PRESS RELEASE
DATE August 5, 2015

Magyar Telekom results for the second quarter of 2015

Magyar Telekom today reported its consolidated financial results for the second quarter and first half of 2015, in accordance with International Financial Reporting Standards (IFRS).

Highlights:

- **Revenues in the second quarter of 2015 rose by 4.4% year-on-year from HUF 151.8 billion to HUF 158.5 billion,** mostly driven by higher SI/IT and energy revenues, but fixed revenues increased as well. Increased equipment and mobile data revenues driven by Group-wide 4G push were offset by lower mobile retail and wholesale voice revenues resulting from the sharp decrease in Mobile Termination Rates (MTRs) in Hungary as of April 1, 2015. Energy revenue growth was due to increased electricity and gas sales volumes in the business segment. Fixed broadband and TV revenue increases were driven by successful customer acquisitions and up-selling campaigns as well. SI/IT revenues increased across all segments of the Group and a couple of major project wins at T-Systems resulted in a 14% increase in SI/IT revenues.

As for the Hungarian operations, total revenues in both segments increased in the second quarter and the consolidation of GTS Hungary's revenues from April 1, 2015 also contributed to the outstanding performance on the fixed side. In Macedonia, the merger of T-Mobile Macedonia and Makedonski Telekom gained approval in June and we continue seeing positive signs in the continued slowdown in revenue decline during the second quarter. Regulatory pressure and intense competition were mostly responsible for declines in mobile and fixed line revenues in Montenegro.

- **Total direct costs increased in the second quarter of 2015 by 11.6% to HUF 56.1 billion,** largely due to higher SI/IT and energy service related costs, as well as increased cost of equipment sold (included in other direct costs). At the same time, interconnection costs were down by close to 40% due to the MTR cut in Hungary from HUF 7.06 to HUF 1.71 per minute. The Hungarian fixed High Speed Internet roll-out program has been launched but the vast majority of the planned spending is still ahead of us.

Gross margin increased slightly, from HUF 101.5 billion in the second quarter of 2014 to HUF 102.4 billion in the second quarter of 2015, reflecting ARPU increases in mobile (excl. MTR effect), fixed line broadband and TV driven by successful up-selling activities and price increases.

- **EBITDA in Q2 2015 improved by 5.2% year-on-year to HUF 52.2 billion,** driven by higher gross margins, savings in employee-related expenses and increased other operating income thanks to higher income from customer overpayments.

- **Depreciation and amortization expenses went up by 8.9% to HUF 26.7 billion,** driven by the amortization of telecom licenses related to the new frequency usage rights acquired in October 2014 and the activation of the new billing system related software.

- **Net financial expenses improved from HUF 7.8 billion to HUF 6.8 billion,** as a result of gains on the fair valuation of derivatives, driven by a 5.32% weakening of the HUF against the EUR in the reporting period compared to a 1.02% weakening in the same quarter of 2014. On the other hand, due to FX rate fluctuations we realized losses on foreign exchange translation, partially counterbalancing the gain on the fair valuation of derivatives.

- **Income tax expense slightly increased from HUF 4.8 billion to HUF 5.1 billion in the second quarter of 2015**. Both higher corporate income taxes and higher Hungarian local business tax are in line with the increased profit before tax level of the period compared to the same quarter of last year. Average effective tax rate remained unchanged at 30%.

- **Profit attributable to the owners of the parent company (net income) increased from HUF 11.6 billion to HUF 12.5 billion,** thanks to the significant improvement in EBITDA and net financial results, partly offset by a rise in depreciation and amortization.

- **Investments in tangible and intangible assets (CAPEX) increased by HUF 1.8 billion to HUF 35.1 billion in the first half of 2015,** driven by additional spending on the Hungarian fixed High Speed Internet roll-out program and higher investment relating to the PSTN migration. In the first half of 2015, Telekom Hungary accounted for HUF 30.1 billion of the total CAPEX, while HUF 1.9 billion was associated with T-Systems Hungary. The Macedonian and Montenegrin operations accounted for HUF 1.8 billion and HUF 1.3 billion of the investments, respectively.

