
Gross margin	**76,064**	**76,923**	**859**	**1.1%**	**223,146**	**226,054**	**2,908**	**1.3%**
Telecom tax	(5,179)	(5,233)	(54)	(1.0%)	(14,321)	(15,477)	(1,156)	(8.1%)
Utility tax	(127)	0	127	100.0%	(6,939)	(6,950)	(11)	(0.2%)
Other operating expenses (net)	(33,761)	(35,299)	(1,538)	(4.6%)	(101,416)	(100,664)	752	0.7%
EBITDA	**36,997**	**36,391**	**(606)**	**(1.6%)**	**100,470**	**102,963**	**2,493**	**2.5%**
STB lease to finance lease	0	0	0	n.a.	7,225	0	(7,225)	(100.0%)
Other segment Capex	14,387	15,028	641	4.5%	41,106	44,345	3,239	7.9%
Segment Capex	**14,387**	**15,028**	**641**	**4.5%**	**48,331**	**44,345**	**(3,986)**	**(8.2%)**
Hungarian frequency licences	55,061	0	(55,061)	(100.0%)	55,061	0	(55,061)	(100.0%)

Revenues

Total revenues in the Telekom Hungary segment increased in Q3 2014 compared with the same quarter in the previous year due to higher mobile non-voice, mobile equipment and other mobile revenues as well as higher TV and Internet revenues. These increases were mitigated by lower fixed and mobile voice revenues and fixed equipment revenues.

On a year-to-date basis, total revenues in the Telekom Hungary segment decreased as the decrease in total fixed line revenues together with the lower revenues from energy services exceeded the increase in total mobile revenues.

Mobile services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Mobile penetration (1) (3)	116.9%	116.8%	n.a.	116.9%	116.8%	n.a.
Mobile SIM market share (2) (3)	46.3%	46.3%	n.a.	46.3%	46.3%	n.a.
Number of customers (RPC)	**4,852,771**	**4,932,694**	**1.6%**	**4,852,771**	**4,932,694**	**1.6%**
Postpaid share in the RPC base	48.3%	49.6%	n.a.	48.3%	49.6%	n.a.
MOU	**162**	**175**	**8.2%**	**160**	**168**	**5.0%**
ARPU (HUF)	**3,474**	**3,598**	**3.6%**	**3,369**	**3,470**	**3.0%**
Postpaid	5,587	5,888	5.4%	5,498	5,739	4.4%
Prepaid	1,430	1,361	(4.8%)	1,353	1,291	(4.6%)
Churn rate	18.5%	18.5%	n.a.	18.2%	18.0%	n.a.
Postpaid	12.7%	10.9%	n.a.	13.8%	11.5%	n.a.
Prepaid	23.9%	26.0%	n.a.	22.2%	24.3%	n.a.
Ratio of non-voice revenues in ARPU	25.3%	26.7%	n.a.	25.1%	26.7%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	6,444	4,859	(24.6%)	5,877	5,152	(12.3%)
Average retention cost (SRC) per retained customer (HUF)	13,504	13,113	2.9%	13,153	13,272	0.9%
Number of mobile broadband subscriptions	**1,596,694**	**1,914,417**	**19.9%**	**1,596,694**	**1,914,417**	**19.9%**
Mobile broadband market share based on total number of subscriptions (4)	**45.1%**	**n.a.**	**n.a.**	**45.1%**	**n.a.**	**n.a.**
Population-based outdoor 3G coverage	82.9%	83.0%	n.a.	82.9%	83.0%	n.a.
Population-based outdoor 4G coverage	38.0%	51.9%	n.a.	38.0%	51.9%	n.a.

(1) Data relates to the mobile penetration in Hungary, including customers of all three service providers.
(2) Data relates to Magyar Telekom Plc. based on NMHH reports.
(3) Available only until June 2014 by NMHH due to definition update.
(4) Available only until January 2014 by NMHH due to definition update.

Mobile revenues increased in Q3 2014 versus Q3 2013 due to the increase in non-voice revenues due to wider usage of mobile Internet and the higher other mobile revenues caused by increased amount of penalties charged and the growth in mobile handset insurance revenues in Hungary. Higher equipment revenues were driven by higher number of handsets sold and the increase in average selling prices. Voice revenues decreased owing to the decline in the prepaid segment where both minutes of use and the number of customers decreased. Roaming revenues within outgoing voice revenues decreased mainly due to EU regulation driven average tariff erosion in Hungary.

Fixed line services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Voice services						
Total voice access	1,434,394	1,417,368	(1.2%)	1,434,394	1,417,368	(1.2%)
Total outgoing traffic (thousand minutes)	732,560	663,356	(9.4%)	2,355,484	2,090,325	(11.3%)
Blended MOU (outgoing) (1)	171	156	(8.5%)	182	164	(9.9%)
Blended ARPU (HUF) (1)	2,764	2,590	(6.3%)	2,782	2,609	(6.2%)

(1) Including PSTN, VoIP and VoCable.

Fixed line voice revenues declined by 9.4% in Q3 2014 compared to Q3 2013 due to lower subscription fee revenues resulting from the decrease in the average number of fixed lines. The decrease was also driven by lower outgoing traffic revenues due to the loss of lines and price discounts reflecting the migration towards multiplay packages and mobile substitution, as well as competition with VoIP and VoCable operators. The high popularity of flat rate packages (e.g. Hoppá) also led to lower ARPU.

Magyar Telekom Plc. has several favorable offers for customers choosing different flat-rate and optional tariff packages. The vast majority of customers have chosen our Hoppá tariff package generating 632,304 subscribers by the end of September 2014.

Internet services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Blended retail broadband market share [(1)]	**37.5%**	**37.6%**	**n.a.**	**37.5%**	**37.6%**	**n.a.**
Number of retail DSL customers	512,190	528,053	3.1%	512,190	528,053	3.1%
Number of cable broadband customers	271,616	302,791	11.5%	271,616	302,791	11.5%
Number of fiber optic connections	48,615	56,097	15.4%	48,615	56,097	15.4%
Total retail broadband customers	**832,421**	**886,941**	**6.5%**	**832,421**	**886,941**	**6.5%**
Blended broadband ARPU (HUF)	3,465	3,400	(1.9%)	3,561	3,412	(4.2%)
Number of wholesale DSL access	73,946	66,172	(10.5%)	73,946	66,172	(10.5%)

(1) Data relates to Magyar Telekom Plc. based on NMHH reports.

