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MAGYAR TELEKOM

INTERIM FINANCIAL REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2014

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Company name:	Magyar Telekom Plc.	Company address: e-mail address:	H-1013 Budapest Krisztina krt. 55. investor.relations@telekom.hu
IR contacts:	Position:	Telephone:	E-mail address:
Márton Lennert Rita Walfisch	Head of Investor Relations IR manager	+36-1-457-6084 +36-1-457-6036	lennert.marton@telekom.hu walfisch.rita@telekom.hu

Budapest – February 25, 2015 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the fourth quarter and full year of 2014, in accordance with International Financial Reporting Standards (IFRS).

1. HIGHLIGHTS

MAGYAR TELEKOM Group Financial Results - IFRS (HUF million, except indices)	Q4 2013 (Unaudited)	Q4 2014 (Unaudited)	Change (%)	1-12 months 2013 (Audited)	1-12 months 2014 (Unaudited)	Change (%)
Total revenues	**165,741**	**165,264**	**(0.3%)**	**637,521**	**626,447**	**(1.7%)**
Operating profit	**11,747**	**15,168**	**29.1%**	**74,721**	**80,574**	**7.8%**
Profit attributable to:						
Owners of the parent	253	1,540	n.m.	23,460	28,611	22.0%
Non-controlling interests	992	1,110	11.9%	5,395	3,413	(36.7%)
	1,245	**2,650**	**112.9%**	**28,855**	**32,024**	**11.0%**
Gross margin	98,013	97,423	(0.6%)	401,051	400,090	(0.2%)
EBITDA	38,753	41,862	8.0%	179,462	181,224	1.0%
EBITDA margin	23.4%	25.3%	n.a.	28.1%	28.9%	n.a.
Free cash flow				634	(13,774)	n.m.
Basic and diluted earnings per share (HUF)	**0.24**	**1.48**	**n.m.**	**22.51**	**27.45**	**21.9%**
CAPEX to Sales				**22.9%**	**29.4%**	**n.a.**
Net debt				**381,230**	**442,167**	**16.0%**
Net debt / total capital				**43.8%**	**45.7%**	**n.a.**
Number of employees (closing full equivalent)				**11,324**	**10,883**	**(3.9%)**

- **Revenues declined slightly in the fourth quarter of 2014 compared to the same period of 2013, from HUF 165.7 billion to HUF 165.3 billion** with a reduction in voice, energy and SI/IT revenues mitigated by an increase in mobile internet revenues and higher mobile equipment sales.
- **Employee-related expenses declined by HUF 4.2 billion in the fourth quarter of 2014** compared to the same period last year primarily driven by the different timing of recognition of the Parent Company's headcount reduction expenses resulting in a HUF 3.8 billion severance expense in the fourth quarter of 2013 as opposed to only HUF 0.9 billion in the fourth quarter of 2014.
- **Consequently, fourth quarter EBITDA increased by 8.0%, from HUF 38.8 billion to HUF 41.9 billion**.

Details of special, telecom and utility taxes* (HUF billion)	Q4 2013	Q4 2014	2013	2014
Telecom tax	6.7	6.5	23.9	25.8
Utility tax	-	0.2	7.4	7.6
Total	**6.7**	**6.7**	**31.4**	**33.5**

**Differences might occur due to rounding*

- **Depreciation and amortization expenses declined from HUF 27.0 billion to HUF 26.7 billion.** The increased depreciation and amortization costs related to the Hungarian spectrum licenses acquired in 2014 were counterbalanced by the extension of the useful lives of assets such as radio equipment in Hungary. Additionally, the shortened useful life of PSTN migration affected assets caused higher depreciation in Q4 2013 in Macedonia.
- **Net financial expenses declined moderately from HUF 8.0 billion to HUF 7.9 billion.** Higher interest expenses due to the capitalization of annual frequency fees were offset by lower losses generated on foreign exchange translation and fair valuation of derivatives due to the fact that during Q4 2013, HUF strengthened by 0.5% against the EUR, while during Q4 2014, HUF weakened against the EUR by 1.5%.

- **Income tax expense increased from HUF 2.5 billion to HUF 4.6 billion**. The primary cause of the increase is the one-time release of a deferred tax asset of HUF 2.5 billion in relation to our consolidated subsidiaries in Macedonia. The reason for this is twofold; the poor Makedonski Telekom share price performance in 2014 triggered a HUF 31 billion impairment in Stonebridge's statutory accounts on its investment in Makedonski Telekom, and in parallel, we also executed a capital reduction in Stonebridge. As a combined result, retained earnings of Stonebridge became deeply negative, leading to the release of a deferred tax asset recognized in prior years in relation to the investment in Stonebridge / Makedonski Telekom.
- **Profit attributable to the owners of the parent company** (**net income**) **increased from HUF 0.3 billion to HUF 1.5 billion** primarily due to the increase in EBITDA, which was partly offset by the higher income tax expense.
- **Investments in tangible and intangible assets (CAPEX) increased by HUF 38.3 billion, from HUF 146.1 billion in 2013 to HUF 184.4 billion in 2014.** The significant increase is primarily attributable to the difference in the initial cost of the frequency licenses and also the additional amount related to the capitalization of the present value of the related future annual frequency fees. In 2013, CAPEX included the initial license fees paid for the extension of the frequency licenses in Hungary amounting to HUF 38 billion as well as both the capitalization of the present value of the related future annual frequency fees of HUF 17.3 billion and the Macedonian spectrum license fee of HUF 3.1 billion. In comparison, in 2014, CAPEX included the initial license fees paid for the newly purchased frequency licenses in Hungary of HUF 58.7 billion and the capitalization of the present value of the related future annual frequency fees amounting to HUF 39.0 billion.
  Excluding these, CAPEX decreased by HUF 0.8 billion, from HUF 87.5 billion in 2013 to HUF 86.8 billion in 2014 as the reduction due to the change in the IPTV set-top box rental contracts resulting in financial lease CAPEX in 2013 was largely offset by the higher investments related to the 4G network in Hungary.
  In 2014, Telekom Hungary accounted for HUF 68.5 billion of total CAPEX while T-Systems Hungary accounted for HUF 4.7 billion. In Macedonia and Montenegro, CAPEX was HUF 9.0 billion and HUF 5.0 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) **declined from HUF 0.6 billion in 2013 to a deficit of HUF 13.8 billion in 2014** as the HUF 1.8 billion higher EBITDA and better working capital performance was counterbalanced by a HUF 22.0 billion higher cash capex reflecting the higher initial frequency license fee payments. Working capital improvements are mainly due to lower payments for severance from year end provisions as well as timing differences in vendor payments. At the same time, while in 2013 the cash flow lines were impacted by the reverse factoring of vendor invoices, in 2014 the agreements with some of our equipment vendors on temporarily extended payment terms resulted in similar impacts. The related invoices were recognized as financial liabilities resulting in lower additions to trade creditors, but increase in other cash flow from operation in the amount of HUF 11 billion in 2014. The payments of these vendor invoices will result in financial cash outflows in 2015 negatively impacting our free cash flow.
- **Net debt rose from HUF 381.2 billion** at the end of 2013 to **HUF 442.2 billion** at the end of 2014, reflecting primarily the HUF 58.7 billion frequency license payment and the capitalization of the present value of the future annual frequency fees in an amount of HUF 39 billion. The **net debt ratio** (net debt to total capital) rose to **45.7%** by the end of 2014.

Christopher Mattheisen, CEO commented:

"I am pleased to announce that the favorable trends we witnessed earlier in the year continued into the fourth quarter. As a result, we were able to further expand both our mobile and fixed line internet and TV subscriber base in Hungary, while ARPUs also continued to increase thanks to our successful bundling and rebalancing strategy. At the same time, in Macedonia, we started to see some signs of stabilization leading to a more moderate revenue and EBITDA decline. However, in Montenegro, the new regulatory measures increased pressure on fixed line voice revenues which could only be partly mitigated by improved operational efficiency.

On a full year basis, we were able to meet both our revenue and capex guidance and even slightly exceed our EBITDA target with a ca. 1% increase predominantly due to improved mobile and energy service margins in Hungary. We also reached some very important milestones during 2014, including becoming the number one provider on the pay TV market as well as strengthening our mobile technology competitiveness via 4G by securing crucial frequencies in the mobile spectrum tender.

Looking ahead to 2015, we aim to further strengthen our positions across all markets. These efforts will be supported by our agreement with Telenor Hungary on the sharing of mobile frequencies and developing and maintaining a shared 4G network in the 800 megahertz spectrum band in Hungary, as well as by the acquisition of GTS Hungary which we anticipate will improve our positions in the Hungarian fixed line business segment.