- **Free cash flow** (FCF defined as operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets and repayment of other financial liabilities) **declined from HUF 0.7 billion in the first half of 2014 to HUF -1.4 billion in the same period of 2015.** Operating cash flow and repayment of other financial liabilities improved, however, the significant increase in investing cash flow driven by the acquisition of GTS Hungary (HUF 14.2 billion with HUF 1.8 billion cash included in the company) offset this additional net cash amount in the first half of 2015.

- **Net debt rose from HUF 374.6 billion** at the end of the second quarter of 2014 to **HUF 447.2 billion** at the end of June 2015, but remained broadly stable compared to year-end 2014. The year-on-year increase primarily reflects the frequency license payments and the capitalization of the present value of the future annual frequency fees in Q4 2014. The **net debt ratio** (net debt to total capital) was **45.6% at the end of the second quarter of 2015.**

Christopher Mattheisen, CEO commented:

"I am delighted to report that the positive trends in our operations achieved during 2014 have continued into the first half of 2015. Our Group revenues increased by 3.9% compared to the first half of last year, driven by continued improvement in all of our major revenue streams. Our mobile revenue is up by an overall 2% following the Group-wide 4G push. We saw a slight increase in fixed line revenues due to our continued focus on triple play customers and network improvement. System integration and IT revenues grew in every segment, altogether by 11% in line with our strategy. Our EBITDA performance improved by 5% year on year in the first half of this year, thanks to an increase in gross margin and significant savings in employee related expenses. The Group Capex for the first half of 2015 was only 5% higher compared to the same period of 2014, despite the commencement of the Hungarian fixed High Speed Internet roll-out program. However, the vast majority of the planned investment is still ahead of us and we expect a significant pick-up in Capex in the second half of this year.

Drilling down into the details of our operations, both Hungarian segments increased their revenues despite the 76% cut in mobile termination rates effective from April 1, 2015. Revenues at Telekom

Hungary for the second quarter were up by almost 4%, driven by a strong fixed line performance and a significant increase in energy revenues driven by the business sub-segment. On the mobile side, strong broadband and equipment sales were almost enough to compensate for the sharp MTR cut. The increase in our contracted mobile RPC was driven by lower churn and higher prepaid to postpaid migration underpinned by strong demand for mobile data. Magyar Telekom's 4G outdoor population coverage in Hungary has now surpassed 90% penetration which puts us ahead of many of our European peers. We managed to achieve significant growth in both fixed broadband and TV revenues thanks to the ever larger customer bases and higher ARPUs. Higher fixed wholesale and data revenues were largely a reflection of the GTS acquisition. Our focus has remained to offer quality home services on superior networks, as we initiated our extensive High Speed Internet network roll-out program. The erosion in our fixed voice customer base has decreased to less than 1% this quarter thanks to the smart bundling strategy we have executed. Our very good results in the residential and SME sub-segments were coupled with a 3% revenue improvement at T-Systems Hungary. We won a couple of large projects within the government and healthcare segments, resulting in a HUF 2 billion increase in system integration and IT revenues, which more than helped to offset revenue weakness in telco, which was principally for regulatory reasons.

Concerning our foreign operations, the merger of T-Mobile Macedonia and Makedonski Telekom has been approved. Our revenue fell by 5% and EBITDA decline was 3% in forint terms. As the mobile market continues to show signs of stabilization, the competition office approved the merger of the country's other two mobile players into one integrated player, as both of them had previously acquired fixed line assets. In Montenegro, a steep increase in SI/IT revenues almost compensated for the decline in messaging and prepaid mobile revenues, which when combined with the continuing regulatory pressures within fixed voice and broadband, resulted in a marginal decline of 1% in overall revenue and a 7% drop in EBITDA.

In terms of our Group financial targets, we maintain our revenue, EBITDA and Capex guidance."

For detailed information on Magyar Telekom's Q2 2015 results please visit our corporate website (www.telekom.hu/about_us/investor_relations) or the website of the Budapest Stock Exchange (www.bse.hu).