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MAGYAR TELEKOM

INTERIM FINANCIAL REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED MARCH 31, 2014

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Budapest – May 8, 2014 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the first quarter of 2014, in accordance with International Financial Reporting Standards (IFRS).

1. HIGHLIGHTS

MAGYAR TELEKOM **Group Financial Results - IFRS** (HUF million, except indices)	**Q1 2013** (Unaudited)	**Q1 2014** (Unaudited)	**Change (%)**
Total revenues	**156,609**	**151,893**	**(3.0%)**
Operating profit	**14,248**	**16,094**	**13.0%**
Profit attributable to:			
Owners of the parent	1,695	4,828	184.8%
Non-controlling interests	1,234	162	(86.9%)
	2,929	**4,990**	**70.4%**
Gross margin	97,105	98,014	0.9%
EBITDA	39,027	40,528	3.8%
EBITDA margin	24.9%	26.7%	n.a.
Free cash flow	(7,537)	(11,423)	(51.6%)
Basic and diluted earnings per share (HUF)	**1.63**	**4.63**	**184.0%**
CAPEX to Sales	**10.7%**	**11.4%**	**n.a.**
Net debt	**282,938**	**382,334**	**35.1%**
Net debt / total capital	**35.2%**	**43.6%**	**n.a.**
Number of employees (closing full equivalent)	11,344	11,141	(1.8%)

- **Revenues decreased by 3.0% in the first quarter of 2014 compared to the same period of 2013, from HUF 156.6 billion to HUF 151.9 billion.** The decline is the result of lower fixed and mobile voice revenues coupled with lower revenues from SI/IT and energy services, latter driven by a combination of the 11% cut in the regulated retail prices as of November 2013 and the very mild winter season.
- **EBITDA increased by 3.8%, from HUF 39.0 billion to HUF 40.5 billion**, largely attributable to an expansion in gross margins across all areas but particularly in relation to energy and SI/IT services. Reductions in other operating expenses were mostly driven by lower rental fees and fees and levies, a reflection of the change in the booking treatment of the set-top-boxes and the price reduction and capitalization of annual frequency fees, respectively, that were both completed in 2013. These impacts were somewhat mitigated by higher telecom tax on account of the increase in tax rates for non-private individual subscribers' subscription and higher generated traffic.

Details of telecom and utility taxes (HUF billion)*	**Q1 2013**	**Q1 2014**
Telecom tax	5.5	6.4
Utility tax	7.3	7.5
Total	**12.9**	**13.9**

**Differences might occur due to rounding*

- **Depreciation and amortization expenses declined slightly, from HUF 24.8 billion to HUF 24.4 billion**, as the higher depreciation and amortization in Hungary relating to the extended and newly-purchased spectrum licenses as well as the capitalization of the annual frequency fees were counterbalanced by extending the deemed useful lives of assets such as radio equipment.
- **Net financial expenses decreased from HUF 7.7 billion to HUF 6.0 billion.** The improvement is primarily due to the substantially lower net FX losses (including fair valuation of FX derivatives), as during Q1 2014, HUF weakened by 3.4% against the EUR while during Q1 2013, by 4.5% while the negative impact of higher overall debt levels was offset by lower average interest rates.
- **Income tax expense increased from HUF 3.6 billion in Q1 2013 to HUF 5.1 billion in Q1 2014** in line with the higher profit before tax. Other income taxes (including the local business tax and the innovation fee) remained broadly stable at around HUF 2.0 billion. The higher income

tax – apart from the higher profit before tax – is primarily due to the significant change in Macedonian income tax law, which introduced a 10% profit tax charged on dividend declarations in Macedonia regardless of the geographical domicile of the dividend recipient, effective from January 2014. Up until December 2013, we had been recognizing deferred tax liabilities accruing on the profits of the Macedonian entities resulting in expected dividends to be collected by Magyar Telekom, as the tax charged on dividend distributions had previously only applied to dividend distributions leaving Macedonia. Consequently, the income tax charge we had to recognize now in Q1 2014 was higher by HUF 1.1 billion than the amount of the deferred tax liability we released. This additional net tax expense is, however, fully offset by the decrease in the **profit attributable to non controlling interests**, leaving the profit attributable to the owners of the parent intact.

At the same time, year-on-year comparison is also distorted by the ca HUF 0.8bn deferred tax liability booked in Q1 2013 relating to the decrease of the statutory reserve requirement in Macedonia as it led to increased distributable reserves which was expected to be subject to withholding tax once distributed to Magyar Telekom.

- **Profit attributable to the owners of the parent company (net income) increased from HUF 1.7 billion in the first quarter of 2013 to HUF 4.8 billion in the first quarter of 2014**, thanks to higher EBITDA coupled with lower financial expenses.
- **Net cash generated from operating activities increased by HUF 12.3 billion, from HUF 13.0 billion in Q1 2013 to HUF 25.3 billion in Q1 2014**. The increase is mainly driven by higher EBITDA and improved working capital (also reflecting the factoring of vendor contracts in 2013) that was partly offset by higher net financial charges paid due to the difference in the timing of interest payments.
- **Investment in tangible and intangible assets (Capex) increased slightly, from HUF 16.7 billion to HUF 17.3** primarily reflecting investments to network modernization both in the fixed and mobile infrastructure in Hungary. In Q1 2014 Telekom Hungary accounted for HUF 15.2 billion of total Capex while HUF 0.7 billion is associated to T-Systems Hungary. In Macedonia and Montenegro, Capex was HUF 0.8 billion and HUF 0.7 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) **changed from a deficit of HUF 7.5 billion in Q1 2013 to a deficit of HUF 11.4 billion in Q1 2014.** The improvement in operating cash flow was offset by higher cash Capex reflecting higher outpayments to Capex creditors in Q1 2014 compared to a year earlier and the higher amount of repayment of other financial liabilities due to payments of factored vendor contracts coupled with the 2014 payment of the periodic frequency fees.
- **Net debt rose from HUF 282.9 billion** at the **end of Q1 2013 to HUF 382.3 billion at the end of Q1 2014**. The **net debt ratio** (net debt to total capital) was **43.6% at the end of Q1 2014.**

Christopher Mattheisen, CEO commented:

"I am pleased to report that our Telekom Hungary segment performed well in the first quarter of 2014, despite the slight contraction of the mobile voice market which led to a decline in our subscriber base during the period. The reported increase in both usage and ARPU reflects the success of our continued efforts to mitigate pressure from rationalization-driven downward migration to flat rate packages through proactive focus on upward migration and the upsell of additional data allowance and handset insurance.

In the fixed segment, we were delighted to see a continued increase in our share of the TV market, where almost a third of our residential customer base now subscribes to a triple play package. Despite a decline in SI/IT revenues during the quarter, the gross margin increased in line with the higher share of service driven projects within our project mix.

Looking forward, our efforts will be firmly focused on maintaining the current positive momentum by continuing to deliver a unique customer experience. To this end, we are currently testing LTE-Advanced technology that, provided frequency assets are available, will make download speeds of 300 Mbps possible within a couple of years. We will also continue to roll out our 4G network which currently covers around 45% of the Hungarian population.