In terms of revenues, we intend to continue to mitigate pressure stemming from the voice revenue decline by migrating customers to bundled packages while revenues will also be supported by the consolidation impact of GTS. Consequently, we see a revenue increase of up to 3% in 2015 compared to 2014. Although we do expect improved efficiency performance at our Hungarian operation and a positive impact from the GTS acquisition, the pressure at our international operations and the ca. HUF 8 billion severance expense in relation to the headcount reduction program at the Parent Company are anticipated to lead to an overall decline of up to 3% in our reported EBITDA for the year. In terms of investments, after strengthening our technological leadership in the Hungarian mobile market during 2014, we now plan to execute a similar task in the fixed line segment to increase our competitiveness. Therefore, we expect capex of around HUF 105 billion for 2015 that will allow us to expand our high speed internet coverage from the current ca. 1.8 million households to over 2.2 million households. I am also pleased to share that, based on the current operating, regulatory and taxation environment and outlook coupled with the anticipated significant improvement in our free cash flow generation, we expect the Company to be able to pay at least HUF 15 dividend per share on 2015 earnings."

2015 public guidance:

	2014	Public guidance 2015
Revenue	HUF 626.4 billion	0-3% increase
EBITDA	HUF 181.2 billion	0-3% decline
Capex*	HUF 86.8 billion	ca. HUF 105 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)	Dec 31, 2014 (Unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	14,633	14,625	(8)	(0.1%)
Trade and other receivables	136,712	144,266	7,554	5.5%
Other current financial assets	28,615	23,690	(4,925)	(17.2%)
Current income tax receivable	896	899	3	0.3%
Inventories	12,478	13,749	1,271	10.2%
Non current assets held for sale	607	668	61	10.0%
Total current assets	**193,941**	**197,897**	**3,956**	**2.0%**
Non current assets				
Property, plant and equipment	493,619	487,778	(5,841)	(1.2%)
Intangible assets	381,199	478,486	97,287	25.5%
Investments in associates and joint ventures	5	0	(5)	(100.0%)
Deferred tax assets	238	155	(83)	(34.9%)
Non current financial assets	21,619	25,243	3,624	16.8%
Other non current assets	627	1,217	590	94.1%
Total non current assets	**897,307**	**992,879**	**95,572**	**10.7%**
Total assets	**1,091,248**	**1,190,776**	**99,528**	**9.1%**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	58,682	110,858	52,176	88.9%
Other financial liabilities	100,060	65,131	(34,929)	(34.9%)
Trade payables	103,549	110,361	6,812	6.6%
Current income tax payable	759	1,778	1,019	134.3%
Provisions	4,076	5,579	1,503	36.9%
Other current liabilities	40,097	36,129	(3,968)	(9.9%)
Total current liabilities	**307,223**	**329,836**	**22,613**	**7.4%**
Non current liabilities				
Financial liabilities to related parties	239,522	245,071	5,549	2.3%
Other financial liabilities	26,214	59,422	33,208	126.7%
Deferred tax liabilities	19,075	22,064	2,989	15.7%
Provisions	8,516	8,816	300	3.5%
Other non current liabilities	1,122	1,169	47	4.2%
Total non current liabilities	**294,449**	**336,542**	**42,093**	**14.3%**
Total liabilities	**601,672**	**666,378**	**64,706**	**10.8%**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,387	27,396	9	0.0%
Treasury stock	(307)	(307)	0	0.0%
Retained earnings	281,795	310,406	28,611	10.2%
Accumulated other comprehensive income	24,318	32,184	7,866	32.3%
Total Equity of the owners of the parent	**437,468**	**473,954**	**36,486**	**8.3%**
Non-controlling interests	52,108	50,444	(1,664)	(3.2%)
Total equity	**489,576**	**524,398**	**34,822**	**7.1%**
Total liabilities and equity	**1,091,248**	**1,190,776**	**99,528**	**9.1%**

2.2. Consolidated Statements of Profit or loss and other comprehensive income – fourth quarter

MAGYAR TELEKOM Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q4 2013 (Unaudited)	Q4 2014 (Unaudited)	Change	Change (%)
Revenues				
Voice - retail	40,876	39,774	(1,102)	(2.7%)
Voice - wholesale	6,723	6,880	157	2.3%
Voice - visitor	418	475	57	13.6%
Non-voice	17,566	19,072	1,506	8.6%
Equipment	11,254	15,130	3,876	34.4%
Other mobile revenues	1,916	3,044	1,128	58.9%
Mobile revenues	**78,753**	**84,375**	**5,622**	**7.1%**
Voice - retail	18,015	16,280	(1,735)	(9.6%)
Voice - wholesale	3,384	2,764	(620)	(18.3%)
Internet	13,271	13,986	715	5.4%
Data	4,730	4,423	(307)	(6.5%)
TV	9,648	10,439	791	8.2%
Equipment	2,571	1,838	(733)	(28.5%)
Other fixed line revenues	3,248	2,363	(885)	(27.2%)
Fixed line revenues	**54,867**	**52,093**	**(2,774)**	**(5.1%)**
System Integration/Information Technology revenues	18,223	16,828	(1,395)	(7.7%)
Revenue from Energy Services	13,898	11,968	(1,930)	(13.9%)
Total revenues	**165,741**	**165,264**	**(477)**	**(0.3%)**
Direct costs				
Mobile revenue-related payments	(23,705)	(27,331)	(3,626)	(15.3%)
Fixed line revenue-related payments	(11,522)	(11,482)	40	0.3%
SI/IT revenue-related payments	(11,489)	(10,008)	1,481	12.9%
Energy revenue-related payments	(14,369)	(12,437)	1,932	13.4%
Agent commissions	(2,975)	(3,056)	(81)	(2.7%)
Bad debt expense	(3,668)	(3,527)	141	3.8%
Direct costs	**(67,728)**	**(67,841)**	**(113)**	**(0.2%)**
Gross margin	**98,013**	**97,423**	**(590)**	**(0.6%)**
Employee-related expenses	(27,346)	(23,186)	4,160	15.2%
Other operating expenses	(33,424)	(33,525)	(101)	(0.3%)
Other operating income	1,510	1,150	(360)	(23.8%)
EBITDA	**38,753**	**41,862**	**3,109**	**8.0%**
Depreciation and amortization	(27,006)	(26,694)	312	1.2%
Operating profit	**11,747**	**15,168**	**3,421**	**29.1%**
Net financial result	(8,026)	(7,944)	82	1.0%
Profit before income tax	**3,721**	**7,224**	**3,503**	**94.1%**
Income tax	(2,476)	(4,574)	(2,098)	(84.7%)
Profit for the period	**1,245**	**2,650**	**1,405**	**112.9%**
Change in exchange differences on translating foreign operations	(848)	2,805	3,653	n.m.
Revaluation of available-for-sale financial assets	(33)	2	35	n.m.
Other comprehensive income for the period	(881)	2,807	3,688	n.m.
Total comprehensive income for the period	**364**	**5,457**	**5,093**	**n.m.**
Profit attributable to:				
Owners of the parent	253	1,540	1,287	n.m.
Non-controlling interests	992	1,110	118	11.9%
	1,245	**2,650**	**1,405**	**112.9%**
Total comprehensive income attributable to:				
Owners of the parent	(394)	3,494	3,888	n.m.
Non-controlling interests	758	1,963	1,205	159.0%
	364	**5,457**	**5,093**	**n.m.**
Basic and diluted earnings per share (HUF)	**0.24**	**1.48**	**1.24**	**n.m.**