Internet revenues increased by 3.8% and amounted to HUF 10.2 billion in Q3 2014. The Internet access revenues increased as the number of retail broadband customers could compensate for the decrease in wholesale connections and the effect of lower ARPU, reflecting lower prices forced by strong competition. The migration towards double- and triple-play packages also had a negative effect on the blended ARPU level. Higher revenues from content services also contributed to the growth in Internet revenues.

TV services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Blended TV market share [(1)]	**25.8%**	**26.3%**	**n.a.**	**25.8%**	**26.3%**	**n.a.**
Number of IPTV customers	372,286	430,110	15.5%	372,286	430,110	15.5%
Number of satellite TV customers	304,661	306,936	0.7%	304,661	306,936	0.7%
Number of cable TV customers	196,350	174,103	(11.3%)	196,350	174,103	(11.3%)
Total TV customers	**873,297**	**911,149**	**4.3%**	**873,297**	**911,149**	**4.3%**
Blended TV ARPU (HUF)	3,120	3,128	0.3%	3,100	3,096	(0.1%)

(1) Data relates to Magyar Telekom Plc. based on NMHH reports.

IPTV and satellite TV revenues increased in Q3 2014 compared to the same quarter last year; however, this increase was partly offset by lower Cable TV revenues influenced by the significantly lower customer base primarily due to migration from Cable TV to IPTV.

Energy services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Electricity points of delivery	106,813	105,788	(1.0%)	106,813	105,788	(1.0%)
Gas points of delivery	67,637	66,818	(1.2%)	67,637	66,818	(1.2%)

Energy services revenues increased by HUF 76 million in Q3 2014 versus Q3 2013, mostly due to the higher gas consumption. The universal service provider price reduction from November 2013, from April 2014 and from September 2014 had downward pressure on revenues from energy services.

On a year-to-date basis, energy services revenues decreased by HUF 2.9 billion owing to the lower number of points of delivery and the price reductions.

EBITDA

EBITDA of the Telekom Hungary segment decreased by 1.6% in Q3 2014 versus Q3 2013, the main reason is that the the higher gross margin was coupled with increased employee-related expenses owing to the higher amount of severance-related expenses recognized in Q3 2014.

On a year-to-date basis, EBITDA of the Telekom Hungary segment increased by 2.5% in 2014 versus 2013, as the higher gross margin was coupled with lower fees and levies in 2014, due to the capitalization of the annual frequency fees in Q3 2013.

Segment Capex

Segment Capex increased by HUF 641 million primarily due to higher spending on 3G/4G investments in Q3 2014.

Segment Capex in 2014 decreased by HUF 4.0 billion driven by the change of the IPTV set-top box rental contracts from operating to financial lease, due to the extension of the contracts in 2013. Without this effect, investments in tangible and intangible assets increased owing to higher spending on 3G/4G investments in 2014.

3.2.3 T-Systems Hungary

HUF millions	Q3 2013	Q3 2014	Change	Change (%)	1-9 months 2013	1-9 months 2014	Change	Change (%)
Mobile voice revenues	3,505	3,538	33	0.9%	10,633	10,892	259	2.4%
Non-voice revenue	2,337	2,412	75	3.2%	6,845	7,130	285	4.2%
Other mobile revenues	849	840	(9)	(1.1%)	2,530	2,485	(45)	(1.8%)
Total mobile revenues	**6,691**	**6,790**	**99**	**1.5%**	**20,008**	**20,507**	**499**	**2.5%**
Fixed voice revenues	2,079	1,925	(154)	(7.4%)	6,367	5,874	(493)	(7.7%)
Internet revenues	577	545	(32)	(5.5%)	1,778	1,683	(95)	(5.3%)
Data revenues	2,284	2,253	(31)	(1.4%)	7,005	6,515	(490)	(7.0%)
Other fixed line revenues	442	438	(4)	(0.9%)	1,595	1,327	(268)	(16.8%)
Total fixed line revenues	**5,382**	**5,161**	**(221)**	**(4.1%)**	**16,745**	**15,399**	**(1,346)**	**(8.0%)**
SI/IT revenues	19,997	14,684	(5,313)	(26.6%)	53,350	45,945	(7,405)	(13.9%)
Total revenues	**32,070**	**26,635**	**(5,435)**	**(16.9%)**	**90,103**	**81,851**	**(8,252)**	**(9.2%)**
Direct cost	**(19,650)**	**(16,072)**	**3,578**	**18.2%**	**(54,753)**	**(47,014)**	**7,739**	**14.1%**
Gross margin	**12,420**	**10,563**	**(1,857)**	**(15.0%)**	**35,350**	**34,837**	**(513)**	**(1.5%)**
Telecom tax	(1,223)	(1,232)	(9)	(0.7%)	(2,952)	(3,849)	(897)	(30.4%)
Utility tax	0	0	0	n.a.	(509)	(526)	(17)	(3.3%)
Other operating expenses (net)	(6,579)	(7,334)	(755)	(11.5%)	(19,778)	(21,482)	(1,704)	(8.6%)
EBITDA	**4,618**	**1,997**	**(2,621)**	**(56.8%)**	**12,111**	**8,980**	**(3,131)**	**(25.9%)**
Segment Capex	**1,237**	**1,413**	**179**	**14.2%**	**2,208**	**2,577**	**369**	**16.7%**

Revenues

Total revenues of T-Systems Hungary decreased by 16.9% in Q3 2014 compared to Q3 2013 mainly due to the lower SI/IT and fixed line revenues.