At our international subsidiaries we continued to face difficult operating conditions. In Macedonia, both our mobile competitors launched extremely attractive promotional flat offers. While our EBITDA margin was slightly above 40% during the first quarter, reflecting some cost saving efforts, we expect this fierce competition to result in further margin pressure going forward. In Montenegro, we are facing increased regulatory pressures following the introduction in April 2014 of fixed voice retail price regulation and the 45% cut in mobile termination rates that was implemented a month earlier in March."

2014 public guidance:

	2013	Public guidance 2014
Revenue	HUF 637.5 billion	0%-3% decline
EBITDA	HUF 179.5 billion	3%-6% 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)	Mar 31, 2014 (Unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	14,633	13,748	(885)	(6.0%)
Trade and other receivables	136,712	137,239	527	0.4%
Other current financial assets	28,615	33,916	5,301	18.5%
Current income tax receivable	896	2,666	1,770	197.5%
Inventories	12,478	14,748	2,270	18.2%
Non current assets held for sale	607	593	(14)	(2.3%)
Total current assets	**193,941**	**202,910**	**8,969**	**4.6%**
Non current assets				
Property, plant and equipment	493,619	492,312	(1,307)	(0.3%)
Intangible assets	381,199	379,370	(1,829)	(0.5%)
Investments in associates and joint ventures	5	5	0	0.0%
Deferred tax assets	238	280	42	17.6%
Non current financial assets	21,619	20,780	(839)	(3.9%)
Other non current assets	627	952	325	51.8%
Total non current assets	**897,307**	**893,699**	**(3,608)**	**(0.4%)**
Total assets	**1,091,248**	**1,096,609**	**5,361**	**0.5%**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	58,682	73,658	14,976	25.5%
Other financial liabilities	100,060	103,869	3,809	3.8%
Trade payables	103,549	84,741	(18,808)	(18.2%)
Current income tax payable	759	3,015	2,256	297.2%
Provisions	4,076	3,541	(535)	(13.1%)
Other current liabilities	40,097	51,810	11,713	29.2%
Total current liabilities	**307,223**	**320,634**	**13,411**	**4.4%**
Non current liabilities				
Financial liabilities to related parties	239,522	226,695	(12,827)	(5.4%)
Other financial liabilities	26,214	25,776	(438)	(1.7%)
Deferred tax liabilities	19,075	19,469	394	2.1%
Provisions	8,516	8,750	234	2.7%
Other non current liabilities	1,122	1,150	28	2.5%
Total non current liabilities	**294,449**	**281,840**	**(12,609)**	**(4.3%)**
Total liabilities	**601,672**	**602,474**	**802**	**0.1%**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,387	27,388	1	0.0%
Treasury stock	(307)	(307)	0	0.0%
Retained earnings	281,795	286,623	4,828	1.7%
Accumulated other comprehensive income	24,318	28,743	4,425	18.2%
Total Equity of the owners of the parent	**437,468**	**446,722**	**9,254**	**2.1%**
Non-controlling interests	52,108	47,413	(4,695)	(9.0%)
Total equity	**489,576**	**494,135**	**4,559**	**0.9%**
Total liabilities and equity	**1,091,248**	**1,096,609**	**5,361**	**0.5%**

2.2. Consolidated Statements of profit or loss and other comprehensive income

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q1 2013 (Unaudited)	Q1 2014 (Unaudited)	Change	Change (%)
Revenues				
Voice - retail	39,671	38,754	(917)	(2.3%)
Voice - wholesale	6,418	6,296	(122)	(1.9%)
Voice - visitor	497	326	(171)	(34.4%)
Non-voice	16,422	17,045	623	3.8%
Equipment	8,535	8,027	(508)	(6.0%)
Other mobile revenues	1,670	2,934	1,264	75.7%
Mobile revenues	**73,213**	**73,382**	**169**	**0.2%**
Voice - retail	18,495	17,088	(1,407)	(7.6%)
Voice - wholesale	3,352	2,949	(403)	(12.0%)
Internet	13,052	13,217	165	1.3%
Data	5,102	4,448	(654)	(12.8%)
TV	8,980	9,903	923	10.3%
Equipment	2,329	1,769	(560)	(24.0%)
Other fixed line revenues	2,737	2,439	(298)	(10.9%)
Fixed line revenues	**54,047**	**51,813**	**(2,234)**	**(4.1%)**
System Integration/Information Technology revenues	14,012	13,189	(823)	(5.9%)
Revenue from Energy Services	15,337	13,509	(1,828)	(11.9%)
Total revenues	**156,609**	**151,893**	**(4,716)**	**(3.0%)**
Expenses				
Mobile revenue-related payments	(19,247)	(17,864)	1,383	7.2%
Fixed line revenue-related payments	(10,927)	(9,929)	998	9.1%
SI/IT revenue-related payments	(8,569)	(6,970)	1,599	18.7%
Energy revenue-related payments	(16,515)	(13,231)	3,284	19.9%
Agent commissions	(2,543)	(2,647)	(104)	(4.1%)
Bad debt expense	(1,703)	(3,238)	(1,535)	(90.1%)
Direct costs	**(59,504)**	**(53,879)**	**5,625**	**9.5%**
Gross margin	**97,105**	**98,014**	**909**	**0.9%**
Employee-related expenses	(22,601)	(22,563)	38	0.2%
Other operating expenses	(36,333)	(35,390)	943	2.6%
Other operating income	856	467	(389)	(45.4%)
EBITDA	**39,027**	**40,528**	**1,501**	**3.8%**
Depreciation and amortization	(24,779)	(24,434)	345	1.4%
Operating profit	**14,248**	**16,094**	**1,846**	**13.0%**
Net financial result	(7,745)	(6,046)	1,699	21.9%
Profit before income tax	**6,503**	**10,048**	**3,545**	**54.5%**
Income tax	(3,574)	(5,058)	(1,484)	(41.5%)
Profit for the period	**2,929**	**4,990**	**2,061**	**70.4%**
Change in exchange differences on translating foreign operations	8,680	6,106	(2,574)	(29.7%)
Revaluation of available-for-sale financial assets	22	(5)	(27)	n.m.
Other comprehensive income for the period	8,702	6,101	(2,601)	(29.9%)
Total comprehensive income for the period	**11,631**	**11,091**	**(540)**	**(4.6%)**
Profit attributable to:				
Owners of the parent	1,695	4,828	3,133	184.8%
Non-controlling interests	1,234	162	(1,072)	(86.9%)
	2,929	**4,990**	**2,061**	**70.4%**
Total comprehensive income attributable to:				
Owners of the parent	8,174	9,253	1,079	13.2%
Non-controlling interests	3,457	1,838	(1,619)	(46.8%)
	11,631	**11,091**	**(540)**	**(4.6%)**
Basic and diluted earnings per share (HUF)	**1.63**	**4.63**	**3.00**	**184.0%**

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2.3. Consolidated Statements of Cash Flows