2.3. Consolidated Statements of Profit or loss and other comprehensive income – 1-12 months

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	1-12 months 2013 (Audited)	1-12 months 2014 (Unaudited)	Change	Change (%)
Revenues				
Voice - retail	165,141	159,963	(5,178)	(3.1%)
Voice - wholesale	27,511	27,074	(437)	(1.6%)
Voice - visitor	2,563	2,119	(444)	(17.3%)
Non-voice	68,080	73,007	4,927	7.2%
Equipment	40,077	43,139	3,062	7.6%
Other mobile revenues	7,573	12,122	4,549	60.1%
Mobile revenues	**310,945**	**317,424**	**6,479**	**2.1%**
Voice - retail	73,021	66,837	(6,184)	(8.5%)
Voice - wholesale	14,015	12,098	(1,917)	(13.7%)
Internet	51,835	53,723	1,888	3.6%
Data	19,607	18,134	(1,473)	(7.5%)
TV	37,270	40,809	3,539	9.5%
Equipment	8,110	6,129	(1,981)	(24.4%)
Other fixed line revenues	11,524	9,788	(1,736)	(15.1%)
Fixed line revenues	**215,382**	**207,518**	**(7,864)**	**(3.7%)**
System Integration/Information Technology revenues	64,054	59,206	(4,848)	(7.6%)
Revenue from Energy Services	47,140	42,299	(4,841)	(10.3%)
Total revenues	**637,521**	**626,447**	**(11,074)**	**(1.7%)**
Direct costs				
Mobile revenue-related payments	(84,934)	(86,017)	(1,083)	(1.3%)
Fixed line revenue-related payments	(43,154)	(41,164)	1,990	4.6%
SI/IT revenue-related payments	(39,684)	(34,763)	4,921	12.4%
Energy revenue-related payments	(48,903)	(41,883)	7,020	14.4%
Agent commissions	(11,105)	(10,813)	292	2.6%
Bad debt expense	(8,690)	(11,717)	(3,027)	(34.8%)
Direct costs	**(236,470)**	**(226,357)**	**10,113**	**4.3%**
Gross margin	**401,051**	**400,090**	**(961)**	**(0.2%)**
Employee-related expenses	(96,691)	(94,750)	1,941	2.0%
Other operating expenses	(128,087)	(127,190)	897	0.7%
Other operating income	3,189	3,074	(115)	(3.6%)
EBITDA	**179,462**	**181,224**	**1,762**	**1.0%**
Depreciation and amortization	(104,741)	(100,650)	4,091	3.9%
Operating profit	**74,721**	**80,574**	**5,853**	**7.8%**
Net financial result	(31,560)	(28,397)	3,163	10.0%
Share of associates' and joint ventures' profits	0	(5)	(5)	n.a.
Profit before income tax	**43,161**	**52,172**	**9,011**	**20.9%**
Income tax	(14,306)	(20,148)	(5,842)	(40.8%)
Profit for the period	**28,855**	**32,024**	**3,169**	**11.0%**
Change in exchange differences on translating foreign operations	4,111	10,842	6,731	163.7%
Revaluation of available-for-sale financial assets	(48)	26	74	n.m.
Other comprehensive income for the period	4,063	10,868	6,805	167.5%
Total comprehensive income for the period	**32,918**	**42,892**	**9,974**	**30.3%**
Profit attributable to:				
Owners of the parent	23,460	28,611	5,151	22.0%
Non-controlling interests	5,395	3,413	(1,982)	(36.7%)
	28,855	**32,024**	**3,169**	**11.0%**
Total comprehensive income attributable to:				
Owners of the parent	26,525	36,477	9,952	37.5%
Non-controlling interests	6,393	6,415	22	0.3%
	32,918	**42,892**	**9,974**	**30.3%**
Basic and diluted earnings per share (HUF)	**22.51**	**27.45**	**4.94**	**21.9%**

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2.4. Consolidated Statements of Cash Flows

MAGYAR TELEKOM Consolidated Statements of Cash Flows (HUF million)	1-12 months 2013 (Audited)	1-12 months 2014 (Unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	28,855	32,024	3,169	11.0%
Depreciation and amortization	104,741	100,650	(4,091)	(3.9%)
Income tax expense	14,306	20,148	5,842	40.8%
Net financial result	31,560	28,397	(3,163)	(10.0%)
Share of associates' and joint ventures' loss	0	5	5	n.a.
Change in assets carried as working capital	(12,866)	(11,244)	1,622	12.6%
Change in provisions	(3,327)	889	4,216	n.m.
Change in liabilities carried as working capital	(6,672)	3,321	9,993	n.m.
Income tax paid	(12,417)	(16,133)	(3,716)	(29.9%)
Dividend received	8	1	(7)	(87.5%)
Interest and other financial charges paid	(27,903)	(24,847)	3,056	11.0%
Interest received	1,469	1,135	(334)	(22.7%)
Other cashflows from operations	13,858	11,149	(2,709)	(19.5%)
Net cash generated from operating activities	**131,612**	**145,495**	**13,883**	**10.5%**
Cash flows from investing activities				
Investments in tangible and intangible assets	(146,122)	(184,364)	(38,242)	(26.2%)
Adjustments to cash purchases	25,984	42,211	16,227	62.4%
Purchase of subsidiaries and business units	(871)	(1,210)	(339)	(38.9%)
Proceeds from other financial assets - net	13,772	10,227	(3,545)	(25.7%)
Proceeds from disposal of property, plant and equipment (PPE) and intangible assets	1,188	2,635	1,447	121.8%
Net cash used in investing activities	**(106,049)**	**(130,501)**	**(24,452)**	**(23.1%)**
Cash flows from financing activities				
Dividends paid to shareholders and Non-controlling interests	(65,405)	(8,008)	57,397	87.8%
Proceeds from loans and other borrowings -net	50,244	10,998	(39,246)	(78.1%)
Repayment of other financial liabilities -net	(11,157)	(18,541)	(7,384)	(66.2%)
Net cash used in financing activities	**(26,318)**	**(15,551)**	**10,767**	**40.9%**
Exchange differences on cash and cash equivalents	177	549	372	210.2%
Change in cash and cash equivalents	**(578)**	**(8)**	**570**	**98.6%**
Cash and cash equivalents, beginning of period	15,211	14,633	(578)	(3.8%)
Cash and cash equivalents, end of period	14,633	14,625	(8)	(0.1%)
Change in cash and cash equivalents	**(578)**	**(8)**	**570**	**98.6%**

2.5. 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						(52,117)			**(52,117)**		**(52,117)**
Dividend declared to Non-controlling interests									**0**	(13,312)	**(13,312)**
Equity settled share-based transactions				4					**4**		**4**
Total comprehensive income						23,460	3,090	(25)	**26,525**	6,393	**32,918**
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**	(6,822)	**(6,822)**
Equity settled share-based transactions				9					**9**	0	**9**
Capital reduction [1]									**0**	(1,247)	**(1,247)**
Deconsolidation effect									**0**	(10)	**(10)**
Total comprehensive income						28,611	7,851	15	**36,477**	6,415	**42,892**
Balance at December 31, 2014	1,042,742,543	104,275	27,379	17	(307)	310,406	32,276	(92)	473,954	50,444	524,398

[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.

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2.6. 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.

The ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG). CMobil B.V. (Stationsplein 8, 6221 BT Maastricht, the Netherlands), a member of the Deutsche Telekom Group, is the direct owner of 59.21% of the Company's issued shares and voting rights.

2.7. 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.

2.8. 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.

Change in the revenue recognition policy

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 using the residual method for each of the elements. These units are identified and separated, since they have value on a standalone basis and are sold not only in a bundle, but separately as well. Therefore the Group recognizes revenues for all of these elements using the residual method, i.e. the amount of consideration allocated to the delivered elements of the arrangements equals the total consideration less the fair value of the undelivered elements. The revenue allocable to a delivered item, however, 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.

3. CONSOLIDATED MANAGEMENT REPORT

3.1. Operating and financial review – Group

3.1.1 Exchange rate information

Exchange rate	Q4 2013	Q4 2014	Change	1-12 months 2013	1-12 months 2014	Change
HUF/EUR beginning of period	298.48	310.36	**4.0%**	291.29	296.91	**1.9%**
HUF/EUR period-end	296.91	314.89	**6.1%**	296.91	314.89	**6.1%**
HUF/EUR cumulative monthly average	297.78	308.95	**3.8%**	297.78	308.95	**3.8%**
HUF/MKD beginning of period	4.85	5.03	**3.7%**	4.74	4.83	**1.9%**
HUF/MKD period-end	4.83	5.12	**6.0%**	4.83	5.12	**6.0%**
HUF/MKD cumulative monthly average	4.84	5.01	**3.5%**	4.84	5.01	**3.5%**

In Q4 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 165.3 billion in Q4 2014 compared to HUF 165.7 billion in Q4 2013, representing a 0.3% decrease quarter over quarter caused by the following:

Mobile revenues amounted to HUF 84.4 billion in Q4 2014, compared to HUF 78.8 billion in the same period of the previous year representing a 7.1% increase. Higher mobile equipment, non-voice and other mobile revenues were only partly offset by the lower mobile voice revenues.

Mobile voice revenues, which represent the largest portion of revenues within mobile telecommunications services, declined by 1.8% to HUF 47.1 billion in Q4 2014 compared to HUF 48.0 billion in Q4 2013.

Voice-retail revenues decreased by 2.7% to HUF 39.8 billion in Q4 2014. This was mainly due to lower outgoing mobile voice revenues in Hungary as in the prepaid segment both minutes of use (MOU) and the number of customers decreased, partly offset by the higher prepaid outgoing tariff. In the postpaid segment, growth in MOU and in the customer base could offset the decrease in average price per minutes. In Hungary, the significantly lower roaming revenues were caused by EU regulated average tariff erosion, effective from July 1, 2014. In Macedonia, mobile voice-retail revenues declined 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 Montenegro, lower voice-retail revenues were driven by the decrease in average customer base as well as lower tariff levels quarter over quarter.