Mobile services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Number of customers (number or SIM cards)	507,333	509,006	0.3%	507,333	509,006	0.3%
Churn rate	7.5%	9.0%	n.a.	7.6%	14.2%	n.a.
MOU	273	249	(8.8%)	282	253	(10.3%)
ARPU (HUF)	3,942	3,914	(0.7%)	3,991	3,917	(1.9%)
Ratio of non-voice revenues in ARPU	40.3%	40.3%	n.a.	39.4%	39.6%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	3,206	4,334	35.2%	3,225	3,020	(6.4%)
Number of mobile broadband subscriptions	128,309	130,148	1.4%	128,309	130,148	1.4%

Mobile voice revenues increased by 1.5% in Q3 2014 versus Q3 2013, as the revenues from connection fee introduced in November 2013 and the higher average customer base could more than offset the effects of decreased MOU and lower average price per minute enforced by tough competition. The increase in non-voice revenues was 3.2% driven by higher Internet revenues, reflecting the increased number of mobile broadband subscriptions.

Fixed line services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Voice services						
Total voice access	69,986	66,055	(5.6%)	69,986	66,055	(5.6%)
Total outgoing traffic (thousand minutes)	68,807	63,268	(8.1%)	210,211	198,206	(5.7%)
MOU (outgoing)	338	316	(6.5%)	333	325	(2.3%)
ARPU (HUF)	8,630	8,434	(2.3%)	8,688	8,478	(2.4%)
Internet services						
Number of retail broadband access	14,327	12,368	(13.7%)	14,327	12,368	(13.7%)
Blended broadband ARPU (HUF)	13,287	14,647	10.2%	13,783	14,820	7.5%

Fixed line voice revenues decreased by 7.4% caused by the erosion both in the customer base and traffic quarter over quarter. Fixed line data revenues were also down as a result of the lower number of leased lines in Q3 2014. Fixed line Internet revenues also declined. Although the blended broadband ARPU increased, the lower number of retail broadband access resulted in a decrease in Internet revenues.

SI/IT services

The 26.6% decrease in SI/IT revenues quarter over quarter resulted mainly from the decline in revenues from outsourcing driven by the renegotiation of some large contracts, coupled with fewer large infrastructure and application projects in Q3 2014.

EBITDA

EBITDA decreased by 56.8% in Q3 2014 compared to Q3 2013, due to the fact that lower gross margin coupled with increased other operating expenses. In addition to the generally lower market performance, lower gross margin in Q3 2014 is also due to increased bad debt expense due to the waiver of HUF 0.9 billion of receivables due from a major T-Systems customer.

Segment Capex

Segment Capex increased by HUF 179 million in Q3 2014 compared to Q3 2013, as a result of higher amount of asset intensive services in Q3 2014.

3.2.4 Macedonia

HUF millions	Q3 2013	Q3 2014	Change	Change (%)	1-9 months 2013	1-9 months 2014	Change	Change (%)
Voice revenues	7,304	6,180	(1,124)	(15.4%)	20,432	16,897	(3,535)	(17.3%)
Non-voice revenues	1,647	1,499	(148)	(9.0%)	4,338	4,022	(316)	(7.3%)
Equipment revenues	596	732	136	22.8%	1,691	1,979	288	17.0%
Other mobile revenues	135	167	32	23.7%	459	449	(10)	(2.2%)
Total mobile revenues	**9,682**	**8,578**	**(1,104)**	**(11.4%)**	**26,920**	**23,347**	**(3,573)**	**(13.3%)**
Voice revenues	3,241	2,916	(325)	(10.0%)	9,834	8,959	(875)	(8.9%)
Internet revenues	1,418	1,495	77	5.4%	4,311	4,452	141	3.3%
TV revenues	561	721	160	28.5%	1,590	1,946	356	22.4%
Equipment revenues	359	252	(107)	(29.8%)	1,340	852	(488)	(36.4%)
Other fixed line revenues	630	578	(52)	(8.3%)	1,929	1,731	(198)	(10.3%)
Total fixed line revenues	**6,209**	**5,962**	**(247)**	**(4.0%)**	**19,004**	**17,940**	**(1,064)**	**(5.6%)**
SI/IT revenues	139	133	(6)	(4.3%)	267	323	56	21.0%
Total revenues	**16,030**	**14,673**	**(1,357)**	**(8.5%)**	**46,191**	**41,610**	**(4,581)**	**(9.9%)**
Direct costs	**(4,461)**	**(3,645)**	**816**	**18.3%**	**(13,360)**	**(11,360)**	**2,000**	**15.0%**
Gross margin	**11,569**	**11,028**	**(541)**	**(4.7%)**	**32,831**	**30,250**	**(2,581)**	**(7.9%)**
Other operating expenses (net)	(5,345)	(4,034)	1,311	24.5%	(14,381)	(12,686)	1,695	11.8%
EBITDA	**6,224**	**6,994**	**770**	**12.4%**	**18,450**	**17,564**	**(886)**	**(4.8%)**
Segment Capex	**5,583**	**2,228**	**(3,355)**	**(60.1%)**	**9,979**	**3,975**	**(6,004)**	**(60.2%)**

The 3.5% stronger MKD against the HUF on average in Q3 2014 compared with the same quarter last year had a positive impact on the results of the Macedonian segment in HUF terms.

Revenues

Despite the positive FX effect, revenues decreased by 8.5% in HUF terms over the same period last year, mainly driven by the significant decrease in mobile and fixed voice and mobile non-voice revenues.

Mobile services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Mobile penetration(1)	109.4%	112.1%	n.a.	109.4%	112.1%	n.a.
Market share of T-Mobile Macedonia(1)(2)	49.0%	46.9%	n.a.	49.0%	46.9%	n.a.
Number of customers	1,211,544	1,210,402	(0.1%)	1,211,544	1,210,402	(0.1%)
Postpaid share in the customer base	31.8%	34.3%	n.a.	31.8%	34.3%	n.a.
MOU	197	212	7.6%	188	202	7.4%
ARPU (HUF))	2,357	2,022	(14.2%)	2,235	1,881	(15.8%)

(1) Data published by Macedonian Agency for Electronic Communications (AEC)
(2) Based on RPC

Mobile voice revenues decreased by 15.4% quarter over quarter, mainly driven by lower voice-wholesale revenues as although the level of domestic incoming traffic increased, mobile termination rates for domestic calls were cut both from November 2013 and September 2014. Voice-retail revenues decreased as well, as higher outgoing minutes could not offset the lower subscription fees as a result of new promotions and offers in response to the fierce competition.