MAGYAR TELEKOM Consolidated Statements of Cash Flows (HUF million)	Q1 2013 (Unaudited)	Q1 2014 (Unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	2,929	4,990	2,061	70.4%
Depreciation and amortization	24,779	24,434	(345)	(1.4%)
Income tax expense	3,574	5,058	1,484	41.5%
Net financial result	7,745	6,046	(1,699)	(21.9%)
Change in assets carried as working capital	(8,756)	(1,194)	7,562	86.4%
Change in provisions	(1,114)	(444)	670	60.1%
Change in liabilities carried as working capital	(7,142)	(4,145)	2,997	42.0%
Income tax paid	(4,173)	(4,239)	(66)	(1.6%)
Interest and other financial charges paid	(4,709)	(6,238)	(1,529)	(32.5%)
Interest received	582	305	(277)	(47.6%)
Other cashflows from operations	(712)	690	1,402	n.m.
Net cash generated from operating activities	**13,003**	**25,263**	**12,260**	**94.3%**
Cash flows from investing activities				
Investments in tangible and intangible assets	(16,712)	(17,292)	(580)	(3.5%)
Adjustments to cash purchases	(3,875)	(8,031)	(4,156)	(107.3%)
Purchase of subsidiaries and business units	0	(201)	(201)	n.a.
Payments for / proceeds from other financial assets - net	12,716	(1,992)	(14,708)	n.m.
Proceeds from disposal of property, plant and equipment (PPE) and intangible	165	268	103	62.4%
Net cash used in investing activities	**(7,706)**	**(27,248)**	**(19,542)**	**(253.6%)**
Cash flows from financing activities				
Dividends paid to shareholders and Non-controlling interests	(10)	(4)	6	60.0%
Proceeds from loans and other borrowings - net	13,591	12,246	(1,345)	(9.9%)
Repayment of other financial liabilities	(118)	(11,430)	(11,312)	n.m.
Net cash generated from financing activities	**13,463**	**812**	**(12,651)**	**(94.0%)**
Exchange gains on translation of cash and cash equivalents	828	288	(540)	(65.2%)
Change in cash and cash equivalents	**19,588**	**(885)**	**(20,473)**	**n.m.**
Cash and cash equivalents, beginning of period	15,211	14,633	(578)	(3.8%)
Cash and cash equivalents, end of period	34,799	13,748	(21,051)	(60.5%)
Change in cash and cash equivalents	**19,588**	**(885)**	**(20,473)**	**n.m.**

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2.4. 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 declared to Non-controlling interests									0	(11,745)	(11,745)
Equity settled share-based transactions				1					1		1
Total comprehensive income						1,695	6,464	15	8,174	3,457	11,631
Balance at March 31, 2013	1,042,742,543	104,275	27,379	5	(307)	312,147	27,799	(67)	471,231	50,739	521,970
Dividend						(52,117)			(52,117)		(52,117)
Dividend declared to Non-controlling interests									0	(1,567)	(1,567)
Equity settled share-based transactions				3					3		3
Total comprehensive income						21,765	(3,374)	(40)	18,351	2,936	21,287
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	(5,286)	(5,286)
Equity settled share-based transactions				1					1		1
Capital reduction [1]									0	(1,247)	(1,247)
Total comprehensive income						4,828	4,428	(3)	9,253	1,838	11,091
Balance at March 31, 2014	1,042,742,543	104,275	27,379	9	(307)	286,623	28,853	(110)	446,722	47,413	494,135

[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. Share capital reduction in the amount of EUR 17.1 million was approved (from EUR 141.0 million to EUR 123.9 million) and funds obtained as a result of share capital reduction will be distributed to the shareholders.

2.5. 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).

2.6. 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.

2.7. 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.

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	Q1 2013	Q1 2014	Change
HUF/EUR beginning of period	291.29	296.91	**1.93%**
HUF/EUR period-end	304.30	307.06	**0.91%**
HUF/EUR cumulative monthly average	295.48	307.81	**4.17%**
HUF/MKD beginning of period	4.74	4.83	**1.90%**
HUF/MKD period-end	4.94	4.98	**0.81%**
HUF/MKD cumulative monthly average	4.80	4.99	**3.96%**

In Q1 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 151.9 billion in Q1 2014 compared to HUF 156.6 billion in Q1 2013, representing a 3.0% decrease quarter over quarter caused by the following:

Mobile revenues amounted to HUF 73.4 billion in Q1 2014, compared to HUF 73.2 billion in the same period of the previous year representing a 0.2% increase. Higher mobile non-voice and other mobile revenues could offset the lower mobile voice and equipment revenues.

Mobile voice revenues, which represent the largest portion of revenues within mobile telecommunications services, declined by 2.6% to HUF 45.4 billion in Q1 2014 compared to HUF 46.6 billion in Q1 2013.

Voice-retail revenues decreased by 2.3% to HUF 38.6 billion in Q1 2014. This was mainly due to lower outgoing mobile voice revenues in Macedonia 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 Hungary, mobile voice-retail revenues declined due to the significantly lower roaming revenues caused by EU regulated average tariff erosion, effective from July 1, 2013. In Montenegro, voice-retail revenues declined due to the decrease in average customer base as well as lower tariff levels which could not be compensated by the increase in usage quarter over quarter.

Voice-wholesale revenues were down by 1.9% and amounted to HUF 6.3 billion in Q1 2014, mainly due to lower mobile termination rate as of November 1, 2013 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 17.0 billion in Q1 2014, compared to HUF 16.4 billion in Q1 2013, representing a 3.8% increase. Higher non-voice revenues primarily came from higher mobile Internet revenues in Hungary, as both subscriber numbers and usage increased in Q1 2014.

Mobile equipment revenues decreased by 6.0% to HUF 8.0 billion in Q1 2014 compared to HUF 8.5 billion in Q1 2013, attributable to our Hungarian operation. The decrease in revenues was driven by lower average handset prices and decreased sales volume of higher priced smartphones. Lower revenues from penalty relating to contract termination by the customer before due date also contributed to the decrease. These decreases were slightly offset by increased revenues in Montenegro due to the higher number of handsets sold.

Other mobile revenues grew from HUF 1.7 billion in Q1 2013 to HUF 2.9 billion in Q1 2014 owing to higher revenues derived from penalty charges and from mobile handset insurance in Hungary.

Fixed line revenues amounted to HUF 51.8 billion in Q1 2014, compared to HUF 54.0 billion in the same period of the previous year, representing a 4.1% decline. The decrease was driven by falling voice, data and equipment revenues, partly offset by increased TV and Internet revenues.

Voice-retail revenues decreased by 7.6% to HUF 17.1 billion in Q1 2014 compared to HUF 18.5 billion in Q1 2013, mainly driven by the continuous decline in the number of revenue producing fixed access and lower average tariff levels.

Voice-wholesale revenues decreased by 12.0% to HUF 2.9 billion in Q1 2014, primarily due to tariff decline in Hungary causing lower domestic revenues from LTOs and from mobile operators. Call origination and termination also decreased in Hungary owing to mobile and OTT substitution and the intense competition with cable TV service providers. At our foreign subsidiaries, lower international incoming traffic revenues resulted from lower volume of traffic, which also contributed to the decline in voice-wholesale revenues.

Internet revenues increased from HUF 13.1 billion in Q1 2013 to HUF 13.2 billion in Q1 2014, representing a 1.3% growth. Higher Internet revenues were mainly due to increased revenues from content services in Hungary. Although DSL connections slightly increased together with cablenet and fiber optic connections in Hungary, lower ARPU, caused by lower prices due to strong competition and by the migration towards double- and triple-play packages, had a negative effect on Internet access revenues. This decrease was somewhat compensated by the higher revenues in Montenegro due to increased number of DSL connections. In Macedonia, Internet broadband revenues remained stable as lower prices were compensated by the 7.2% higher number of DSL access.