Voice-wholesale revenues were up by 2.3% and amounted to HUF 6.9 billion in Q4 2014, mainly caused by higher incoming traffic in Hungary. The increase was mitigated by lower voice-wholesale revenues in Macedonia due to lower mobile termination rates applicable from November 1, 2013 and from September 1, 2014 and decrease in international incoming traffic. Year over year, voice-wholesale revenues decreased by 1.6% and amounted to HUF 27.1 billion in 2014, mainly caused by lower revenues in Macedonia. Visitor revenues also decreased as a result of the EU regulated roaming tariff decrease from July 1, 2014.

Non-voice revenues amounted to HUF 19.1 billion in Q4 2014, compared to HUF 17.6 billion in Q4 2013, representing a 8.6% increase. Higher non-voice revenues primarily came from higher mobile Internet revenues in Hungary, as both subscriber numbers and usage increased in Q4 2014.

Mobile equipment revenues increased by 34.4% to HUF 15.1 billion in Q4 2014 compared to HUF 11.3 billion in Q4 2013, mostly attributable to our Hungarian operation. Higher revenues were driven by the increase in sales volume and the higher average handset prices in Q4 2014 versus Q4 2013. In Montenegro, mobile equipment revenues increased due to the higher sale of handsets on installments thanks to the more attractive offers in Q4 2014. In Macedonia, growth in equipment revenues was mainly caused by the higher average price per handset in Q4 2014.

Other mobile revenues grew from HUF 1.9 billion in Q4 2013 to HUF 3.0 billion in Q4 2014 owing to higher revenues derived from penalty charges and from mobile handset insurance revenue in Hungary.

Fixed line revenues amounted to HUF 52.1 billion in Q4 2014, compared to HUF 54.9 billion in the same period of the previous year, representing a 5.1% decline. The decrease was driven by falling voice, equipment and other revenues, partly offset by increased TV and Internet revenues.

Voice-retail revenues decreased by 9.6% to HUF 16.3 billion in Q4 2014 compared to HUF 18.0 billion in Q4 2013, mainly driven by the continuous decline in the number of PSTN lines and lower average tariff levels.

Voice-wholesale revenues decreased by 18.3% to HUF 2.8 billion in Q4 2014. In Hungary, primarily the termination rates decline caused lower domestic revenues from other fixed line and mobile operators. Call origination and termination also decreased in Hungary owing to mobile substitution and the intense competition with cable TV service providers. Lower international incoming traffic revenues in Hungary and in Macedonia mainly driven by lower volume of traffic also contributed to the decline in voice-wholesale revenues.

Internet revenues increased from HUF 13.3 billion in Q4 2013 to HUF 14.0 billion in Q4 2014, representing a 5.4% growth. In Hungary, DSL connections slightly increased together with cablenet and fiber optic connections. The broadband volume increase could compensate for the effect of lower prices due to strong competition and by the migration towards double- and triple-play packages, resulting in higher Internet access revenues. Revenues from content services also increased in Hungary. At our foreign subsidiaries, higher revenues were due to the growth in the number of DSL connections.

Data revenues amounted to HUF 4.4 billion in Q4 2014 as compared to HUF 4.7 billion in Q4 2013. The decrease in both broadband and narrowband revenues was mainly deriving from lower number of domestic and international leased line customers as well as decreased prices, both in Hungary and at our foreign subsidiaries in Q4 2014.

TV revenues amounted to HUF 10.4 billion in Q4 2014 compared to HUF 9.6 billion in Q4 2013, representing an increase of 8.2%. 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 subscription fees in Hungary in Q4 2014 compared to the same quarter last year. These increases were partly offset by lower Cable TV revenues owing to the fact that existing subscribers have been migrating over to IPTV services in Hungary.

Fixed equipment revenues amounted to HUF 1.8 billion in Q4 2014 compared to HUF 2.6 billion in Q4 2013. The decrease was mainly owing to the lower sale of tablets, TV sets and notebooks in Hungary. The decline was somewhat mitigated by the higher sale of TV sets and laptops in Montenegro.

Other fixed line revenues decreased by 27.2% in Q4 2014 compared to the same period previous year, and amounted to HUF 2.4 billion. The decrease was mainly due to the revenues derived from an IRU (Indefeasible Right of Use) sale in Montenegro in Q4 2013.

System Integration (SI) and IT revenues decreased by 7.7% from HUF 18.2 billion in Q4 2013 to HUF 16.8 billion in the same period of 2014. Lower revenues were due to the decrease in infrastructure revenues driven by fewer large projects in Q4 2014 partly offset by higher application and outsourcing revenues due to new projects.

Energy Services revenues decreased to HUF 12.0 billion in Q4 2014 compared to HUF 13.9 billion in Q4 2013. The decrease resulted partly from the lower number of points of delivery in Q4 2014 compared to Q4 2013. As at December 31, 2014, the number of gas points of delivery amounted to 67,087, while the number of electricity points of delivery decreased to 104,831. The universal service provider price reductions from November 2013, April 2014 and September 2014 also had a negative effect on the energy revenues.

3.1.3 Direct costs

Direct costs increased slightly by 0.2% quarter over quarter and amounted to HUF 67.8 billion in Q4 2014. Year over year, direct costs decreased by 4.3% from HUF 236.5 billion in 2013 to HUF 226.4 billion in 2014.

Mobile services-related payments increased by 15.3% in Q4 2014 quarter over quarter, and amounted to HUF 27.3 billion. Mobile equipment costs increased significantly due to the higher volume of smartphone sales in Hungary. This increase was partly offset by lower mobile voice payments primarily due to lower interconnection cost at our foreign subsidiaries as a result of lower voice and SMS termination charges.

Fixed line-related payments decreased slightly by 0.3% to HUF 11.5 billion in Q4 2014. The decrease was mainly driven by lower equipment sales in Hungary and in Macedonia, due to the decrease in notebook, TV-set and tablet sales quarter over quarter. Continuously declining voice-related payments and lower data payments also contributed to the decrease. These decreases were almost fully counterbalanced by higher TV payments, owing to the increasing subscriber base in Hungary and higher other direct costs, owing to the 2014 launch of the Clickshop service.

Fewer infrastructure projects at T-Systems Hungary caused SI/IT-related payments to decrease by 12.9% from HUF 11.5 billion in Q4 2013 to HUF 10.0 billion in Q4 2014.

Energy-related payments in Hungary decreased from HUF 14.4 billion in Q4 2013 to HUF 12.4 billion in Q4 2014 primarily driven by decreased prices. This was partly counterbalanced by higher gas related payments owing to the higher volume of gas consumption in Q4 2014.

Agent commissions increased by 2.7% in Q4 2014 compared to Q4 2013, as a result of higher volume of sales. Year over year, agent commissions decreased by 2.6% from HUF 11.1 billion in 2013 to HUF 10.8 billion in 2014 as a result of lower commission levels and lower volume of sales in 2014.

Bad debt expenses decreased by 3.8% from HUF 3.7 billion in Q4 2013 to HUF 3.5 billion in Q4 2014, mainly owing to an improvement in the aging of receivables and more favorable collection at MT Plc. Hungary in Q4 2014. Year over year, bad debt expenses increased by 34.8% from

HUF 8.7 billion in 2013 to HUF 11.7 billion in 2014, primarily due to the higher amount of impairment loss on receivables from equipment sales on installments in Hungary in 2014 as well as due to the waiver of significant amounts of receivables from a major T-Systems customer.

3.1.4 Gross margin

Gross margin decreased slightly from HUF 98.0 billion in Q4 2013 to HUF 97.4 billion in Q4 2014, as direct costs increased and revenues decreased quarter over quarter.

3.1.5 Employee-related expenses

Employee-related expenses decreased by 15.2% from HUF 27.3 billion in Q4 2013 to HUF 23.2 billion in Q4 2014. The decrease is mostly due to the HUF 3.2 billion lower amount of severance-related expenses recognized in Q4 2014 primarily due to the fact severance-related expenses in 2014 relating to the employment terminations were recognized in Q3 while in 2013 such expenses were recognized in Q4.

3.1.6 Other operating expenses

Other operating expenses remained broadly stable at HUF 33.5 billion in Q4 2014. Other operating expenses decreased slightly by 0.7%, from HUF 128.1 billion in 2013 to HUF 127.2 billion in 2014.

Sector specific taxes amounting to HUF 6.7 billion remained stable quarter over quarter.

The slight decrease of Other operating expenses year over year is primarily the result of the decrease in fees and levies due to the capitalization of spectrum license fees in Hungary in Q3 2013 and Q4 2014, which were otherwise also lowered.

3.1.7 Other operating income

Other operating income decreased from HUF 1.5 billion to HUF 1.2 billion quarter over quarter. The decrease is primarily due to a one-time effect in Macedonia in 2013, when Makedonski Telekom recognized a damage compensation income for the costs of an unsuccessful project conducted and expensed in previous years.