Non-voice revenues decreased due to the lower messaging revenues owing to lower number of SMS sent, decreased SMS interconnect prices and decreased content revenues. This decline could not be offset by the increased mobile internet revenue due to higher Internet traffic and increased usage of data tariff packages.

Mobile equipment revenues increased due to the higher number of handsets sold and to the higher average selling price in Q3 2014.

Other mobile revenues remained fairly stable quarter over quarter.

Fixed line services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Voice services						
Fixed line penetration	13.8%	12.4%	n.a.	13.8%	12.4%	n.a.
Total voice access	252,580	240,186	(4.9%)	252,580	240,186	(4.9%)
Total outgoing traffic (thousand minutes)	88,280	66,791	(24.3%)	293,624	227,199	(22.6%)
Internet and TV services						
Retail DSL market share (estimated)	82.6%	82.3%	n.a.	82.6%	82.3%	n.a.
Number of retail DSL customers	155,421	164,811	6.0%	155,421	164,811	6.0%
Number of wholesale DSL access	27,035	25,491	(5.7%)	27,035	25,491	(5.7%)
Number of total DSL access	182,456	190,302	4.3%	182,456	190,302	4.3%
Number of IPTV customers	83,789	96,450	15.1%	83,789	96,450	15.1%

Fixed-line revenues decreased by 4.0% quarter over quarter, mainly driven by lower voice-retail and equipment revenues. Voice-retail revenues declined reflecting lower traffic and customer number. The decrease in fixed equipment revenues was driven by the one-time effect of the sale of set-top boxes to the Macedonian National Television in Q3 2013 as part of the rollout of digital broadcasting. These decreases were partly counterbalanced by the increase in TV revenues, owing to the growing IPTV subscriber base.

EBITDA

EBITDA of our Macedonian operations increased by 12.4% in Q3 2014 versus Q3 2013 in HUF terms despite the 4.7% decrease in gross margin due to the 24.5% lower other operating expenses reflecting the HUF 1.3 billion severance related costs recognized in Q3 2013.

EBITDA of our Macedonian operations decreased by 4.8% in 2014 versus 2013 in HUF terms due to the 7.9% lower gross margin partly offset by the 11.8% lower other operating expenses.

Segment Capex

Segment Capex decreased by 60.1% in Q3 2014, mainly due to high (HUF 3.1 billion) amount of the new 4G license in September 2013.

3.2.5 Montenegro

HUF millions	Q3 2013	Q3 2014	Change	Change (%)	1-9 months 2013	1-9 months 2014	Change	Change (%)
Voice revenues	2,875	2,491	(384)	(13.4%)	7,247	6,442	(805)	(11.1%)
Non-voice revenue	1,034	1,031	(3)	(0.3%)	2,885	2,941	56	1.9%
Other mobile revenues	277	357	80	28.9%	723	941	218	30.2%
Total mobile revenues	**4,186**	**3,879**	**(307)**	**(7.3%)**	**10,855**	**10,324**	**(531)**	**(4.9%)**
Voice revenues	2,816	2,472	(344)	(12.2%)	7,626	6,962	(664)	(8.7%)
Internet revenues	910	1,008	98	10.8%	2,642	2,926	284	10.7%
TV revenues	495	570	75	15.2%	1,442	1,668	226	15.7%
Data revenues	365	311	(54)	(14.8%)	1,166	974	(192)	(16.5%)
Other fixed line revenues	185	219	34	18.4%	506	701	195	38.5%
Total fixed line revenues	**4,771**	**4,580**	**(191)**	**(4.0%)**	**13,382**	**13,231**	**(151)**	**(1.1%)**
SI/IT revenues	134	444	310	231.3%	508	940	432	85.0%
Total revenues	**9,091**	**8,903**	**(188)**	**(2.1%)**	**24,745**	**24,495**	**(250)**	**(1.0%)**
Direct costs	**(2,501)**	**(2,443)**	**58**	**2.3%**	**(6,569)**	**(6,610)**	**(41)**	**(0.6%)**
Gross margin	**6,590**	**6,460**	**(130)**	**(2.0%)**	**18,176**	**17,885**	**(291)**	**(1.6%)**
Other operating expenses (net)	(2,881)	(2,780)	101	3.5%	(8,413)	(8,121)	292	3.5%
EBITDA	**3,709**	**3,680**	**(29)**	**(0.8%)**	**9,763**	**9,764**	**1**	**0.0%**
Segment Capex	**685**	**1,672**	**987**	**144.1%**	**2,022**	**2,863**	**841**	**41.6%**

The 3.7% stronger EUR against the HUF on average in Q3 2014 versus Q3 2013 had a positive impact on the results of our Montenegrin operations in HUF terms.

Revenues

In HUF terms, total revenues decreased by 2.1% quarter over quarter, mainly due to the decrease in voice revenues.

Mobile services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Mobile penetration [1]	181.2%	179.8%	n.a.	181.2%	179.8%	n.a.
Market share of T-Mobile Crna Gora [1]	35.2%	33.0%	n.a.	35.2%	33.0%	n.a.
Number of customers (RPC) [1]	395,885	367,524	(7.2%)	395,885	367,524	(7.2%)
Postpaid share in the RPC base	34.5%	39.2%	n.a.	34.5%	39.2%	n.a.
MOU	168	185	10.1%	168	180	7.1%
ARPU (HUF)	2,968	2,943	(0.8%)	2,914	2,865	(1.7%)

(1) According to data published by the Montenegrin Agency for Electronic Communications and Postal Services (EKIP).

Compared with the same period last year, mobile revenues decreased by 7.3%. Voice-retail revenues decreased as a combined result of the decrease in average RPC and lower prices. Voice-visitor revenues decreased in 2014 due to lower usage as well as higher discounts given.

