PRESS RELEASE
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Magyar Telekom results for the fourth quarter 2013

Magyar Telekom today reported its consolidated financial results for the fourth quarter and full year of 2013, in accordance with International Financial Reporting Standards (IFRS).

Highlights:

▪ **Revenues increased slightly by 0.5% in the fourth quarter of 2013 compared to the same period of 2012, from HUF 164.9 billion to HUF 165.7 billion.** This reflects higher energy and mobile non-voice revenues which have been mitigated by lower Hungarian and Macedonian fixed and mobile voice revenues.

▪ **EBITDA increased by 4.7%, from HUF 37.0 billion to HUF 38.8 billion.** The increase is largely attributed to savings in other operating expenses, including marketing, consultancy, rental fees and fees and levies, the latter two reflecting the capitalization of the set-top-boxes and the annual frequency fees, completed in earlier periods in 2013. Lower severance in relation to the headcount reduction programs as well as lower operating taxes also supported EBITDA developments.

▪ **Depreciation and amortization expenses declined from HUF 29.0 billion to HUF 27.0 billion** as the RAN modernization projects in both Macedonia and Hungary resulted in a shortened useful life of the affected equipment leading to increased depreciation in 2012. This decrease was only partly counterbalanced by higher depreciation in Hungary relating to the extended- and newly purchased spectrum licenses as well as the capitalization of annual frequency fees.

▪ **Net financial expenses decreased from HUF 8.4 billion to HUF 8.0 billion.** The negative impact of higher overall debt levels was offset by lower average interest rates and lower net FX losses as during Q4 2013, HUF strengthened by 0.5% against the EUR resulting in some slight FX gains while during Q4 2012, HUF weakened by 2.7% leading to FX losses.

▪ **Income tax expense increased from HUF 0.8 billion in Q4 2012 to HUF 2.5 billion in Q4 2013** in line with the higher profit before tax. Other income taxes (including the local business tax and the innovation fee) remained stable at HUF 2.0 billion as the basis for their calculation is statutory gross margin rather than profit before tax. Consequently, **the effective tax rate** for Q4 2013 stood at **66.5%.**

▪ **Profit attributable to the owners of the parent company (net income) increased from a loss of HUF 1.6 billion in the fourth quarter of 2012 to a profit of HUF 0.3 billion in the fourth quarter of 2013,** primarily due to the higher EBITDA which was partly offset by the higher income tax expense.

▪ **Net cash generated from operating activities decreased by HUF 13.6 billion year-on-year, from HUF 145.2 billion in 2012 to HUF 131.6 billion in 2013.** The decline is mainly driven by the HUF 15.4 billion lower EBITDA year-on-year. Although working capital also deteriorated during the period, it was offset by the improvement in other cash flows from operations such as the reverse factored vendor contracts in 2013 and the Macedonian real estate transaction in 2012, among others.

▪ **Investment in tangible and intangible assets (Capex) increased by HUF 42.8 billion in 2013 compared to 2012, from HUF 103.3 billion to HUF 146.1 billion.** The significant increase is primarily attributable to the extension of frequency licenses in Hungary during Q3 2013, amounting to HUF 38.0 billion, and the acquisition of the 4G license in Macedonia for HUF 3.1 billion. These were coupled with the capitalization of the present value of the future annual frequency fees amounting to HUF 17.5 billion. Excluding these, as well as the 900 MHz spectrum license fee booked in Q1 2012 which made up HUF 10.9 billion, Capex decreased by HUF 4.9 billion, largely reflecting the impact of the HUF 10.7 billion non-cash Capex accounted for in 2012 in relation to the Macedonian real estate exchange transaction. In 2013, Telekom Hungary accounted for HUF 122.2 billion of total Capex while HUF 4.4 billion is associated to T-Systems Hungary. In Macedonia and Montenegro, Capex for 2013 was HUF 15.2 billion and HUF 4.3 billion, respectively.

▪ **Free cash flow:** we have modified the definition of free cash flow to better reflect the real cash generation of the Company as due to the different financial structures used, some operation related items are accounted for in financial cash flow. From the previous definition of operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets we modified it to operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets and repayment of other financial liabilities. Consequently, we have revised earlier periods' free cash flows. Free cash flow, based on the above definition **deteriorated in 2013 compared to 2012, from HUF 59.7 billion to HUF 0.6 billion.** This was due to both lower operating cash flow and higher Capex and the fact that the proceeds from the sale of Pro-M improved performance in 2012.

▪ **Net debt rose from HUF 273.1 billion at the end of 2012 to HUF 381.2 billion at the end of 2013.** The **net debt ratio** (net debt to total capital) was **43.8% at the end of 2013.** This reflects the increased financial liabilities recognized in relation to reverse factored vendor contracts as well as future annual frequency fees.

Christopher Mattheisen, CEO, commented:
"As expected, during 2013 we achieved revenue growth of 5% driven by an increasing contribution from SI/IT services and higher retail gas and electricity revenues. Through continued pursuit of our bundling strategy in the Telekom Hungary segment, we successfully reduced churn rates in traditional fixed voice to 2%. At the same time, we recorded strong growth in our market shares in both fixed internet and the TV segment, where through a combination of value enhancing acquisitions and organic growth we managed to gain the most TV subscribers on the market. In the recent months, the main highlights on the mobile market were the new unlimited tariff packages. Our 'Next' flat rate mobile packages were met with high demand from both new and existing customers, with successful upselling efforts softening pressure on ARPU levels.

In Macedonia, the competitive pressures did not ease during the fourth quarter and dampened the financial performance. However, profitability remained high with an EBITDA margin of 39%, and we were also the first operator in the country to launch 4G services at the beginning of December last year. In Montenegro, we managed to increase our share of the mobile voice market during the year, whilst also managing to maintain our market leader positions in the fixed voice, broadband and TV segments.

With a full year decline of just under 8%, EBITDA was somewhat ahead of our expectations thanks to better operational performance in Hungary. As planned, we reduced our Capex in 2013 by 5% to HUF 87.5 billion (excluding spectrum acquisitions and annual frequency fee capitalizations).

Looking ahead to 2014, we expect lower growth in retail energy and equipment sales to lead to a decline in our revenues of up to 3% compared to 2013. Our reported EBITDA is expected to decline by 3%-6% driven by the continued, albeit more gradual, shift in our revenue mix to lower margin services. Our Capex target (excluding any spectrum acquisitions and annual frequency fee capitalizations) for the year is around HUF 87 billion, which we plan to spend on projects geared towards enhancing future levels of efficiency, such as IP migration and integrated CRM and billing systems."

For detailed information on Magyar Telekom's Q4 and full year of 2013 results please visit our website (www.telekom.hu/about_us/investor_relations) or the website of the Budapest Stock Exchange (www.bse.hu).