3.1.8 EBITDA

EBITDA increased by 8.0% from HUF 38.8 billion in Q4 2013 to HUF 41.9 billion in Q4 2014, primarily due to lower employee related expenses in Q4 2014, strengthened by slightly higher gross margin as well.

3.1.9 Depreciation and amortization

Depreciation and amortization expenses decreased by 1.2% from HUF 27.0 billion in Q4 2013 to HUF 26.7 billion in Q4 2014, mainly due to the lower depreciation expense of telecom equipment in Q4 2014, as a result of the extension of useful lives of certain assets as well as to the shrinking tangible asset portfolio.

3.1.10 Operating profit

Operating profit increased from HUF 11.7 billion in Q4 2013 to HUF 15.2 billion in Q4 2014 for the reasons described above.

3.1.11 Net financial result

Net financial expenses decreased by 1.0%, from HUF 8.0 billion in Q4 2013 to HUF 7.9 billion in Q4 2014, mainly due to the following reasons. The foreign exchange translation and the fair valuation of derivatives, driven by the exchange rate fluctuation generated a HUF 1.0 billion lower net loss, as the HUF weakened by 1.5% against the EUR in Q4 2014 compared to a 0.5% strengthening in Q4 2013. This was almost totally counterbalanced by the increase in interest expenses due to the higher interest charge on the capitalized annual frequency fee payable in 2014.

Year over year, the net financial result improved by 10.0% from HUF 31.6 billion in 2013 to HUF 28.4 billion in 2014. The improved result was primarily due to the lower combined net loss on foreign exchange translation and fair valuation of derivatives in 2014 compared to the HUF 5.8 billion loss in 2013, resulting in a HUF 4.7 billion improvement, as the HUF weakened by 6.0% against the EUR in 2014 compared to the 1.9% weakening in 2013. The above improvement was partly offset by the lower average interest rates on bank deposits resulting in lower amount of interest income in 2014.

3.1.12 Income tax

The income tax expense increased from HUF 2.5 billion in Q4 2013 to HUF 4.6 billion in Q4 2014. The significant amount and increase of our income taxes in Q4 2014 is primarily due to a one-time release of a deferred tax asset of HUF 2.5 billion. Due to the poor Makedonski Telekom share price performance in 2014, Stonebridge (our holding company in Macedonia) had to charge a HUF 31 billion impairment in its statutory accounts on its single asset, our investment in Makedonski Telekom. As a result of the impairment, we had to release our deferred tax asset on our investment in Stonebridge/ Makedonski Telekom, which resulted in a one-time tax expense of HUF 2.5 billion.

Further, the better business performance of the Group in Q4 2014 than in Q4 2013 resulted in a HUF 3.5 billion higher profit before tax, which also contributed to the increase of the tax expense by HUF 1.0 billion calculating with a normal effective annual tax rate of 30%.

The overall effective tax rate in Q4 2014 remained stable when compared to Q4 2013 mainly driven by the above described one-time tax expense in Q4 2014, while the similarly high overall effective tax rate in Q4 2013 was the result of the significantly lower profit before tax burdened by the rather flat Hungarian local business tax expense.

3.1.13 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests increased from HUF 1.0 billion in Q4 2013 to HUF 1.1 billion in Q4 2014. The increase is mainly due to the higher profit before tax of Crnogorski Telekom and Makedonski Telekom in HUF terms in Q4 2014.

On a year-to-date basis, profit attributable to non-controlling interests has decreased driven by the lower profit before tax and the new tax law resulting in significant tax expenses for our Macedonian subsidiaries.

3.1.14 Cash flows

HUF millions	2013	2014	Change
Operating cash flow	131,612	145,495	13,883
Investing cash flow	(106,049)	(130,501)	(24,452)
Less: Proceeds from other financial assets - net	(13,772)	(10,227)	3,545
Investing cash flow excluding Proceeds from other financial assets – net	(119,821)	(140,728)	(20,907)
Repayment of other financial liabilities	(11,157)	(18,541)	(7,384)
Free cash flow	**634**	**(13,774)**	**(14,408)**
Proceeds from other financial assets - net	13,772	10,227	(3,545)
Proceeds from loans and other borrowings - net	50,244	10,998	(39,246)
Dividend paid to shareholders and Non-controlling interests	(65,405)	(8,008)	57,397
Exchange gains on cash and cash equivalents	177	549	372
Change in cash and cash equivalents	**(578)**	**(8)**	**570**

Free cash flow

Operating cash flow

Net cash generated from operating activities amounted to HUF 145.5 billion in 2014, compared to HUF 131.6 billion in 2013. The main reasons for the increase of HUF 13.9 billion were the following:

- HUF 2 billion positive change due to the higher EBITDA in 2014 than in 2013
- HUF 10 billion positive change due to lower increase of receivables in 2014. After the heavy market investment in 0/24 equipment sales in 2013 (smart phones, TV, tablet, etc.), the additional investment in the market in 2014 was significantly lower than in 2013
- HUF 10 billion higher operating cash flow in 2014 as invoices factored by our vendors in 2013 and 2014 were paid as repayment of other financial liabilities in 2014 (Financing cash flow)
- HUF 3 billion positive change due to lower utilization of severance and legal provisions in 2014 than in 2013
- HUF 3 billion lower interest paid on loans in 2014 primarily due to lower average interest rate in 2014
- HUF -4 billion negative change due to higher tax payments in Macedonia as a result of the changes of the tax law in 2014, which brought the payment of the profit/dividend related taxes earlier
- HUF -2 billion negative change due to higher increase of visitor receivables in Macedonia in 2014 than in 2013
- HUF -1 billion negative change due to recovery of 2012 crisis tax overpayment in 2013
- HUF -1 billion negative change due to higher interest paid on capitalized annual frequency fees in 2014 due to prolonged frequencies in 2013 and the new frequencies in 2014
- HUF -1 billion negative change due to less interest income in Macedonia and Montenegro primarily due to lower interest rates and lower average balance of bank deposits in 2014 than in 2013
- HUF -5 billion negative change due to various other effects of working capital

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF -140.7 billion in 2014, compared to HUF -119.8 billion in 2013. Main reasons for the HUF -20.9 billion higher cash outflow were the following:

- HUF -25 billion negative change due to higher amount paid for the initial costs of the new Hungarian mobile frequency licenses in Q4 2014 than in Q3 2013
- HUF -3 billion negative change from Capex to be paid in cash as financing cash flow stemming from higher vendor factoring in 2013 than in 2014
- HUF 5 billion positive change due to the lower amount of other Capex creditors paid in 2014 than in 2013
- HUF 1 billion higher proceeds from PPE sale in 2014 than in 2013, mainly due to the Q2 2014 real estate sale in Győr

Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF -11.2 billion in 2013 to HUF -18.6 billion in 2014. Main reasons for the higher payments of HUF 7.4 billion were the following:

- HUF -4 billion due to higher payments on reverse factored vendor invoices in 2014 than in 2013
- HUF -1 billion higher payments on finance lease liabilities in 2014 than in 2013 mainly due to the amendment of the STB lease contract in Q2 2013
- HUF -1 billion higher payment on annual frequency fees in 2014 (recognized as financial liability in Q3 2013 and Q4 2014), than in 2013

Free cash flow (FCF) overall decreased from HUF 0.6 billion in 2013 to HUF -13.8 billion in 2014 due to the reasons described above.

Proceeds from other financial assets - net

Proceeds from other financial assets - net decreased by HUF 3.5 billion. Main reasons for the decrease were the following:

- HUF -22 billion lower amount of MKT's bank deposits over 3 months was converted into cash in 2014 in a net term
- HUF 15 billion lower amount of CT's cash was invested as bank deposits over 3 months in 2014 in a net term
- HUF 4 billion other changes mainly due to lower cash outflows related to derivatives in 2014

Proceeds from loans and other borrowings - net

Net loan proceeds were lower in 2014 as MT paid no dividend in 2014, however, the higher initial cost of the Hungarian mobile licenses still required additional financing in 2014.

Dividend paid to shareholders and Non-controlling interest

Dividend paid to shareholders and Non-controlling interest decreased by HUF 57.4 billion. Main reasons for the decrease were the following:

- HUF 52 billion - There was no MT dividend payment in 2014
- HUF 7 billion - MKT's minority owners received lower amount of dividends in 2014 than in 2013
- HUF -1 billion - CG's minority owners received additonal dividends in 2014 by way of a share capital decrease, while the amount of the ordinary dividend payment was substantially the same in 2014 as in 2013

Exchange gains on cash and cash equivalents

The higher exchange gain on cash and cash equivalent is the result of the higher depreciation of HUF in 2014 than in 2013.