These decreases were partly offset by the increase in other mobile revenues, owing to higher handset sales due to successful smartphone marketing campaigns in Q3 2014.

Fixed line services	Q3 2013	Q3 2014	change %	1-9 months 2013	1-9 months 2014	change %
Voice services						
Fixed line penetration	25.6%	23.6%	n.a.	25.6%	23.6%	n.a.
Total voice access	153,318	149,902	(2.2%)	153,318	149,902	(2.2%)
Total outgoing traffic (thousand minutes)	63,382	52,660	(16.9%)	201,436	170,592	(15.3%)
Internet and TV services						
Retail DSL market share (estimated)	81.8%	81.3%	n.a.	81.8%	81.3%	n.a.
Number of DSL access	86,792	91,586	5.5%	86,792	91,586	5.5%
Number of IPTV customers	57,393	60,782	5.9%	57,393	60,782	5.9%

Total fixed line revenues decreased by 4.0% quarter over quarter in HUF terms as lower voice and data revenues were only partly counterbalanced by higher Internet and TV revenues. Voice revenues decreased owing to lower prices, less traffic and lower average RPC quarter over quarter. Data revenues decreased due to lower revenues from leased lines.

These decreases were slightly offset by the increase in Internet revenues resulting from the 5.5% growth in ADSL subscriber number, and higher TV revenues owing to the 5.9% increase in the IPTV subscriber base.

EBITDA

The EBITDA of our Montenegrin subsidiary decreased by 0.8% in HUF terms quarter over quarter. In EUR terms, EBITDA decreased by 4.4% quarter over quarter, mainly due to the lower gross margin, which was only partly counterbalanced by lower operating expenses.

Segment Capex

Segment Capex increased by 144.1% in Q3 2014 compared to the same quarter last year, owing to higher spending on the Billing and CRM information system development projects.

3.3. Contingencies and commitments

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not within the control of the Group. These assets are not recognized in the statement of financial position.

The Group has no contingencies where the inflow of economic benefits would be probable and material.

Contingent liabilities

The most significant contingent liabilities of the Group are described below. No provisions have been recognized for these cases as management estimates that it is unlikely that these claims originating from past events would result in any material economic outflows from the Group, or the amount of the obligation cannot be measured with sufficient reliability.

Hungary

Public lawsuits relating to transaction fee

Two similar lawsuits were launched against the Company by the Hungarian Authority for Consumer Protection and the National Federation of Associations for Consumer Protection claiming that charging customers a transaction fee for invoices to be settled by yellow postal payment orders or in person at the cash-desk was unlawful. The Company is adamant that charging the transaction fee at the time of their introduction was not in breach of any law, while it was subsequently prohibited by a modification of the Act on Electronic Communications. The Company discontinued charging the fee on the effective date of the modification, and continues to comply with the provisions of the Act. Although in one of the cases the second instance court decision was unfavorable for the Company, the management still believes that it is not probable that a significant liability will arise from these claims.

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Macedonia

Alleged breach of certain deadlines

MKT and T-Mobile MK have contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The major part of the contingent liabilities relate to several requests for initiating misdemeanor procedures from regulatory bodies for alleged breach of certain deadlines for decision upon subscriber's request. The maximum possible fine for each individual case is 4% - 10% of the annual revenue (HUF 35-43 billion) of the companies for the year preceding the misdemeanor, in accordance with the previously effective local legislation possibly applicable. Management believes that it is not probable that a significant liability will arise from these claims because of unsubstantial basis for initiating these misdemeanor procedures.

Guarantees

Magyar Telekom Plc. is exposed to risks that arise from the possible drawdown of guarantees.

Commitments

There has not been any material change in the nature and amount of our commitments in 2014.

3.4. Other matters

Investigations into certain consultancy contracts

As previously disclosed, the Company's Audit Committee conducted an internal investigation regarding certain contracts relating to the activities of the Company and/or its affiliates in Montenegro and Macedonia that totaled more than EUR 31 million. In particular, the internal investigation examined whether the Company and/or its Montenegrin and Macedonian affiliates had made payments prohibited by U.S. laws or regulations, including the U.S. Foreign Corrupt Practices Act (the "FCPA"). The Company has previously disclosed the results of the internal investigation. For further information regarding the internal investigation, please see the Company's annual report for the year ended December 31, 2011.

The Company's Audit Committee informed the U.S. Department of Justice (the "DOJ") and the U.S. Securities and Exchange Commission (the "SEC") of the internal investigation. The DOJ and the SEC commenced investigations into the activities that were the subject of the internal investigation.

On December 29, 2011, the Company announced that it had entered into final settlements with the DOJ and the SEC to resolve the DOJ's and the SEC's investigations relating to the Company. The settlements concluded the DOJ's and the SEC's investigations. The Company disclosed the key terms of the settlements with the DOJ and the SEC on December 29, 2011. In particular, the Company disclosed that it had entered into a two-year deferred prosecution agreement (the "DPA") with the DOJ. The DPA expired on January 5, 2014, and, further to the DOJ's request filed in accordance with the DPA, the U.S. District Court for the Eastern District of Virginia dismissed the charges against the Company on February 5, 2014.

On January 6, 2012 the Company paid a criminal penalty of USD 59.6 million (HUF 14,712 million) pursuant to the settlement with the DOJ and on January 23, 2012 the Company paid USD 25.2 million for disgorgement of profits and USD 6.0 million of prejudgment interest (HUF 7,366 million in total) pursuant to the settlement with the SEC, totaling USD 90.8 million (HUF 22,078 million) paid with respect to the settlements with the DOJ and the SEC.

The aggregate amount of USD 90.8 million payable by the Company in settlement of the DOJ's and SEC's investigations was fully provided for before the end of 2011. No further provisions were made in 2012, 2013 or 2014 for these cases.

3.5. Significant events between the end of the quarter and the publishing of the "Interim financial report"

No such events have taken place since September 30, 2014 to the publication date of this report.

