



EGYÜTT. VELED

SUBMISSION
TO THE GENERAL MEETING OF MAGYAR TELEKOM PLC.

**REPORT OF THE BOARD OF DIRECTORS ON THE
MANAGEMENT OF MAGYAR TELEKOM PLC., ON
THE BUSINESS OPERATION, ON THE BUSINESS
POLICY AND ON THE FINANCIAL SITUATION OF
THE COMPANY AND MAGYAR TELEKOM GROUP
IN 2014**

BUDAPEST, APRIL 15, 2015



According to Section 6.4.f) of the Articles of Association and Section 10.1.f) of the Rules of Procedure of the Board of Directors, the Board of Directors draws up, at the end of each business year, a report for the General Meeting on the management of the Company, the assets of the Company, the financial situation of the Company and the business policy of the Company.

Relevant part of the Report of the Supervisory Board related to this agenda item:

The Supervisory Board examined the report of the Board of Directors on the management of the Company, on the business operation, on the business policy and on the financial situation of the Company and Magyar Telekom Group in 2014, which the Supervisory Board acknowledged.

REPORT OF THE BOARD OF DIRECTORS ON THE MANAGEMENT OF MAGYAR TELEKOM PLC., ON THE BUSINESS OPERATION, ON THE BUSINESS POLICY AND ON THE FINANCIAL SITUATION OF THE COMPANY AND MAGYAR TELEKOM GROUP IN 2014