Data revenues amounted to HUF 4.4 billion in Q1 2014 compared to HUF 5.1 billion in Q1 2013. The decrease in both broadband and narrowband revenues was mainly deriving from lower number of domestic and international leased line customers, both in Hungary and at our foreign subsidiaries.

TV revenues amounted to HUF 9.9 billion in Q1 2014 compared to HUF 9.0 billion in Q1 2013, representing an increase of 10.3%. 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 1.8 billion in Q1 2014 compared to HUF 2.3 billion in Q1 2013. The decrease is mainly owing to the lower sale of TV sets and tablets in Hungary.

Other fixed line revenues decreased by 10.9% in Q1 2014 compared to the same period the previous year, and amounted to HUF 2.4 billion. The decrease was mainly due to lower revenues derived from other material sales and from telephone book publishing in Q1 2014.

System Integration (“SI”) and IT revenues decreased by 5.9% from HUF 14.0 billion in Q1 2013 to HUF 13.2 billion in the same period of 2014. Lower revenues were due to the decrease in outsourcing revenues driven by the renegotiation of some large contracts during 2013, coupled with fewer large application and infrastructure projects in Q1 2014.

Energy Services revenues decreased to HUF 13.5 billion in Q1 2014 compared to HUF 15.3 billion in Q1 2013. The decline resulted from the lower gas consumption during the mild winter compared to a year earlier. In addition, universal service provider price reduction from November 2013 also contributed to the revenue decrease. As at March 31, 2014, the number of gas points of delivery amounted to 67,451, while the number of electricity points of delivery had reached 106,794.

3.1.3 Direct costs

Direct costs decreased by 9.5%, and amounted to HUF 53.9 billion in Q1 2014.

Mobile services-related payments in Q1 2014 decreased by 7.2% quarter over quarter, and amounted to HUF 17.9 billion. Lower mobile voice payments are primarily due to lower interconnection cost in Macedonia and lower roaming payments in Hungary. Mobile equipment costs decreased due to lower volume of smartphone sales in Hungary and Macedonia.

Fixed line-related payments decreased by 9.1% to HUF 9.9 billion in Q1 2014. The decrease was mainly driven by lower equipment sales at the Company due to the decrease in tablet and TV-set sales. Continuously declining voice-related payments also contributed to the decrease. These decreases were partly counterbalanced by higher TV payments, owing to the increasing subscriber base in Hungary and in Macedonia.

Fewer large application and infrastructure projects at T-Systems caused SI/IT-related payments to decrease from HUF 8.6 billion in Q1 2013 to HUF 7.0 billion in Q1 2014.

Energy-related payments in Hungary decreased (from HUF 16.5 billion in Q1 2013 to HUF 13.2 billion in Q1 2014) in line with the decrease in revenues, due to the decrease in system usage fees and energy purchase prices, as well as the lower gas consumption due to the milder winter.

Agent commissions remained broadly stable quarter over quarter.

Bad debt expenses increased significantly by 90.1% from HUF 1.7 billion in Q1 2013 to HUF 3.2 billion in Q1 2014, primarily due to the waiving of certain receivables at T-Systems, and to the higher amount of impairment loss on receivables from equipment sales on instalments in Hungary.

3.1.4 Gross margin

Gross margin increased slightly from HUF 97.1 billion in Q1 2013 to HUF 98.0 billion in Q1 2014, as the decrease of direct costs exceeded the decrease in revenues.

3.1.5 Employee-related expenses

Employee-related expenses remained broadly flat quarter over quarter, and amounted to HUF 22.6 billion. The slight, 0.2% decrease is in line with the 1.4% decrease in average employee figure from Q1 2013 to Q1 2014, mostly counterbalanced by the 4% average salary increase in Hungary in Q2 2013.

3.1.6 Other operating expenses

Other operating expenses decreased by 2.6%, from HUF 36.3 billion in Q1 2013 to HUF 35.4 in Q1 2014.

The decrease is primarily due to lower fees and levies, which decreased from HUF 3.7 billion to HUF 2.0 billion as the future annual frequency fees were capitalized in Hungary in Q3 2013, therefore there are no such expenses in Q1 2014 in Hungary. The annual frequency fee related expenses in Q1 2014 are accounted for as amortization and finance expenses due to the capitalization of the present value of these (decreased) fees. Rental fees decreased from HUF 4.0 billion in Q1 2013 to HUF 3.5 billion in Q1 2014, due to the change in the rented IPTV set-top box contracts from operating to financial lease in Q2 2013.

These decreases were partly offset by the increase in utility- and telecom tax expenses in Hungary, which increased by HUF 1.1 billion, from HUF 12.9 billion in Q1 2013 to HUF 13.9 billion in Q1 2014. The telecom tax expense increased by HUF 0.9 billion to HUF 6.4 billion due to the higher tax charge from Q3 2013. In 2013, the tax imposed on fixed and mobile usage amounted to HUF 2 per minute and HUF 2 per SMS/MMS. The tax was capped at HUF 700 per month per calling number for private individuals' subscriptions, and was HUF 2,500 per month per calling number for non-private individual subscribers' subscriptions. From August 1, 2013, the tax measure was raised to HUF 3 per minute and HUF 3 per SMS/MMS for non-private individual subscribers' subscriptions and also the cap applicable to these subscriptions was raised to HUF 5,000 per month. The utility tax expense was also recognized, and amounted to HUF 7.5 billion in Q1 2014. The full annual tax liability is payable based on the taxable infrastructure in place on January 1, 2014. Utility tax expense increased by HUF 0.2 billion, as the tax base is slightly different compared to 2013.

Other service fees increased from HUF 5.3 billion in Q1 2013 to HUF 5.5 billion in Q1 2014, primarily due to our CRM billing project. The increase of material and maintenance expenses by 2.7% to HUF 6.9 billion, owing to higher network maintenance expenses in Q1 2014 also contributed to the increase. Marketing expenses amounting to HUF 2.3 billion, consultancy expenses in the amount of HUF 0.7 billion, and other expenses in the amount of HUF 0.6 billion remained broadly stable quarter over quarter.

3.1.7 Other operating income

Other operating income decreased from HUF 0.9 billion to HUF 0.5 billion quarter over quarter. The decrease is primarily due to lower compensation received for damages and for relocation of own network sections in Q1 2014.

3.1.8 EBITDA

EBITDA increased from HUF 39.0 billion in Q1 2013 to HUF 40.5 billion in Q1 2014, primarily due to the higher gross margin in 2014.

3.1.9 Depreciation and amortization

Depreciation and amortization expenses remained broadly stable quarter over quarter, as higher depreciation in Hungary, due to the capitalization of the extended- and newly purchased spectrum licenses was counterbalanced by the lower depreciation of telecom equipment in Q1 2014, as a result of the extension of useful life of certain equipment at the end of 2013.

3.1.10 Operating profit

Operating profit increased from HUF 14.2 billion in Q1 2013 to HUF 16.1 billion in Q1 2014 for the reasons described above.

3.1.11 Net financial result

Net financial expenses decreased by 21.9%, from HUF 7.7 billion in Q1 2013 to HUF 6.0 billion in Q1 2014. The improvement was primarily due to the considerably lower net loss on foreign exchange translation and hedges. Lower interest expenses also contributed to the decrease, due to the lower average interest rate, although our net debt level increased significantly quarter over quarter.