3.6. Business environment

The telecommunications industry is undergoing a major change globally. Worldwide trends are driving towards an integrated telecommunications, information, media and entertainment market. The increasing need for mobility and interactivity together with local specifics create new set-up in our eco-system both in terms of infrastructure, servicing and new types of business models.

Hungary

The saturating traditional telecommunications market delivers moderate growth in Hungary with strong restructuring between segments that puts pressure on margin levels. The fixed voice market as a major revenue and profit source is declining, mobile is about to follow that trend with stagnant customer base and lower prices. The fixed market is characterized by 3Play bundles, with broadband becoming a core element of service offerings. We expect continued consolidation in the fixed arena and the appearance of new over-the-top (OTT) technologies. An increasing technology platform-based competition can be observed in the domestic market, where our competitors are extensively deploying next-generation countrywide fixed and mobile networks. The mobile voice market is becoming more flat, new entrants as virtual network operators appeared, though with limited impact on the market and the appearance of a fourth mobile operator is also expected. There is a fierce competition in broadband and content services. The battle for customer contacts has pushed prices down. We expect that the new core segments, especially mobile broadband, broadcasting and IT services will deliver revenue growth in the coming years.

Economic recession/stagnation ended in Hungary and even if improvement may prove only virtual, relief expected to sustain. Still market development is challenged by significant uncertainties in macroeconomic outlook and increasing regulation putting further pressure on market players.

The weakness of domestic demand entails negative changes in the economic structure and a decline in services. Decrease in corporate tax rate has not generated an increase in either consumption or investments. The flat personal income tax rate system increased savings at higher income categories, though the government program on reducing energy prices left some extra money at households. The special taxes will remain in force. GDP is expected to reach the pre-crisis level after 2014.

Macedonia

Gradual acceleration of growth is expected in the next period of 3.6% for 2015 and 3.9% for 2016. The main carrier of the growth prospect will be export and consumption, with positive impact on the labor market and further stimulate investment. Average inflation for 2015 is now estimated at about 1.5%, with pronounced downward risks, due to pressures on the demand side and deflationary pressures through foreign pass-through prices.

Operating in a highly challenging business environment and declining telecommunication business predictions in short-to-mid term (-8% market decline in 2015 and -3.4% in 2019), strong competition resulted in continuation of price drops and value erosion. Continuous mobile substitution on fixed market, supplemented with increased competition on all fixed and mobile markets. A new MVNO player entered, targeting the Albanian ethnic segment (Albafone), market consolidation with VIP operator acquiring CaTV Operator Blizoo – enabling fixed&mobile integrated offers.

Montenegro

The Montenegrin telco market is facing strong challenges: macroeconomic conditions are still challenging; competition is growing, while regulatory pressure is more intense than ever. Customers are highly demanding and their expectations are constantly growing.

Fixed market is becoming more competitive with cable operators trying to expand their footprint and significant M&A activities taking place. The regulatory agency intervened in the retail fixed voice market and decreased the prices with a two-step approach: first one in April 2014 and the second one agreed for December 2014. CT is requested to decrease retail and wholesale broadband prices as well, in accordance with the 2013 Costing model as of December 1, 2014. In a highly penetrated mobile market there is fierce price competition. The Regulator initiated signing of multilateral Agreement on roaming price decrease (retail and WS) with the aim of harmonizing it with those within the EU.

According to the Statistical Office of Montenegro real growth in the second quarter of 2014 was lower than expected and amounted 0.3%, while country debt of 58.5% is close to the EU limit of 60%. Governmental fiscal measures such as freezing of pensions and public wages and tax rate increase significantly affect consumption. Restrictive credit policy by the banks, uncertain future of the aluminum industry giant and rising private debt in the real sector will additionally hit disposable income and increase overall cost-conscious customer behavior.

3.7. Strategy

Hungary

As a result of our focused strategic efforts, Magyar Telekom has maintained leading positions in its Hungarian fixed line, mobile, Internet and ICT businesses in Q3 2014. Even under uncertain macroeconomic and market conditions, we successfully improved customer retention and delivered strong volume figures. We have also gradually extended our network and offering capabilities proactively leveraging on various partnering models as well. The evolving external environment continues to drive the need for changes in our approach to our customers and our business.

We continue our transformation towards a diversified service company based on our strategic imperatives to innovate, grow and extend the core business – thus growing revenue whilst becoming a more agile organization. The strategic objective in the mid-term is to become more agile, enhance efficiency, simplify the product and services portfolio and increase process automation. As an integrated provider we continue to deliver a unique customer experience supported by our leading brand and best technology.

Whilst anticipating new competencies required by the changing customer behavior, technological advances, and new business models, we aim to exploit our abilities to become a leader in all digital services around the home for both consumers and third parties. Our non-core areas, such as energy, e-health, finance and insurance services, support customer retention and new revenue streams.

Following our strategy enables us to exploit and develop our extended customer base, improve efficiency and capture growth opportunities in an extended market of telecommunications and related industries – that secure stable cash generation in the long run.

Macedonia

Makedonski Telekom and T-Mobile MK maintain the leading positions in all segments, Mobile, Fixed Voice, Fixed Data and Pay-TV.

Major competition in fix voice services comes predominantly from CaTV, which offer BB & TV bundles without monthly fee for voice part. Retail data market reduces due to stronger market competition. Cloud services are being introduced and IT market shows dynamic growth.

Addressing local challenges in order to fulfill strategic aspiration, new Macedonian Ambition Program (MAP) was introduced with final objective to stop the negative revenue/EBITDA trend and sustain the strong market position and to become new modern, lean and fully converged telco operator. MAP consists of more than 40 initiatives aggregated into 11 pillars, covering both structural and operational transformation aspects.

Ambition program's long-term vision focuses on becoming new modern, lean and fully converged telco operator through:

- Lean administrative machine (reduce time-to-market by comprehensive process automation)
- Operational excellence (production flexibility, improved customer responsiveness and cost minimization)
- Create new market trends and develop a new digital smart world using social medias
- Produce intelligent solutions and offer content anywhere, anytime
- Superior customer experience

Montenegro

Crnogorski Telekom successfully completed the 2013 business year, preserving its market superiority, stable financial performance and made significant achievements on its transformational path.