CHRISTOPHER MATTHEISEN
CEO – MEMBER OF THE BOARD OF DIRECTORS

**ANNUAL GENERAL MEETING
APRIL 15, 2015**



EGYÜTT. VELED

MANAGEMENT COMMITTEE



Christopher Mattheisen
Chief Executive Officer



Chief Commercial
Officer Residential



Péter Lakatos
Chief Commercial
Officer SMB



Tibor Rékasi
Chief Commercial
Officer Enterprise



Walter Goldenits
Chief Technology
and IT Officer



János Szabó
Chief Financial
Officer



Éva Somorjai
Chief Human
Resources Officer



Balázs Máthé
Chief Legal and
Corporate Affairs
Officers

AWARDS WON IN 2014

Excellence in Customer Servicing award e-channel category



Oekom sustainability award 3rd place

Family friendly workplace



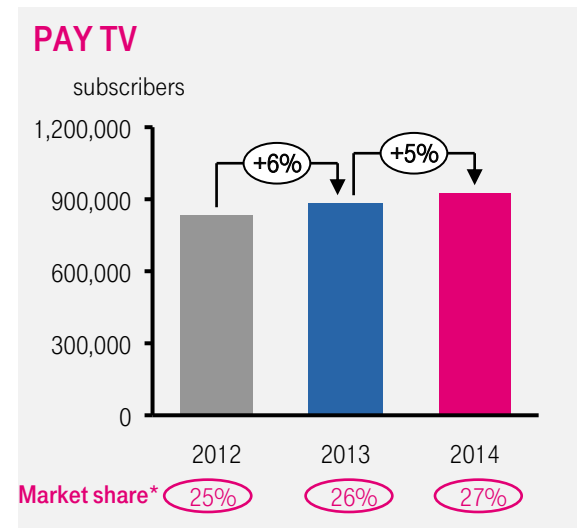
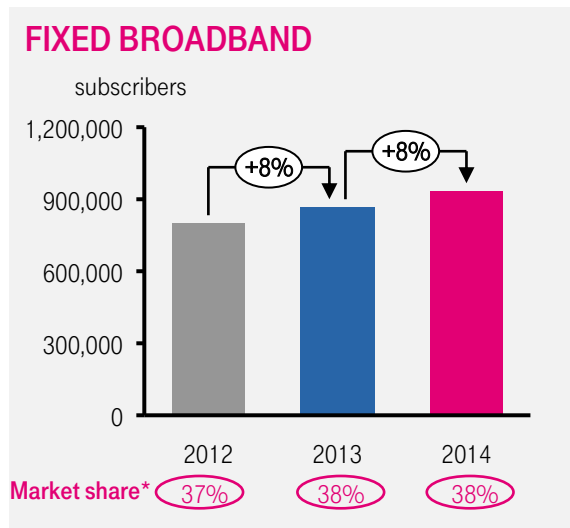
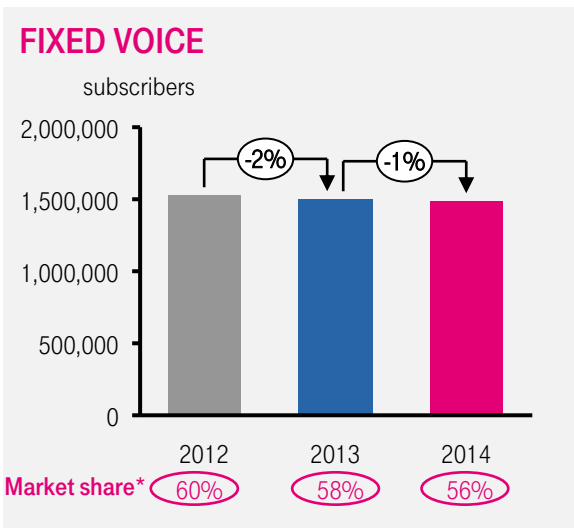
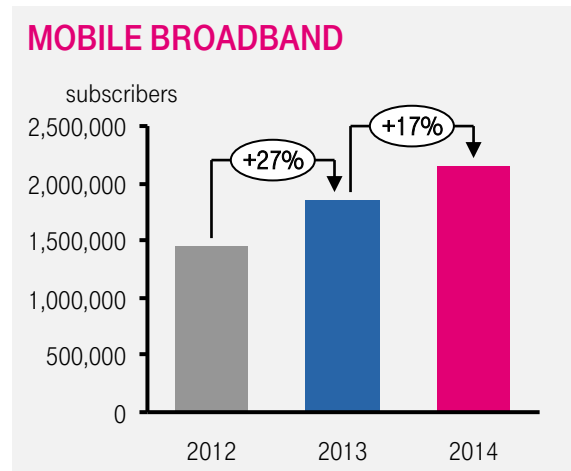
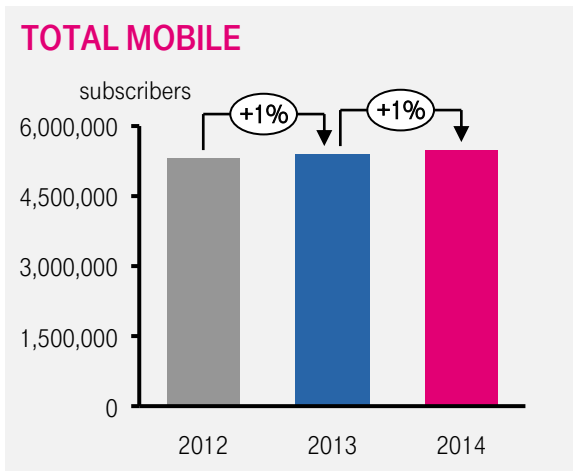
Cisco Innovative Solution Award in South Eastern Europe for T-Systems Hungary