3.1.12 Income tax

The income tax expense increased from HUF 3.6 billion in Q1 2013 to HUF 5.1 billion in Q1 2014. The 41.5% increase is primarily due to the 54.5% higher profit before tax. Local business tax in Hungary represents a rather flat amount of tax expense, levied on the gross margin of the Hungarian companies, consequently, the 54.5% higher profit before tax should normally result in a lower increase of the income tax expense than apparent from the quarter over quarter amounts.

The higher than expected effective tax rate in Q1 2014 is primarily due to the significant change in the Macedonian income tax law, which introduced a 10% profit tax charged on dividend declaration in Macedonia (regardless of the owners of the companies) effective from January 2014. Up to December 2013 we had been recognizing deferred tax liabilities (income tax expense) accruing on the profits of the Macedonian entities on expected dividends to be collected by MT Plc., however, these deferred taxes had been recognized in proportion to our effective ownership in Makedonski Telekom as the tax charged on dividend distribution had practically only applied to dividend distribution from Macedonia to Hungary. With this change of the income tax law, the tax was extended to the whole amount of the dividend payments of T-Mobile Macedonia and Makedonski Telekom. For the above reasons, the income tax charge we had to recognize in Q1 2014 was higher by HUF 1.1 billion than the amount of the deferred tax liability (accrued on the profits) we released. This additional net tax expense is, however, fully counterbalanced by the decrease of the profit attributable to non controlling interests (see below), i.e. this change had no impact on the profit attributable to the owners of the Company.

3.1.13 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests in Q1 2014 decreased by 86.9% compared to the same period in 2013. The decrease was predominantly due to the change in the income tax law in Macedonia (see above), resulting a decrease of HUF 1.1 billion in the profit attributable to non-controlling interests. This decrease was only slightly offset by the improving results of our subsidiary in Montenegro.

3.1.14 Cash flows

HUF millions	Q1 2013	Q1 2014	Change
Operating cash flow	13,003	25,263	12,260
Investing cash flow	(7,706)	(27,248)	(19,542)
Less: Proceeds from other financial assets - net	(12,716)	1,992	14,708
Investing cash flow excluding Proceeds from other financial assets – net	(20,422)	(25,256)	(4,834)
Repayment of other financial liabilities	(118)	(11,430)	(11,312)
Free cash flow	**(7,537)**	**(11,423)**	**(3,886)**
Proceeds from other financial assets - net	12,716	(1,992)	(14,708)
Proceeds from loans and other borrowings - net	13,591	12,246	(1,345)
Dividend paid to shareholders and Non-controlling interests	(10)	(4)	6
Exchange gains on cash and cash equivalents	828	288	(540)
Change in cash and cash equivalents	**19,588**	**(885)**	**(20,473)**

Free cash flow

Operating cash flow

Net cash generated from operating activities amounted to HUF 25.3 billion in Q1 2014, compared to HUF 13.0 billion in Q1 2013. Main reasons for the increase of HUF 12.3 billion were the following:

- HUF +2 billion higher EBITDA
- HUF +10 billion positive impact due to vendor factoring. Payments to trade creditors in Q1 2014 were lower as a result of the reclassification of factored vendor payments to financial cash flow in Q1 2014. There were no such factoring transactions in Q1 2013.
- HUF +3 billion positive impact due to lower increase of receivables in Q1 2014 owing to the lower intensity of 0-24 equipment sale (smart phones, TV, tablet, etc.) in Q1 2014
- HUF -2 billion negative impact due to higher interest paid on loans in Q1 2014

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF -25.3 billion in Q1 2014, compared to HUF -20.4 billion in 2013. Main reasons for the HUF 4.9 billion higher cash outflow were the following:

- HUF -4 billion negative impact mainly due to higher investment in 3G/LTE networks and NGFA in Q1 2014
- HUF -1 billion mainly due to higher amount of cash payments to capex creditors in Q1 2014

Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF -0.1 billion in Q1 2013 to HUF -11.4 billion in Q1 2014. Main reasons for the significantly higher payments of HUF 11.3 billion were the following:

- HUF -10 billion payment in 2014 from vendor factoring in Q4 2013; there was no such factoring or payment in Q1 2013
- HUF -1 billion payment on annual frequency fees in Q1 2014 (recognized as financial liability in Q3 2013). There were no such payments in financial cash flow in Q1 2013

Free cash flow (FCF) changed from HUF -7.5 billion in Q1 2013 to HUF -11.4 billion in Q1 2014 due to the reasons described above.

Proceeds from other financial assets - net

Proceeds from other financial assets - net decreased by HUF 14.7 billion. Main reasons for the decrease were the following:

- HUF -20 billion negative impact as lower amount of MKT's bank deposits over 3 months was converted into cash in Q1 2014 on a net basis
- HUF 6 billion less of CT's cash was invested as bank deposits over 3 months in Q1 2014 on a net basis

Proceeds from loans and other borrowings - net

Net loan proceeds were slightly lower in Q1 2014

Dividend paid to shareholders and Non-controlling interests

No dividend payments were made from current year's declarations in the first quarter either in 2013 or 2014.

Exchange gains on cash and cash equivalents

Lower exchange gain on cash was due to the lower average amount of foreign currency cash in Q1 2014 than in Q1 2013, even though the depreciation of HUF was similar in the periods.

3.1.15 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	Q1 2013	Q1 2014
Total Telekom Hungary revenues	116,574	113,656
Less: Telekom Hungary revenues from other segments	(7,382)	(6,512)
Telekom Hungary revenues from external customers	**109,192**	**107,144**
Total T-Systems Hungary revenues	28,083	27,300
Less: T-Systems Hungary revenues from other segments	(2,923)	(3,474)
T-Systems Hungary revenues from external customers	**25,160**	**23,826**
Total Macedonia revenues	14,843	13,392
Less: Macedonia revenues from other segments	(6)	(21)
Macedonia revenues from external customers	**14,837**	**13,371**
Total Montenegro revenues	7,415	7,555
Less: Montenegro revenues from other segments	(7)	(5)
Montenegro revenues from external customers	**7,408**	**7,550**
Total consolidated revenue of the segments	156,597	151,891
Measurement differences to Group revenue	12	2
Total revenue of the Group	**156,609**	**151,893**
Segment results (EBITDA)		
Telekom Hungary	27,267	29,150
T-Systems Hungary	3,464	3,195
Macedonia	5,534	5,427
Montenegro	2,730	2,706
Total EBITDA of the segments	**38,995**	**40,478**
Measurement differences to Group EBITDA	32	50
Total EBITDA of the Group	**39,027**	**40,528**
Total depreciation and amortization of the Group	(24,779)	(24,434)
Total operating profit of the Group	**14,248**	**16,094**