3.1.15 Statements of Financial Position

The most significant change in the balances of the Statements of Financial Position from December 31, 2013 to December 31, 2014 can be observed in the following lines:

- Intangible assets
- Financial liabilities to related parties – Current portion
- Other financial liabilities
- Retained earnings

Intangible assets increased by HUF 97 billion from December 31, 2013 to December 31, 2014. The main reason for the increase is the acquisition of new spectrum licenses in Hungary. In addition to the initial cost of the new frequencies in 2014 of HUF 59 billion, we also recognized the discounted present value of the future annual license fees of HUF 39 billion as part of the cost of the licenses.

The current portion of Financial liabilities to related parties increased by HUF 52 billion from December 31, 2013 to December 31, 2014. The reason for the increase is that a larger portion of the total balance is due in 2015 than it was in 2014. The long term portion of the Financial liabilities to related parties only increased by HUF 6 billion, which in fact means that Magyar Telekom borrowed net additional funds of HUF 58 billion from DT Group. At the same time, the Group's liabilities from Bank loans decreased by HUF 41 billion. The primary reason for the increase was to replace the predominantly short term bank financing of the Group with favorable long term DT Group financing.

The non current portion of Other financial liabilities increased by HUF 33 billion from December 31, 2013 to December 31, 2014. The main reason for the increase is that in addition to the initial cost of the new frequencies we also recognized the discounted present value of the future annual license fees of the spectrum acquired in 2014 in an amount of HUF 39 billion as part of the cost of the licenses with a corresponding financial liability becoming due in 1-20 years. The non current balance of the annual frequency fees recognized as financial liabilities increased from HUF 15 billion as at December 31, 2013 to HUF 51 billion as at December 31, 2014.

Retained earnings increased by HUF 29 billion from December 31, 2013 to December 31, 2014. The reason for the increase is the Profit attributable to the owners of the Company in an amount of HUF 29 billion, and the fact that no dividend was declared during 2014.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2013 to December 31, 2014. The less significant changes in balances of the Consolidated Statements of Financial Position are largely explained by the items of the Consolidated Statement of Cash Flows for 2014, and the related explanations provided above in section 3.1.14 Cash flows.

3.1.16 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 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 Hungary operates in Hungary providing mobile and fixed line telecommunications, infocommunications and system integration services 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	Q4 2013	Q4 2014	1-12 months 2013	1-12 months 2014
Total Telekom Hungary revenues	121,069	121,705	464,076	461,666
Less: Telekom Hungary revenues from other segments	(6,741)	(5,275)	(27,736)	(24,174)
Telekom Hungary revenues from external customers	**114,328**	**116,430**	**436,340**	**437,492**
Total T-Systems Hungary revenues	33,537	29,846	123,640	111,697
Less: T-Systems Hungary revenues from other segments	(4,754)	(2,969)	(15,984)	(10,744)
T-Systems Hungary revenues from external customers	**28,783**	**26,877**	**107,656**	**100,953**
Total Macedonia revenues	14,595	14,181	60,786	55,791
Less: Macedonia revenues from other segments	(19)	(22)	(39)	(58)
Macedonia revenues from external customers	**14,576**	**14,159**	**60,747**	**55,733**
Total Montenegro revenues	8,059	7,810	32,804	32,305
Less: Montenegro revenues from other segments	(5)	(12)	(27)	(49)
Montenegro revenues from external customers	**8,054**	**7,798**	**32,777**	**32,256**
Total consolidated revenue of the segments	165,741	165,264	637,520	626,434
Measurement / rounding differences to Group revenue	0	0	1	13
Total revenue of the Group	**165,741**	**165,264**	**637,521**	**626,447**
Segment results (EBITDA)				
Telekom Hungary	28,565	30,239	129,035	133,202
T-Systems Hungary	2,083	2,986	14,194	11,966
Macedonia	5,717	5,807	24,167	23,371
Montenegro	2,304	2,672	12,067	12,436
Total EBITDA of the segments	**38,669**	**41,704**	**179,463**	**180,975**
Measurement / rounding differences to Group EBITDA	84	158	(1)	249
Total EBITDA of the Group	**38,753**	**41,862**	**179,462**	**181,224**
Total depreciation and amortization of the Group	(27,006)	(26,694)	(104,741)	(100,650)
Total operating profit of the Group	**11,747**	**15,168**	**74,721**	**80,574**

3.2.2 Telekom Hungary

HUF millions	Q4 2013	Q4 2014	Change	Change (%)	1-12 months 2013	1-12 months 2014	Change	Change (%)
Voice revenues	37,659	37,695	36	0.1%	150,098	148,549	(1,549)	(1.0%)
Non-voice revenue	13,392	14,510	1,118	8.3%	51,044	55,391	4,347	8.5%
Equipment revenues	9,735	13,214	3,479	35.7%	35,097	37,074	1,977	5.6%
Other mobile revenues	1,306	2,453	1,147	87.8%	5,259	10,033	4,774	90.8%
Total mobile revenues	**62,092**	**67,872**	**5,780**	**9.3%**	**241,498**	**251,047**	**9,549**	**4.0%**
Voice revenues	13,858	12,410	(1,448)	(10.4%)	56,444	51,062	(5,382)	(9.5%)
Internet revenues	10,435	10,991	556	5.3%	40,346	41,742	1,396	3.5%
TV revenues	8,268	8,763	495	6.0%	31,970	34,592	2,622	8.2%
Equipment revenues	1,993	1,156	(837)	(42.0%)	5,832	4,021	(1,811)	(31.1%)
Other fixed line revenues	9,637	7,870	(1,767)	(18.3%)	38,941	34,869	(4,072)	(10.5%)
Total fixed line revenues	**44,191**	**41,190**	**(3,001)**	**(6.8%)**	**173,533**	**166,286**	**(7,247)**	**(4.2%)**
SI/IT revenues	888	675	(213)	(24.0%)	1,905	2,034	129	6.8%
Revenue from Energy services	13,898	11,968	(1,930)	(13.9%)	47,140	42,299	(4,841)	(10.3%)
Total revenues	**121,069**	**121,705**	**636**	**0.5%**	**464,076**	**461,666**	**(2,410)**	**(0.5%)**
Direct cost	**(50,057)**	**(49,837)**	**220**	**0.4%**	**(169,918)**	**(163,744)**	**6,174**	**3.6%**
Gross margin	**71,012**	**71,868**	**856**	**1.2%**	**294,158**	**297,922**	**3,764**	**1.3%**
Telecom tax	(5,275)	(5,257)	18	0.3%	(19,596)	(20,734)	(1,138)	(5.8%)
Utility tax	0	(160)	(160)	n.a.	(6,939)	(7,110)	(171)	(2.5%)
Other operating expenses (net)	(37,172)	(36,212)	960	2.6%	(138,588)	(136,876)	1,712	1.2%
EBITDA	**28,565**	**30,239**	**1,674**	**5.9%**	**129,035**	**133,202**	**4,167**	**3.2%**
STB lease to finance lease	0	0	0	n.a.	7,225	0	(7,225)	(100.0%)
Other segment Capex	18,417	24,138	5,721	31.1%	59,523	68,483	8,960	15.1%
Segment Capex	**18,417**	**24,138**	**5,721**	**31.1%**	**66,748**	**68,483**	**1,735**	**2.6%**
Hungarian frequency licences	459	97,593	97,134	n.m.	55,520	97,593	42,073	75.8%

Revenues

Total revenues in the Telekom Hungary segment increased in Q4 2014 compared with the same quarter in the previous year due to higher mobile revenues as well as higher TV and Internet revenues. These increases were mitigated by lower fixed voice, fixed equipment and other fixed line revenues together with decreased SI/IT and Energy services revenues.

On a year over year basis, total revenues in the Telekom Hungary segment decreased as the decrease in total fixed line revenues together with the lower revenues from Energy services exceeded the increase in total mobile revenues.