Bicycle friendly organization



EGYÜTT. VELED

MARKET POSITIONS ON THE HUNGARIAN TELECOMMUNICATION MARKET

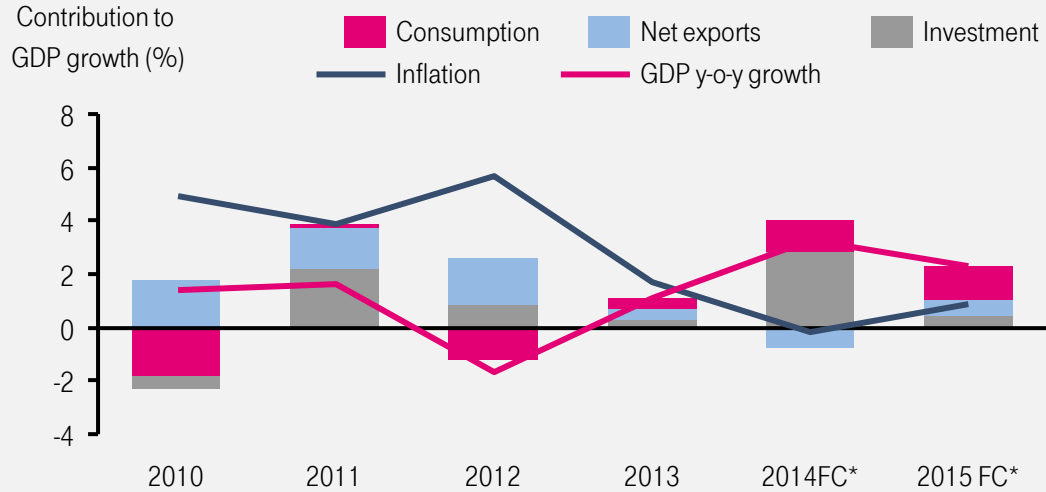


EGYÜTT. VELED

* Based on the total fixed voice / BB / pay TV market estimated by the National Media and Infocommunications Authority

HUNGARIAN ECONOMIC ENVIRONMENT

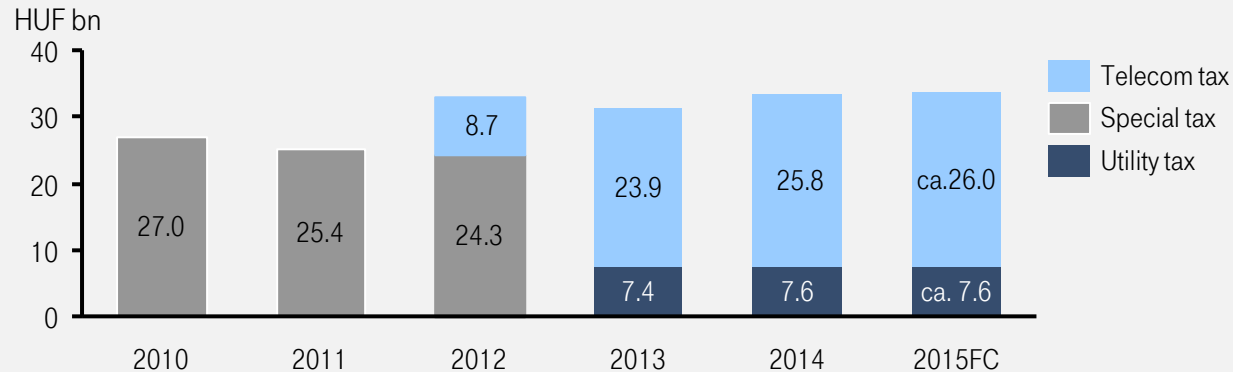
GROWTH STRUCTURE



DOMESTIC DEMAND SHOWS SIGNS OF IMPROVEMENT AS ECONOMY RECOVERS

- Governmental measures support consumer spending
- Investment levels show strong volatility due to EU fund cycles
- MT is expected to benefit from positive trends of domestic demand