3.2.2 Telekom Hungary

HUF millions	Q1 2013	Q1 2014	Change	Change (%)
Voice revenues	35,850	35,577	(273)	(0.8%)
Non-voice revenue	12,301	12,924	623	5.1%
Equipment revenues	7,408	6,734	(674)	(9.1%)
Other mobile revenues	1,100	2,460	1,360	123.6%
Total mobile revenues	**56,659**	**57,695**	**1,036**	**1.8%**
Voice revenues	14,825	13,000	(1,825)	(12.3%)
Internet revenues	10,164	10,247	83	0.8%
TV revenues	7,741	8,454	713	9.2%
Equipment revenues	1,817	1,218	(599)	(33.0%)
Other fixed line revenues	9,716	9,124	(592)	(6.1%)
Total fixed line revenues	**44,263**	**42,043**	**(2,220)**	**(5.0%)**
SI/IT revenues	315	409	94	29.8%
Revenue from Energy Services	15,337	13,509	(1,828)	(11.9%)
Total revenues	**116,574**	**113,656**	**(2,918)**	**(2.5%)**
Direct cost	**(44,196)**	**(40,161)**	**4,035**	**9.1%**
Gross margin	**72,378**	**73,495**	**1,117**	**1.5%**
Telecom tax	(4,647)	(5,132)	(485)	(10.4%)
Utility tax	(6,812)	(6,950)	(138)	(2.0%)
Other operating expenses (net)	(33,652)	(32,246)	1,406	4.2%
EBITDA	**27,267**	**29,167**	**1,900**	**7.0%**
Segment Capex	**13,524**	**15,185**	**1,661**	**12.3%**

Revenues

Total revenues in the Telekom Hungary segment decreased in Q1 2014 compared with the same quarter in the previous year due to considerably lower revenues from energy services as well as decreased fixed and mobile voice and fixed and mobile equipment revenues. These decreases were mitigated by higher TV, mobile internet and other mobile revenues.

Mobile services	Q1 2013	Q1 2014	change %
Mobile penetration [1]	116.1%	116.9%	n.a.
Mobile SIM market share [2]	46.3%	46.3%	n.a.
Number of customers (RPC)	**4,845,466**	**4,877,960**	**0.7%**
Postpaid share in the RPC base	47.5%	48.7%	n.a.
MOU	**156**	**159**	**1.9%**
ARPU (HUF)	**3,245**	**3,333**	**2.7%**
Postpaid	5,366	5,583	4.0%
Prepaid	1,266	1,210	(4.4%)
Churn rate	18.0%	18.2%	n.a.
Postpaid	16.0%	13.3%	n.a.
Prepaid	19.9%	22.9%	n.a.
Ratio of non-voice revenues in ARPU	25.5%	26.6%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	5,755	5,703	(0.9%)
Average retention cost (SRC) per retained customer (HUF)	13,714	13,935	1.6%
Number of mobile broadband subscriptions [3]	**1,428,624**	**1,715,330**	**20.1%**
Mobile broadband market share based on total number of subscriptions [3]	**45.6%**	**44.8%**	**n.a.**
Population-based outdoor 3G coverage	80.7%	82.9%	n.a.
Population-based outdoor LTE coverage	27.4%	44.6%	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) In Q1 2014, mobile Internet data are available only for January 2014 due to definition update by NMIAH

Mobile revenues increased in Q1 2014 versus Q1 2013 due to higher 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. These increases were partly offset by the decrease in equipment revenues driven by lower average prices.

Fixed line services	Q1 2013	Q1 2014	change %
Voice services			
Total voice access [1]	1,449,349	1,425,855	(1.6%)
Total outgoing traffic (thousand minutes)	855,649	743,127	(13.2%)
Blended MOU (outgoing) [2]	196	174	(11.4%)
Blended ARPU (HUF) [2]	2,792	2,638	(5.5%)

(1) Restated, due to change in calculation methodology
(2) Including PSTN, VoIP and VoCable.

Fixed line voice revenues declined by 12.3% in Q1 2014 compared to Q1 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 increasing 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. Our Hoppá tariff package was very successful, generating 638,569 subscribers by the end of March 2014. The vast majority of customers choosing this package signed a 2-year loyalty contract; therefore, this offer proves to be a very effective tool in decreasing fixed line customer churn in Hungary. Our integrated fixed and mobile offer, the Paletta tariff package is subscribed to by 46,141 customers as at March 31, 2014.

Internet services	Q1 2013	Q1 2014	change %
Blended retail broadband market share [1]	**37.0%**	**37.5%**	**n.a.**
Number of retail DSL customers	501,245	523,489	4.4%
Number of cable broadband customers	254,540	290,353	14.1%
Number of fiber optic connections	44,811	53,080	18.5%
Total retail broadband customers	**800,596**	**866,922**	**8.3%**
Blended broadband ARPU (HUF)	3,702	3,421	(7.6%)
Number of wholesale DSL access	83,477	69,040	(17.3%)

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

Internet revenues increased by 0.8% and amounted to HUF 10.2 billion in Q1 2014. The increase was mainly owing to higher revenues from content services. As for the access revenues increase in the number of retail broadband customers could not fully compensate for the decrease in wholesale connections and the effects 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.

TV services	Q1 2013	Q1 2014	change %
Blended TV market share [1][2]	**25.6%**	**26.1%**	**n.a.**
Number of IPTV customers	336,606	406,398	20.7%
Number of satellite TV customers	296,226	308,023	4.0%
Number of cable TV customers	213,636	183,120	(14.3%)
Total TV customers	**846,468**	**897,541**	**6.0%**
Blended TV ARPU (HUF)	3,073	3,069	(0.1%)

(1) Data relates to Magyar Telekom Plc. based on NMHH reports.
(2) Market share for Q1 2014 based on NMHH report February 2014

IPTV and satellite TV revenues increased in Q1 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	Q1 2013	Q1 2014	change %
Electricity points of delivery	100,108	106,794	6.7%
Gas points of delivery	68,039	67,451	(0.9%)

Energy services revenues decreased by HUF 1.8 billion in Q1 2014 versus Q1 2013, partly due to the lower gas consumption during the mild winter compared to a year earlier. In addition, universal service provider price reduction from November 2013 also contributed to the revenue decrease.

EBITDA

EBITDA of the Telekom Hungary segment increased by 7.0% in Q1 2014 versus Q1 2013, the main reason for which is that the higher gross margin was coupled with lower fees and levies in Q1 2014, due to the capitalization of the annual frequency fees in Q3 2013.

Segment Capex

Segment Capex increased by HUF 1.7 billion mainly due to higher spending on 3G/LTE investments in Q1 2014.

3.2.3 T-Systems Hungary

HUF millions	Q1 2013	Q1 2014	Change	Change (%)
Mobile voice revenues	3,482	3,697	215	6.2%
Non-voice revenue	2,206	2,311	105	4.8%
Other mobile revenues	850	848	(2)	(0.2%)
Total mobile revenues	**6,538**	**6,856**	**318**	**4.9%**
Fixed voice revenues	2,139	1,944	(195)	(9.1%)
Internet revenues	618	577	(41)	(6.6%)
Data revenues	2,408	2,091	(317)	(13.2%)
Other fixed line revenues	590	406	(184)	(31.2%)
Total fixed line revenues	**5,755**	**5,018**	**(737)**	**(12.8%)**
SI/IT revenues	15,790	15,426	(364)	(2.3%)
Total revenues	**28,083**	**27,300**	**(783)**	**(2.8%)**
Direct cost	**(16,795)**	**(15,341)**	**1,454**	**8.7%**
Gross margin	**11,288**	**11,959**	**671**	**5.9%**
Telecom tax	(882)	(1,304)	(422)	(47.8%)
Utility tax	(509)	(526)	(17)	(3.3%)
Other operating expenses (net)	(6,433)	(6,951)	(518)	(8.1%)
EBITDA	**3,464**	**3,178**	**(286)**	**(8.3%)**
Segment Capex	**311**	**743**	**432**	**138.9%**

Revenues

The total revenue of T-Systems Hungary decreased by 2.8% in Q1 2014 compared to Q1 2013 due to the lower fixed line and SI/IT revenues.