Mobile services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Mobile penetration [1][3]	117.0%	116.8%	n.a.	117.0%	116.8%	n.a.
Mobile SIM market share [2][3]	46.3%	46.3%	n.a.	46.3%	46.3%	n.a.
Number of customers (RPC)	**4,886,705**	**4,964,255**	**1.6%**	**4,886,705**	**4,964,255**	**1.6%**
Postpaid share in the RPC base	48.5%	50.0%	n.a.	48.5%	50.0%	n.a.
MOU	**162**	**177**	**9.3%**	**161**	**171**	**6.2%**
ARPU (HUF)	**3,429**	**3,546**	**3.4%**	**3,384**	**3,489**	**3.1%**
Postpaid	5,576	5,824	4.4%	5,518	5,760	4.4%
Prepaid	1,360	1,295	(4.8%)	1,355	1,292	(4.6%)
Churn rate	19.0%	19.2%	n.a.	18.4%	18.3%	n.a.
Postpaid	11.3%	10.2%	n.a.	13.2%	11.2%	n.a.
Prepaid	26.2%	28.2%	n.a.	23.2%	25.2%	n.a.
Ratio of non-voice revenues in ARPU	26.2%	27.3%	n.a.	25.4%	26.8%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	7,760	7,224	(6.9%)	6,407	5,722	(10.7%)
Average retention cost (SRC) per retained customer (HUF)	19,204	16,551	(13.8%)	14,946	14,248	(4.7%)
Number of mobile broadband subscriptions	**1,712,807**	**2,016,230**	**17.7%**	**1,712,807**	**2,016,230**	**17.7%**
Mobile broadband market share based on total number of subscriptions [4]	**45.2%**	**n.a.**	**n.a.**	**45.2%**	**n.a.**	**n.a.**
Population-based outdoor 3G coverage	82.9%	83.0%	n.a.	82.9%	83.0%	n.a.
Population-based outdoor 4G coverage	38.0%	78.3%	n.a.	38.0%	78.3%	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) Available only until June 2014 by NMHH due to definition update.
(4) Available only until January 2014 by NMHH due to definition update.

Mobile revenues increased in Q4 2014 versus Q4 2013 due to the increase in 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. Higher equipment revenues were driven by higher number of handsets sold and the increase in average selling prices in Q4 2014 versus Q4 2013. Voice revenues slightly increased owing to higher voice-wholesale revenues due to higher incoming traffic. The growth was largely offset by the decline in voice-retail revenues mainly due to lower minutes of use in the prepaid segment. Roaming revenues within outgoing voice revenues decreased mainly due to EU regulation driven average tariff erosion in Hungary.

On a year over year basis, voice revenues decreased as higher voice-wholesale revenues could not compensate for the lower voice-retail revenues caused by the decrease in prepaid segment as both minutes of use and the tariff declined.

Fixed line services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Voice services						
Total voice access	1,430,280	1,418,207	(0.8%)	1,430,280	1,418,207	(0.8%)
Total outgoing traffic (thousand minutes)	762,708	691,485	(9.3%)	3,118,192	2,781,810	(10.8%)
Blended MOU (outgoing) [1]	178	163	(8.4%)	181	164	(9.4%)
Blended ARPU (HUF) [1]	2,727	2,521	(7.6%)	2,768	2,587	(6.5%)

(1) Including PSTN, VoIP and VoCable.

Fixed line voice revenues declined by 10.4% in Q4 2014 compared to Q4 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 decreased traffic and price discounts reflecting the migration towards multiplay packages and mobile substitution, as well as competition with VoIP and VoCable operators. The high popularity of flat rate packages (e.g. Hoppá) also led to lower ARPU.

Internet services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Blended retail broadband market share [(1)]	**37.6%**	**38.4%**	**n.a.**	**37.6%**	**38.4%**	**n.a.**
Number of retail DSL customers	518,217	548,656	5.9%	518,217	548,656	5.9%
Number of cable broadband customers	281,577	314,592	11.7%	281,577	314,592	11.7%
Number of fiber optic connections	50,953	58,561	14.9%	50,953	58,561	14.9%
Total retail broadband customers	**850,747**	**921,809**	**8.4%**	**850,747**	**921,809**	**8.4%**
Blended broadband ARPU (HUF)	3,442	3,478	1.0%	3,530	3,429	(2.9%)
Number of wholesale DSL access	70,964	47,293	(33.4%)	70,964	47,293	(33.4%)

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

Internet revenues increased by 5.3% and amounted to HUF 11.0 billion in Q4 2014. The Internet access revenues increased as the number of retail broadband customers could compensate for the decrease in wholesale connections and the effect of lower prices year over year. Higher revenues from content services also contributed to the growth in Internet revenues.

TV services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Blended TV market share [(1)]	**25.8%**	**27.2%**	**n.a.**	**25.8%**	**27.2%**	**n.a.**
Number of IPTV customers	389,700	445,044	14.2%	389,700	445,044	14.2%
Number of satellite TV customers	307,147	306,627	(0.2%)	307,147	306,627	(0.2%)
Number of cable TV customers	190,869	172,957	(9.4%)	190,869	172,957	(9.4%)
Total TV customers	**887,716**	**924,628**	**4.2%**	**887,716**	**924,628**	**4.2%**
Blended TV ARPU (HUF)	3,139	3,155	0.5%	3,110	3,111	0.0%

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

IPTV and satellite TV revenues increased in Q4 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. Growth in satellite TV revenues was due to higher subscription fees in Hungary in Q4 2014 compared to Q4 2013.

Energy services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Electricity points of delivery	106,287	104,831	(1.4%)	106,287	104,831	(1.4%)
Gas points of delivery	67,587	67,087	(0.7%)	67,587	67,087	(0.7%)

Energy services revenues decreased by HUF 1.9 billion in Q4 2014 versus Q4 2013 owing to the lower number of points of delivery and the universal service provider price reduction from November 2013, from April 2014 and from September 2014.

EBITDA

EBITDA of the Telekom Hungary segment increased by 5.9% in Q4 2014 versus Q4 2013, the main reason is that the higher gross margin was coupled with decreased employee-related expenses as the severance-related expenses in 2014 were recognized in Q3, while in 2013 these expenses were recognized in Q4.

Segment Capex

Segment Capex increased by HUF 5.7 billion primarily due to higher spending on 3G/4G investments and broadband network development in Q4 2014.

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3.2.3 T-Systems Hungary

HUF millions	Q4 2013	Q4 2014	Change	Change (%)	1-12 months 2013	1-12 months 2014	Change	Change (%)
Mobile voice revenues	3,696	3,353	(343)	(9.3%)	14,329	14,245	(84)	(0.6%)
Non-voice revenue	2,336	2,554	218	9.3%	9,181	9,684	503	5.5%
Other mobile revenues	966	1,030	64	6.6%	3,496	3,515	19	0.5%
Total mobile revenues	**6,998**	**6,937**	**(61)**	**(0.9%)**	**27,006**	**27,444**	**438**	**1.6%**
Fixed voice revenues	2,130	1,911	(219)	(10.3%)	8,497	7,785	(712)	(8.4%)
Internet revenues	560	587	27	4.8%	2,338	2,270	(68)	(2.9%)
Data revenues	2,257	2,090	(167)	(7.4%)	9,262	8,605	(657)	(7.1%)
Other fixed line revenues	446	448	2	0.4%	2,041	1,775	(266)	(13.0%)
Total fixed line revenues	**5,393**	**5,036**	**(357)**	**(6.6%)**	**22,138**	**20,435**	**(1,703)**	**(7.7%)**
SI/IT revenues	21,146	17,873	(3,273)	(15.5%)	74,496	63,818	(10,678)	(14.3%)
Total revenues	**33,537**	**29,846**	**(3,691)**	**(11.0%)**	**123,640**	**111,697**	**(11,943)**	**(9.7%)**
Direct cost	**(20,714)**	**(17,868)**	**2,846**	**13.7%**	**(75,467)**	**(64,882)**	**10,585**	**14.0%**
Gross margin	**12,823**	**11,978**	**(845)**	**(6.6%)**	**48,173**	**46,815**	**(1,358)**	**(2.8%)**
Telecom tax	(1,391)	(1,247)	144	10.4%	(4,343)	(5,096)	(753)	(17.3%)
Utility tax	0	0	0	n.a.	(509)	(526)	(17)	(3.3%)
Other operating expenses (net)	(9,349)	(7,745)	1,604	17.2%	(29,127)	(29,227)	(100)	(0.3%)
EBITDA	**2,083**	**2,986**	**903**	**43.4%**	**14,194**	**11,966**	**(2,228)**	**(15.7%)**
Segment Capex	**2,223**	**2,083**	**(140)**	**(6.3%)**	**4,431**	**4,660**	**229**	**5.2%**

Revenues

Total revenues of T-Systems Hungary decreased by 11.0% in Q4 2014 compared to Q4 2013 due to the lower SI/IT and fixed line revenues.

Mobile services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Number of customers (number or SIM cards)	515,701	514,085	(0.3%)	515,701	514,085	(0.3%)
Churn rate	4.6%	7.4%	n.a.	6.8%	12.4%	n.a.
MOU	264	239	(9.5%)	277	250	(9.7%)
ARPU (HUF)	3,936	3,821	(2.9%)	3,973	3,891	(2.1%)
Ratio of non-voice revenues in ARPU	38.8%	43.0%	n.a.	39.2%	40.4%	n.a.
Average acquisition cost (SAC) per gross add (HUF)[(1)]	4,315	n.m.	n.m.	3,398	1,681	(50.5%)
Number of mobile broadband subscriptions	132,737	134,812	1.6%	132,737	134,812	1.6%

(1) Subscriber acquisition cost in Q4 2014 turned into income as there was positive margin on the equipment sales

Mobile voice revenues decreased by 9.3% in Q4 2014 versus Q4 2013 mainly due to lower MOU and lower roaming revenues caused by EU regulated average tariff erosion, effective from July 1, 2014. The increase in non-voice revenues was 9.3% driven by higher Internet revenues, reflecting the increased number of mobile broadband subscriptions and higher usage.