ADDITIONAL TAXES LEVIED ON MAGYAR TELEKOM

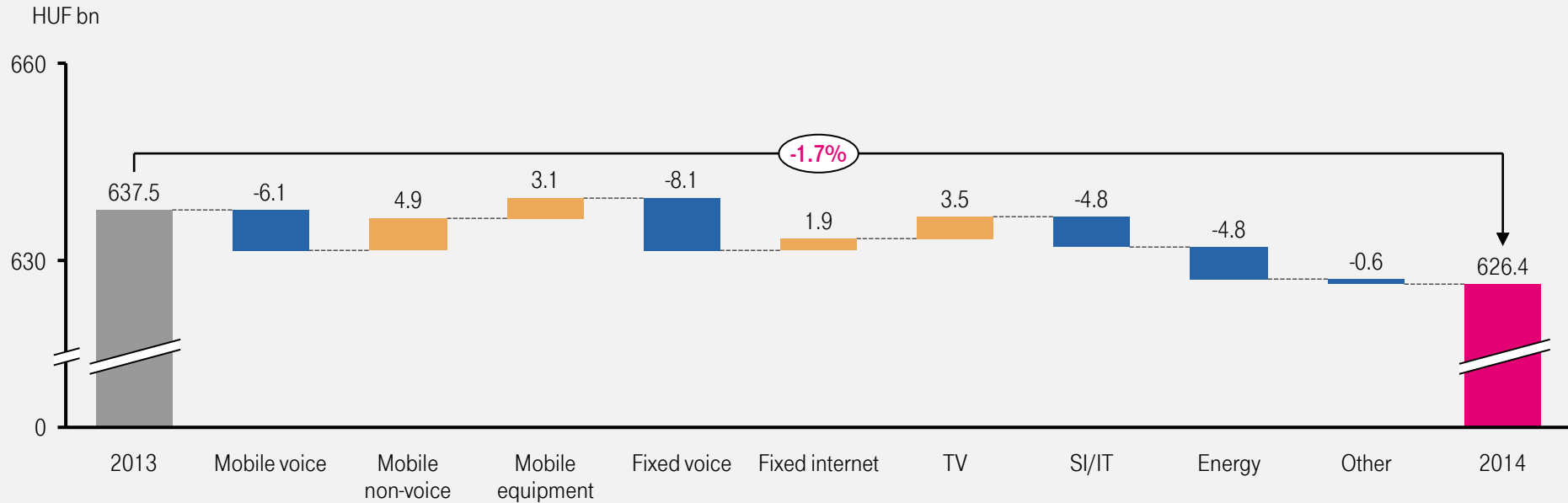


TAX BURDENS TO REDUCE BUDGET DEFICIT

- Temporary special revenue-based sector tax levied between 2010-2012
- Permanent traffic-based telecom tax introduced in July, 2012, increased from August, 2013
- Permanent tax on utility and telecom networks levied from 2013