Major business challenges are macroeconomic pressure, regulation pressure, emerging competition, digital lifestyle demand; while major business drivers are the slowdown of revenue decline, cost discipline and e-transformation.

CT will continue to execute its strategy framework and transformation program based on three strategic layers:

- Stand for Broadband: FTTH/4G rollout and X-Play/fixed-mobile convergence (FMC) offers proliferation to ensure ultra-high speed connectivity and seamless customer experience over fixed and mobile data streams and quality service features in order to keep long-term competitiveness in broadband, TV and FMC offers.
- Transform to Outperform: Digital engagement of customers and employees through transformation initiatives and consolidation strategies in order to support All IP cost-effective network architecture, service convergence, multichannel business model and faster and flexible go-to-market.
- New Way to Play: Push ICT/Cloud and Hardware initiatives; improving content variety and interactivity; new business development opportunities and exploring partnering concept.

3.8. Resources and risk factors

Our financial condition, results of operations or the trading prices of our securities could be materially adversely affected by any of these risks. The risks described below are not the only risks we face. Additional risks not currently known to us or risks that we currently regard as immaterial could also have a material adverse effect on our financial condition, results of operations or the trading prices of our securities.

- Our operations are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition;
- Our ability to meet our revenue targets will depend in part on our ability to offset the declining voice revenues with TV, Internet, SI/IT and retail energy revenues;
- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors may result in impairments in the carrying value of certain of our assets;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- Our share price may be volatile, and your ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries;
- We are subject to unpredictable changes in Hungarian tax regulations;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- We are continuously involved in disputes and litigation with regulators, competitors and other parties, the outcome of which could have an adverse effect on our results of operations.

3.9. Outlook

The telecommunications industry is undergoing significant changes globally. We have observed several long-term trends which are changing the structure of the telecommunications market. These long-term trends include changes in technology (e.g., IP-based broadband products and solutions, and cloud based solutions), customer requirements (e.g., increase in mobile usability of content services and terminal devices, 4Play solutions and the growing need for mobile applications) and competition and regulation (e.g. low entry barriers, new business models, convergence in the telecommunications and media broadcast industry).

Magyar Telekom’s current plans and outlook are based on our best knowledge and expected circumstances. Nevertheless, we cannot predict the behavior of our competitors. Therefore, a stronger than assumed impact of other operators, new market entrants and new solutions in any country where we are present could result in a negative impact on our business performance.

Hungary

Each of our business segments is affected by its own unique business environment, and we are subject to circumstances and events that are unforeseen or beyond our control. In the European economy a slow recovery has started however it is still fragile. Major uncertainties surrounding the future of the euro have escalated the debt crisis for several euro-zone members. The Hungarian economy has been impacted heavily by the second wave of the financial crisis. The recovery is slow and fragile, the Central Bank of Hungary forecasts indicate GDP growth of about 3.3 percent for 2014. The unemployment rate decrease to 8.1 percent, and the volatility of the Hungarian currency is expected to continue.

In order to balance the budget, the Hungarian government has implemented several measures to keep the deficit under 3 percent of GDP in 2014. The Parliament adopted an act imposing telecommunications tax on service providers for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012 for an indefinite period of time. On June 27, 2013, the Parliament of Hungary adopted an act amending the amount of the telecommunication tax, raising the tax measure to HUF 3 per minute and HUF 3 per SMS/MMS for non-private individual subscribers’ subscriptions and also raising the cap applicable to these subscriptions to HUF 5,000 per month. These changes took effect from August 1, 2013. The telecommunication tax payable by Magyar Telekom for the first 9 months of 2014 was HUF 19.3 billion. The Parliament also adopted an act imposing a further tax levied on utility networks (e.g.: ducts, cables) from 2013. The tax expense and liability for 2014 were recognized in the first quarter of 2014 as the full annual tax liability (HUF 7.5 billion) is payable based on the taxable infrastructure in place on January 1, 2014. Our T-Systems Hungary segment is also affected by heavy spending cuts by the government, our largest business customer. After the general elections on April 6, 2014 the government may impose further austerity measures to reach the deficit target of the budget.

In September 2013, frequency usage rights in the 900 MHz and 1800 MHz frequency bands were extended and harmonized until 2022. Magyar Telekom paid a one-off fee of HUF 34 billion for the extension. In September 2014, Magyar Telekom won the rights of use of frequency blocks until June 2034 in the tender of the National Media and Infocommunications Authority in the 800 MHz, 900 MHz, 1800 MHz and 2600 MHz frequency bands. Magyar Telekom paid an initial price of HUF 58.65 billion for these frequency blocks in Q4 2014.

Magyar Telekom is continuously seeking business opportunities beyond core services. A significant step was made in this direction upon our entrance into the Hungarian retail energy market. This new revenue stream enables us to compensate for the decrease in our Hungarian revenue, however, these revenues are associated with lower margins. The Hungarian government has approved a cut in household energy prices by 10% from January 1, 2013, and another 11% from November 1, 2013. On February 6, 2014 further 6.5% cut in gas prices, effective from April 1, 2014 and 5.7% cut in electricity prices, effective from September 2014 were approved. In the future, we shift our business focus to the competitive energy segment.

Macedonia

In Macedonia, competition is increasing both in the fixed line and mobile market. In the mobile market, aggressive price behavior is driven by a single mobile operator, which tries to regain lost market share. This trend is predicted to continue after the announced mobile termination rates ("MTR") decline. 4G licenses were obtained by all 3 mobile operators. Semi and full flat rates are dominant in mobile voice. Mobile data market is driven by flat rate packages. In the fixed line segment bundled offers based on broadband connections are the basis of future services. Digital TV services increase interactivity toward consumers and allow extended applications. We also expect more intensive regulatory measures in Macedonia in the future. Intensifying retail price regulation and competition pressure will result in significant decrease of retail prices. Regulation expected for NGA (Next Generation Access) networks, fiber unbundling and introduction of bit stream access over NGA. Further main focuses are: fostering of wholesale and retail service regulation, introduction of pure LRIC based pricing (for fixed and mobile voice, SMS, etc), NGA and FTTH regulation in line with NGA recommendation, reframing and frequency allocation for 4G services, obligation for all operators to put their aerial cables in urban areas underground.

