PRESS RELEASE
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Magyar Telekom results for the first quarter 2014

Magyar Telekom today reported its consolidated financial results for the first quarter of 2014, in accordance with International Financial Reporting Standards (IFRS).

Highlights:

- **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.
- **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."

For detailed information on Magyar Telekom's Q1 2014 results please visit our corporate website (www.telekom.hu/about_us/investor_relations) or the website of the Budapest Stock Exchange (www.bse.hu).