2014 GROUP RESULTS – REVENUES

GROUP REVENUES

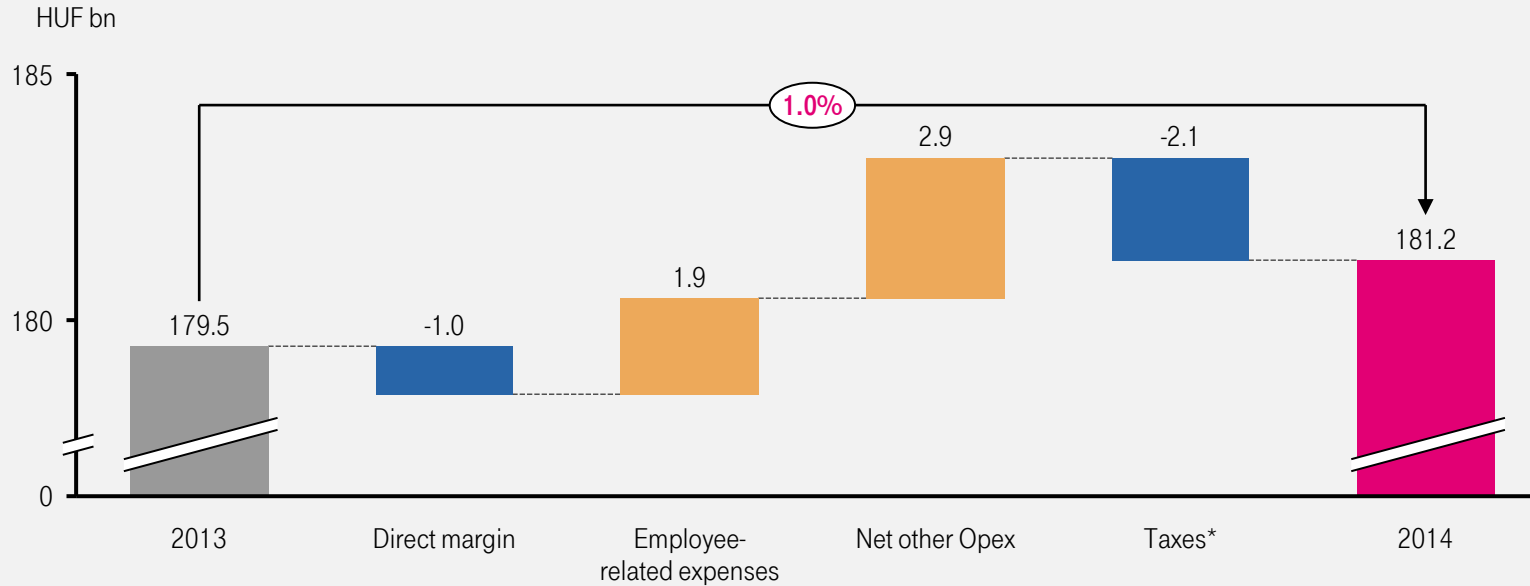


- Decline in mobile voice revenues counterbalanced with strong growth in mobile data usage resulting also in higher smart mobile device sales
- Traditional fixed voice revenue decline partly offset by growth in fixed broadband and TV revenues driven by continuous increase in the customer base
- Energy revenue decline due to regulated price reductions
- Lower SI/IT revenues caused by change in product mix



2014 GROUP RESULTS – EBITDA

GROUP EBITDA

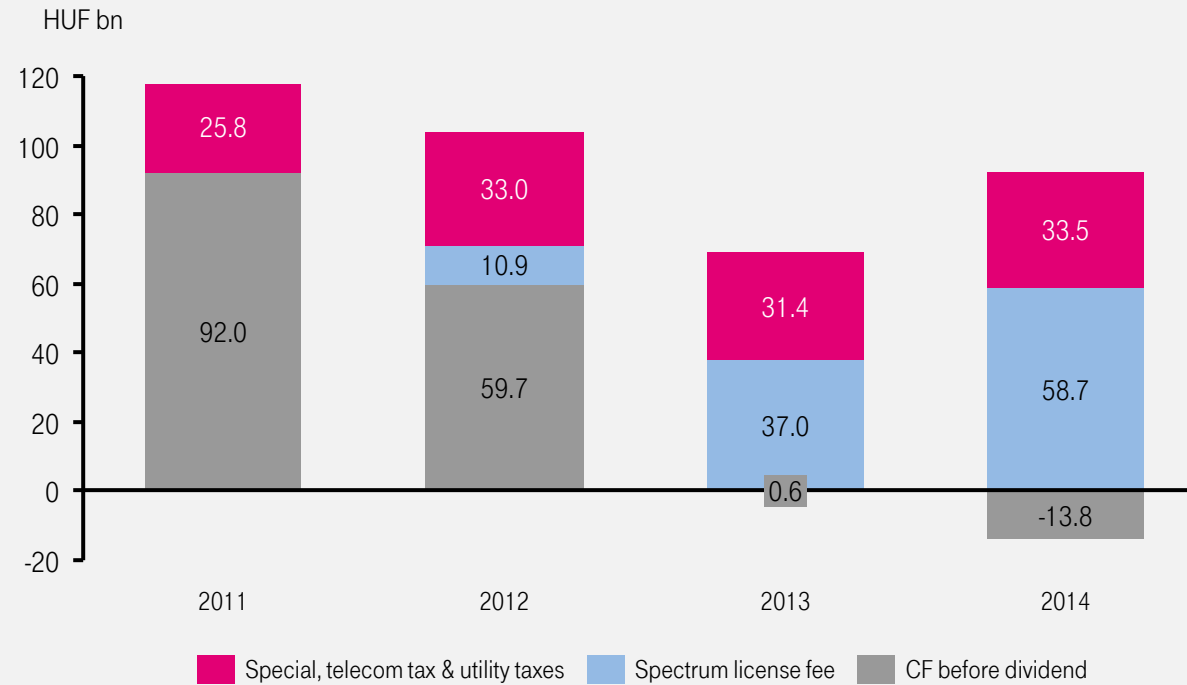


- Direct margin erosion was driven by higher bad debt and further erosion of traditional voice revenues but partly mitigated by improved margin of the SI/IT and energy services
- Savings in employee related expenses due to headcount reduction measures in 2013 in Hungary and Macedonia
- Lower operating expenses mostly driven by the reduction and changed accounting treatment of the annual frequency fees
- Higher operating taxes* due to increase in the rate of the telecom tax from August, 2013