Montenegro

In Montenegro, we also anticipate a tough environment due to competitive and regulatory pressures in the near future. In the fixed line market Crnogorski Telekom remain dominant, however price competition in broadband market and technology/content based competition in Pay TV market lead by cable companies have already started offering low-entry broadband packages. Fiber roll out will increase broadband penetration, but without premium monetization. Broadband and Pay TV are beginning to exhibit the signs of market saturation while the IT market is highly fragmented. In the mobile market, the environment is very competitive and price sensitive. Flat tariffs in the postpaid segment with unlimited on–net traffic and internet are initiated by market followers. Stronger growth is expected in Confined Connectivity mobile data segment, as Full Connectivity will partly suffer from liberalization and cable competition. Mobile network modernization (4G) is ongoing. Telenor already launched pilot and CT also had a soft 4G launch in selected urban areas. Regarding the regulatory measures, two new relevant retail markets are subject to expected market analysis: broadband and mobile services. Further risks are: international termination rates decline, NGA regulation, price regimes of bundling services.

3.9.1 Revenues

In our fixed line operations, we expect further declines in voice revenues due to continued line reduction and fixed line unit price erosion driven by mobile substitution and increased competition in the fixed line market, including competition from VoIP and VoCable providers. Mobile substitution remains the main driver of churn and we expect that average mobile per minute fees will continue to be lower than average fixed line per minute fees in 2014. As the market is shifting towards multiplay offers, we are bundling our product portfolio in order to provide all services for every customer demand on every platform. By having the full range of telecommunications services, we are capable of offering 5Play packages, unique in the Hungarian market. Magyar Telekom - due to unfavorable economic and market trends - has implemented tariff change effective from November 2013. Fixed line inter-connection tariffs were reduced by 66% in January 2014. Further reductions are expected in 2015 and 2016.

In the saturated fixed line market TV remains the key driver. Building on our large variety of platforms (cable, IP, DVB-S), we are targeting to reach those customers who currently have less than three of our services. We are aiming to expand further our RPC figures in 2014; however margins are under pressure due to significant competition. To strengthen our position in the TV market, we are continuously innovating our product portfolio (e.g. by offering interactive SAT TV).

In the mobile market, penetration has reached saturation point, and we expect declining voice revenues. We expect further growth in mobile broadband and future growth potential of value-added and data services, but this positive impact will not offset the decline in voice revenues. In 2013 all three MNOs launched full flat mobile tariff packages in Hungary, which could have negative impact on our revenues. Mobile termination rates are expected to be reduced further in the future. The market entry of the 4th mobile operator in Hungary is also expected.

To sustain our competitiveness in the corporate sector, we are committed to developing further our IT competencies by focusing on complex service offerings through managed services, system integration and outsourcing of consultant services to corporate customers.

3.9.2 Expenses

We are entirely committed to improving internal operational efficiency in all of our business segments. To accomplish our goals despite the intensifying competitive environment, we expect to partially offset decreasing revenue with strict cost control. We will continue our group-wide efforts to increase cost efficiency. We have reached an agreement with trade unions on headcount reduction and wage increase measures for 2015-2016 at Magyar Telekom Plc. According to the terms of the agreement, the Company plans to make maximum 1700 employees redundant. 40% is expected to leave the Company between October 1, 2014 and March 1, 2015 while the remaining 60% is expected to leave as of January 1, 2016. Total severance expenses related to the 2-year headcount reduction program will be approximately HUF 12 billion and out of that HUF 4 billion was accounted for in Q3 2014.

Meanwhile, in order to keep the wages competitive, there will be a 4% wage increase for employees in lower wage categories as of January 1, 2016 effective retrospectively from July 1, 2015.

The above measures are expected to result in net HUF 15 billion cost savings in 2 years, i.e. the program is expected to have a return period of 9 months.

In line with global market developments and the liberalization of the Hungarian energy market, we have experienced rapid growth in energy prices above the rate of inflation. We expect energy costs to remain high in 2014, impacting us negatively.

3.9.3 Investments in tangible and intangible assets

Compared to previous years, the key priorities of capex spending have not changed. Investments in new products and platforms (e.g., 4G, FTTx) remain our key strategic goals. Broadband expansion is supported by large scale modernization of the mobile network.

We will increase investments in the IT area to reach our goals of becoming an ICT leader in Hungary, while expansion into new market segments will also demand additional investments.

Striving for further improvement in customer orientation, the strategic priority is the successful development and implementation of new CRM systems in Hungary, Macedonia and Montenegro. We are targeting the complete overhaul of the current customer management system of the companies.

We are continuously seeking further value-creating acquisitions and investment targets.

4. DECLARATION

We the undersigned declare that to the best of our knowledge this report prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, gives a true and fair view of the assets, liabilities, financial position and profit or loss of Magyar Telekom Plc. and its consolidated undertakings. In addition, the report gives a fair view of the position, development and performance of Magyar Telekom Plc. and its consolidated undertakings, and contains risk factors and uncertainties relating to the future events of the financial year.

Independent Auditor's Report was not prepared on the Interim financial report.

Christopher Mattheisen Chief Executive Officer, member of the Board	János Szabó Chief Financial Officer

Budapest, November 6, 2014

This investor news contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore should not have undue reliance placed upon them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our annual financial statements for the year ended December 31, 2013, available on our website at http://www.telekom.hu which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

In addition to figures prepared in accordance with IFRS, Magyar Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin and net debt. These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways. For further information relevant to the interpretation of these terms, please refer to the chapter "Reconciliation of pro forma figures", which is posted on Magyar Telekom's Investor Relations webpage at www.telekom.hu/investor_relations.