Mobile services	Q1 2013	Q1 2014	change %
Number of customers (number or SIM cards)	482,898	516,023	6.9%
Churn rate	10.4%	15.0%	n.a.
MOU	282	256	(9.2%)
ARPU (HUF)	3,960	3,872	(2.2%)
Ratio of non-voice revenues in ARPU	39.0%	38.7%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	3,232	3,176	(1.7%)
Number of mobile broadband subscriptions [1]	93,786	132,840	41.6%

(1) In Q1 2014, mobile Internet data are available only for January 2014 due to definition update by NMIAH

Mobile voice revenues increased by 6.2% in Q1 2014 versus Q1 2013, predominantly due to the revenues from connection fee introduced in November 2013. The higher average customer base also led to higher voice-retail revenues, compensated by decreased MOU and lower average price per minute.

Fixed line services	Q1 2013	Q1 2014	change %
Voice services			
Total voice access[1]	70,098	68,289	(2.6%)
Total outgoing traffic (thousand minutes) [1]	69,793	69,356	(0.6%)
MOU (outgoing) [1]	333	336	0.8%
ARPU (HUF) [1]	8,732	8,308	(4.9%)
Internet services			
Number of retail broadband access [1]	14,231	12,583	(11.6%)
Blended broadband ARPU (HUF) [1]	14,641	14,802	1.1%

(1) Restated, due to change in calculation methodology

Fixed line voice revenues decreased by 9.1% caused by the erosion both in the customer base and traffic quarter over quarter. Fixed line data revenues were lower, as a result of a lower number of leased lines, and lower narrowband data traffic in Q1 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 2.3% decrease in SI/IT revenues quarter over quarter resulted mainly from the decline in revenues from outsourcing, coupled with fewer large application and infrastructure projects in Q1 2014.

EBITDA

EBITDA decreased by 8.3% in Q1 2014 compared to Q1 2013, despite the higher gross margin, mainly due to the higher telecom tax and other expenses.

Segment Capex

Segment Capex increased by HUF 0.4 billion in Q1 2014 compared to Q1 2013, as a result of the higher amount of asset intensive services.

3.2.4 Macedonia

HUF millions	Q1 2013	Q1 2014	Change	Change (%)
Voice revenues	6,404	5,204	(1,200)	(18.7%)
Non-voice revenues	1,388	1,258	(130)	(9.4%)
Equipment revenues	548	589	41	7.5%
Other mobile revenues	179	150	(29)	(16.2%)
Total mobile revenues	**8,519**	**7,201**	**(1,318)**	**(15.5%)**
Voice revenues	3,346	3,074	(272)	(8.1%)
Internet revenues	1,435	1,467	32	2.2%
TV revenues	481	600	119	24.7%
Equipment revenues	402	365	(37)	(9.2%)
Other fixed line revenues	599	595	(4)	(0.7%)
Total fixed line revenues	**6,263**	**6,101**	**(162)**	**(2.6%)**
SI/IT revenues	61	90	29	47.5%
Total revenues	**14,843**	**13,392**	**(1,451)**	**(9.8%)**
Direct costs	**(4,497)**	**(3,689)**	**808**	**18.0%**
Gross margin	**10,346**	**9,703**	**(643)**	**(6.2%)**
Other operating expenses (net)	(4,812)	(4,276)	536	11.1%
EBITDA	**5,534**	**5,427**	**(107)**	**(1.9%)**
Segment Capex	**2,317**	**752**	**(1,565)**	**(67.5%)**

The 4.0% stronger MKD against the HUF on average in Q1 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 9.8% in HUF terms over the same period last year, mainly driven by the significant decrease in mobile- and fixed voice revenues.

Mobile services	Q1 2013	Q1 2014	change %
Mobile penetration[1]	109.0%	107.5%	n.a.
Market share of T-Mobile Macedonia[1][2]	48.2%	47.2%	n.a.
Number of customers	1,209,661	1,194,154	(1.3%)
Postpaid share in the customer base	31.8%	33.0%	n.a.
MOU	179	188	5.0%
ARPU (HUF)[]	2,136	1,750	(18.1%)

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

Mobile voice revenues decreased by 18.7% quarter over quarter, mainly driven by lower voice-wholesale revenues as a result of lower price per minute for domestic calls from November 2013, although the level of domestic incoming traffic increased. 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 reflecting the strong 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 GPRS traffic and increased usage of data tariff models.

Other mobile revenues remained fairly stable quarter over quarter.

Fixed line services	Q1 2013	Q1 2014	change %
Voice services			
Fixed line penetration	14.6%	13.0%	n.a.
Total voice access[1]	262,204	246,476	(6.0%)
Total outgoing traffic (thousand minutes)[1]	107,487	83,325	(22.5%)
Internet and TV services			
Retail DSL market share (estimated)	82.6%	82.2%	n.a.
Number of retail DSL customers	148,578	162,361	9.3%
Number of wholesale DSL access	27,267	26,191	(3.9%)
Number of total DSL access	175,845	188,552	7.2%
Number of IPTV customers	71,341	90,464	26.8%

(1) Restated, due to change in calculation methodology

Fixed-line revenues decreased by 2.6% quarter over quarter, mainly driven by the decrease in voice-retail and equipment revenues. Voice-retail revenues declined reflecting lower traffic, while equipment revenues decreased due to the lower volume of TV set and PC sales in Q1 2014. These decreases were partly counterbalanced by the increase in TV revenues, owing to the growing IPTV subscriber base.

EBITDA

EBITDA of our Macedonian operations decreased by 1.9% in Q1 2014 versus Q1 2013 in HUF terms due to the 6.2% lower gross margin, which was only partly offset by lower operating expenses.

Segment Capex

Segment Capex decreased by 67.5% in Q1 2014, mainly due to lower Capex on broadband network development.

3.2.5 Montenegro

HUF millions	Q1 2013	Q1 2014	Change	Change (%)
Voice revenues	1,960	1,867	(93)	(4.7%)
Non-voice revenue	915	955	40	4.4%
Other mobile revenues	195	261	66	33.8%
Total mobile revenues	**3,070**	**3,083**	**13**	**0.4%**
Voice revenues	2,320	2,204	(116)	(5.0%)
Internet revenues	864	952	88	10.2%
TV revenues	474	546	72	15.2%
Data revenues	417	333	(84)	(20.1%)
Other fixed line revenues	166	237	71	42.8%
Total fixed line revenues	**4,241**	**4,272**	**31**	**0.7%**
SI/IT revenues	104	200	96	92.3%
Total revenues	**7,415**	**7,555**	**140**	**1.9%**
Direct costs	**(1,946)**	**(2,051)**	**(105)**	**(5.4%)**
Gross margin	**5,469**	**5,504**	**35**	**0.6%**
Other operating expenses (net)	(2,739)	(2,798)	(59)	(2.2%)
EBITDA	**2,730**	**2,706**	**(24)**	**(0.9%)**
Segment Capex	**565**	**655**	**90**	**15.9%**

The 4.2% stronger EUR against the HUF on average in Q1 2014 versus Q1 2013 had a positive impact on the results of our Montenegrin operations in HUF terms.