FREE CASH FLOW

FREE CASH FLOW* GENERATION

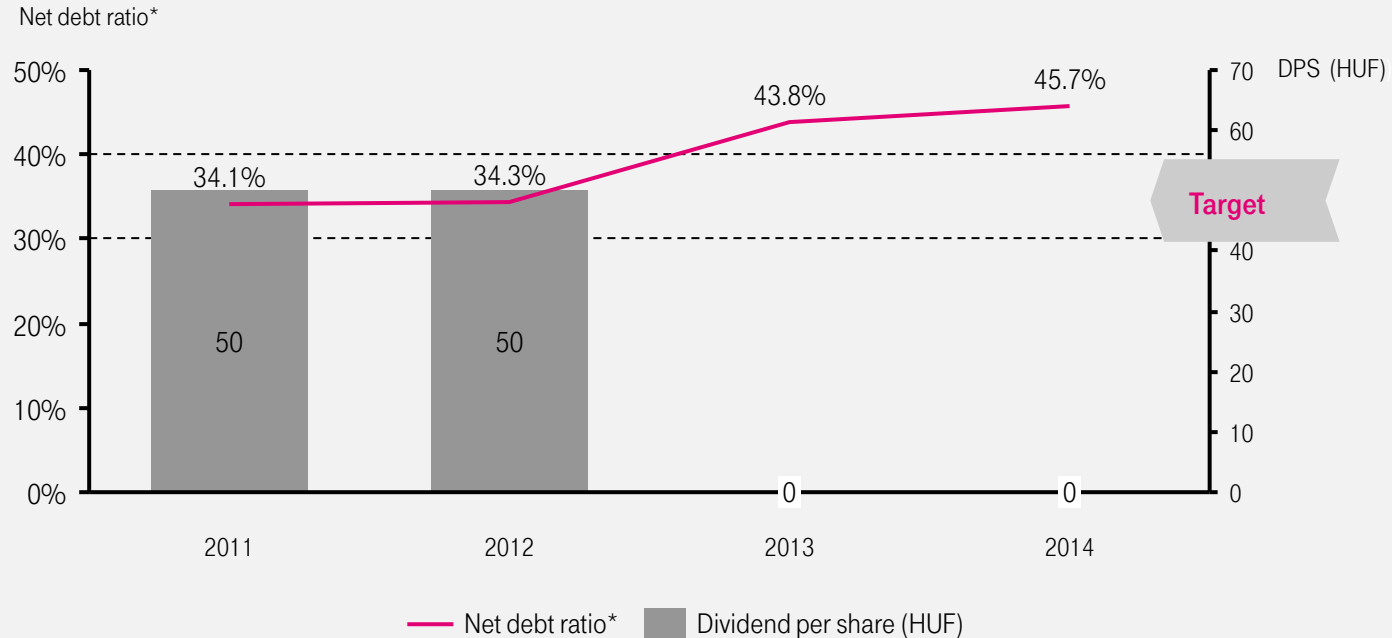


- Free cash flow severely hit in 2014 by:
 - telecom and utility taxes
 - spectrum license fee payment (HUF 59 bn) in Hungary



DIVIDENDS

DIVIDEND POLICY



- We have a net debt ratio target of 30%-40% in order to maintain an efficient capital structure
- The Board of Directors proposes no dividend payment on 2014 earnings for approval at the AGM



PUBLIC TARGETS FOR 2015 AND 2017

	2014 RESULTS	2015 TARGETS	2017 TARGETS
Revenue	HUF 626.4bn	0-3% increase	roughly stable compared to 2014 level
Reported EBITDA	HUF 181.2bn	0-3% decline	surpassing HUF 185bn
CAPEX*	HUF 86.8bn	around HUF 105bn	around HUF 80bn
FCF**	around HUF -19bn		surpassing HUF 50bn

**excluding spectrum license fees and annual frequency fee capitalization*

***after subsidiary minority dividend payment*

THANK YOU FOR YOUR ATTENTION!

FOR FURTHER QUESTIONS PLEASE CONTACT THE INVESTOR RELATIONS DEPARTMENT:

PHONE: +36 1 458 0424

FAX: +36 1 458 0443

E-MAIL: INVESTOR.RELATIONS@TELEKOM.HU



EGYÜTT. VELED