Revenues

In HUF terms, total revenues increased by 1.9%, while in EUR terms, revenues decreased by 2.1% quarter over quarter, mainly due to the decrease in voice revenues.

Mobile services	Q1 2013	Q1 2014	change %
Mobile penetration [(1)]	155.8%	153.0%	n.a.
Market share of T-Mobile Crna Gora [(1)]	35.3%	35.1%	n.a.
Number of customers (RPC) [(1)]	340,850	332,833	(2.4%)
Postpaid share in the RPC base	41.0%	41.9%	n.a.
MOU	162	164	1.23%
ARPU (HUF)	2,743	2,729	(0.5%)

(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 in HUF terms remained stable, while in EUR terms mobile revenues decreased by 3.6%. Voice-retail revenues decreased mainly owing to the decrease in average customer base and lower outgoing traffic. Visitor revenues decreased as well, due to the lower number of visitors.

These decreases were partly offset by the increase in other mobile revenues, owing to higher handset sales due to successful smartphone marketing campaigns in Q1 2014.

Fixed line services	Q1 2013	Q1 2014	change %
Voice services			
Fixed line penetration	25.6%	25.1%	n.a.
Total voice access[1]	152,935	150,004	(1.9%)
Total outgoing traffic (thousand minutes)	69,973	59,399	(15.1%)
Internet and TV services			
Retail DSL market share (estimated)	82.4%	81.8%	n.a.
Number of DSL access	82,951	89,387	7.8%
Number of IPTV customers	55,237	59,616	7.9%

(1) Restated, due to change in calculation methodology.

Total fixed line revenues remained stable quarter over quarter in HUF terms, but in local currency (EUR) they decreased by 3.2%, as lower voice and data revenues were only partly counterbalanced by higher other fixed line and Internet revenues. Voice revenues decreased owing to lower traffic and lower average RPC quarter over quarter. Data revenues decreased due to lower revenues from leased lines.

These decreases were offset by the increase in other fixed revenues due to higher equipment revenues as a result of increased laptop and TV set sales, and higher TV revenues owing to the 7.9% increase in the IPTV subscriber base. Higher Internet revenues resulted from the 7.8% growth in ADSL subscriber number.

EBITDA

The EBITDA of our Montenegrin operation remained stable in HUF terms quarter over quarter. In EUR terms, EBITDA decreased by 4.7% quarter over quarter, mainly due to the lower gross margin.

Segment Capex

Segment Capex increased by 15.9% in Q1 2014 compared to the same quarter last year, owing to higher spending on the One Billing and CRM information system development project, as well as on network development.

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. Management believes that it is not probable that a significant liability will arise from these claims.

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 Q1 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 totalled 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, totalling 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 or 2013 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 March 31, 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 no longer able to compensate this decline. 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, moreover 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 in 2013. Even if improvement may prove only virtual, relief expected to sustain. Still market development is challenged by significant uncertainties in macroeconomic outlook 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 accepted by the

EU will remain for long, however the Hungarian Government may support infrastructure developments through tax allowances. GDP is expected to reach the pre-crisis level after 2014.

Macedonia

Economic activity in 2013 confirmed the expectations for a solid recovery in the domestic economy, with real growth in GDP of 3.1 %, mainly influenced by improved domestic and foreign demand from EU countries (main trade partners). The latest high frequency indicators for the first quarter of 2014 indicate the retention of these favorable trends, overall industry production in Macedonia grew by 5.2% in the first two months of 2014, supporting projections of 3.7% for economic growth this year. The gradual reduction of inflationary pressures is confirmed by the latest data on the cost of living, the average inflation for the first three months remains stable and amounts to 0.6 %.

Operating in a highly competitive environment in all telecommunication segments, we are focused on new services and on the retention of the existing customers.

Montenegro

Telecommunication operators are facing wide range of operational and financial challenges due to unfavorable market conditions: emerging telco and non-telco competition, rising regulatory pressure, unfavorable socio-economic conditions and fast-changing customer needs and expectations.

The Montenegrin market is characterized by strengthening broadband competition in the fixed market, especially by cable operators, and evolving X-Play/Fixed- Mobile convergence competition. 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. In the highly penetrated mobile market there is fierce price competition.

The country's debt is close to the EU limit with 56.5% of GDP, which coupled with moderate growth (+3.5%) is a real burden to the economy. The government introduced extensive fiscal adjustments like crisis tax of 1 EUR monthly on SIM cards and Pay TV subscriptions (which ended at the end of 2013), freeze of pensions and public wages, personal tax rate increase, VAT increase from 17% to 19%. In addition, restrictive credit policy by the banks, bankruptcy of the indebted Aluminum industry giant and rising private debt in the real sector will 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 2013. 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 to become the most highly regarded service company in an extended market of telecommunications and related industries. To accelerate our efforts, we have developed a business and operating model based on our strategic imperatives to innovate, grow and extend the core business – thus growing revenue whilst becoming a more agile organization. This enables us to exploit and develop our extended customer base, improve efficiency and capture growth opportunities that secure stable cash generation in the long run. The strategic objective in the mid-term is to become more agile, enhance efficiency, simplify the product and services portfolio and increase process automation. 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.

Macedonia

Makedonski Telekom and T-Mobile MK are the leading telecommunications providers in all segments, Mobile, Fixed Voice, Fixed Data and Pay-TV.

Based on current potential and strength, our ambition is to secure the core and extend the business, driving into improved unique market positioning. Therefore we continue toward ensuring technology leadership and increasing value for customers.

Makedonski Telekom's aspirations of sustainable cash flow generation based on stabilized revenue and remaining market leader are planned to be enabled with radical business model transformation.

Makedonski Telekom's strategic goals to be achieved in 2014:

- Sustain revenue & strengthen leadership position;
- Aggressive business-to-business (B2B) and information and communication technology (ICT) growth, improving capabilities and organization;
- Committed to create new value, to grow with innovations;

- Integration, being one team both externally and internally;
- Transformation toward increased operational efficiency and exploit new revenue opportunities;
- Technology based leadership, optimized network coverage and the best 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, threat of new taxes, 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 2.1 percent for 2014. The unemployment rate stays around ten percent, and the volatility of the Hungarian currency is expected to continue.

In order to balance the government 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 Q1 2014 was HUF 6.4 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. We expect that further currently unused frequency bands will be tendered in 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. LTE 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 IT market is highly fragmented. In the mobile market, the environment is very competitive and price sensitive. Flat tariffs in postpaid segment with unlimited on–net traffic and internet are initiated by market followers. Stronger growth expected in Confined Connectivity mobile data segment, as Full Connectivity will partly suffer from liberalization and cable competition. Mobile network modernization (LTE) is ongoing. Telenor already launched pilot and CT also had a soft LTE 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 unfavourable 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 in 2014. 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 MNO launched full flat mobile tariff packages, which could have negative impact on revenues. Mobile termination rates are expected to be reduced further in the future. The market entry of the 4th mobile operator is not likely in 2014.

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 other cost efficiency measures for 2014 at the Hungarian operations. According to the terms of the agreement, the Company plans to make around 250 employees redundant, the majority of these employees had left the Company by the end of 2013. There will not be any general increase in the base salaries for parent company employees during 2014. These measures will reduce our Total Workforce Management ("TWM") related costs.

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., LTE, 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, May 8, 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, underlying EBITDA, underlying 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.