Fixed line services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Voice services						
Total voice access	69,293	65,098	(6.1%)	69,293	65,098	(6.1%)
Total outgoing traffic (thousand minutes)	67,303	61,615	(8.5%)	277,514	259,821	(6.4%)
MOU (outgoing)	327	313	(4.3%)	330	322	(2.4%)
ARPU (HUF)	8,704	8,299	(4.7%)	8,709	8,434	(3.2%)
Internet services						
Number of retail broadband access	14,331	11,887	(17.1%)	14,331	11,887	(17.1%)
Blended broadband ARPU (HUF)	13,015	16,240	24.8%	13,591	15,162	11.6%

Fixed line voice revenues decreased by 6.6% caused by the erosion both in the customer base and traffic quarter over quarter. Fixed line data revenues were also down as a result of the lower number of leased lines in Q4 2014. Fixed line Internet revenues remained rather stable as the blended broadband ARPU increase was largely offset by the effect of lower number of retail broadband access.

SI/IT services

The 15.5% decrease in SI/IT revenues quarter over quarter resulted mainly from the decline in revenues from infrastructure driven by fewer large projects in Q4 2014 partly offset by higher application and outsourcing revenues due to new projects.

EBITDA

EBITDA increased by 43.4% in Q4 2014 compared to Q4 2013, due to the decreased other operating expenses mainly driven by a significant intermediary deal resulting in non deductible input VAT in 2013. This positive change was partly counterbalanced by the generally lower revenues and gross margin in Q4 2014, this latter being primarily to the result of the higher bad debt expense due to the impairment of receivables from two major T-Systems customers.

On a year over year basis, EBITDA decreased by 15.7% in 2014 compared to 2013. The non deductible VAT in 2013 and the series of waivers of receivables in 2014 had similar negative effects on T-Systems Hungary's EBITDA in both years, while the generally lower market performance and the higher telecom tax in 2014 resulted in the lower EBITDA in 2014.

Segment Capex

Segment Capex decreased by HUF 140 million in Q4 2014 compared to Q4 2013, as a result of lower amount of new projects requiring higher spending on tangible and intangible assets.

Segment Capex increased by HUF 229 million in 2014 compared to 2013, as a result of higher amount of asset intensive services in 2014.

3.2.4 Macedonia

HUF millions	Q4 2013	Q4 2014	Change	Change (%)	1-12 months 2013	1-12 months 2014	Change	Change (%)
Voice revenues	5,826	5,213	(613)	(10.5%)	26,258	22,110	(4,148)	(15.8%)
Non-voice revenues	1,312	1,335	23	1.8%	5,650	5,357	(293)	(5.2%)
Equipment revenues	777	890	113	14.5%	2,468	2,869	401	16.2%
Other mobile revenues	173	185	12	6.9%	632	634	2	0.3%
Total mobile revenues	**8,088**	**7,623**	**(465)**	**(5.7%)**	**35,008**	**30,970**	**(4,038)**	**(11.5%)**
Voice revenues	3,321	2,860	(461)	(13.9%)	13,155	11,819	(1,336)	(10.2%)
Internet revenues	1,391	1,486	95	6.8%	5,702	5,938	236	4.1%
TV revenues	571	781	210	36.8%	2,161	2,727	566	26.2%
Equipment revenues	418	423	5	1.2%	1,758	1,275	(483)	(27.5%)
Other fixed line revenues	647	546	(101)	(15.6%)	2,576	2,277	(299)	(11.6%)
Total fixed line revenues	**6,348**	**6,096**	**(252)**	**(4.0%)**	**25,352**	**24,036**	**(1,316)**	**(5.2%)**
SI/IT revenues	159	462	303	190.6%	426	785	359	84.3%
Total revenues	**14,595**	**14,181**	**(414)**	**(2.8%)**	**60,786**	**55,791**	**(4,995)**	**(8.2%)**
Direct costs	**(4,104)**	**(4,226)**	**(122)**	**(3.0%)**	**(17,464)**	**(15,586)**	**1,878**	**10.8%**
Gross margin	**10,491**	**9,955**	**(536)**	**(5.1%)**	**43,322**	**40,205**	**(3,117)**	**(7.2%)**
Other operating expenses (net)	(4,774)	(4,148)	626	13.1%	(19,155)	(16,834)	2,321	12.1%
EBITDA	**5,717**	**5,807**	**90**	**1.6%**	**24,167**	**23,371**	**(796)**	**(3.3%)**
Segment Capex	**2,110**	**5,018**	**2,908**	**137.8%**	**12,089**	**8,993**	**(3,096)**	**(25.6%)**
4G license	0	0	0	n.a.	3,069	0	(3,069)	(100.0%)

The 3.5% stronger MKD against the HUF on average in Q4 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 2.8% in HUF terms over the same period last year, mainly driven by the significant decrease in mobile and fixed voice revenues.

Mobile services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Mobile penetration[1]	108.4%	106.7%	n.a.	108.4%	106.7%	n.a.
Market share of T-Mobile Macedonia[1][2]	47.5%	46.8%	n.a.	47.5%	46.8%	n.a.
Number of customers	1,195,250	1,197,242	0.2%	1,195,250	1,197,242	0.2%
Postpaid share in the customer base	32.5%	35.4%	n.a.	32.5%	35.4%	n.a.
MOU	197	214	8.6%	191	205	7.3%
ARPU (HUF)	1,951	1,775	(9.0%)	2,163	1,855	(14.2%)

(1) Data published by Macedonian Agency for Electronic Communications (AEC)
(2) Calculation based on active customers

Mobile voice revenues decreased by 10.5% quarter over quarter, mainly driven by lower voice-wholesale revenues as mobile termination rates for domestic calls were cut from November 2013 and September 2014, which could not be compensated by the increased domestic incoming traffic. Voice-retail revenues decreased as well, due to lower average outgoing minutes and lower subscription fees as a result of new promotions and offers in response to the fierce competition.

Non-voice revenues remained stable quarter over quarter. The decreasing messaging revenues owing to lower number of SMS sent, decreased SMS termination charges and decreased content revenues were fully offset by the increased mobile internet revenue due to higher Internet traffic and increased usage of data tariff packages. On a year-to-date basis, the same decrease of messaging revenues could not be fully counterbalanced by the increased mobile internet revenue.

Mobile equipment revenues increased due to the higher average selling price in Q4 2014, mainly due to the higher portion of smart phone sales.

Fixed line services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Voice services						
Fixed line penetration	13.4%	12.1%	n.a.	13.4%	12.1%	n.a.
Total voice access	249,385	236,912	(5.0%)	249,385	236,912	(5.0%)
Total outgoing traffic (thousand minutes)	87,574	66,288	(24.3%)	381,198	293,487	(23.0%)
Internet and TV services						
Retail DSL market share (estimated)	83.5%	82.4%	n.a.	83.5%	82.4%	n.a.
Number of retail DSL customers	160,168	165,052	3.0%	160,168	165,052	3.0%
Number of wholesale DSL access	25,346	25,399	0.2%	25,346	25,399	0.2%
Number of total DSL access	185,514	190,451	2.7%	185,514	190,451	2.7%
Number of IPTV customers	87,686	98,216	12.0%	87,686	98,216	12.0%

Fixed line revenues decreased by 4.0% quarter over quarter, mainly driven by lower voice-retail and other fixed line revenues. Voice-retail revenues declined reflecting lower traffic and customer number while the decrease in other revenues was driven by less penalty charged to customers in Q4 2014. These decreases were partly counterbalanced by the increase in TV revenues, owing to the growing IPTV subscriber base.

Fixed line equipment revenues remained stable quarter over quarter. On a year-to-date basis, fixed line equipment revenues decreased primarily due to the one-time effect of the sale of set-top-boxes to the Government in 2013, and additionally due to lower sale of TV sets, home appliances and PCs.

System integration revenues increased significantly, both quarter over quarter and year over year due to increased revenues from customized ICT projects, Cloud Computing and sale of IT equipment.

EBITDA

EBITDA of our Macedonian operations increased by 1.6% in Q4 2014 versus Q4 2013 in HUF terms despite the 5.1% decrease in gross margin due to the 13.1% lower other operating expenses reflecting mainly the HUF 0.8 billion severance related expenses recognized in Q4 2013.

EBITDA of our Macedonian operations decreased by 3.3% in 2014 versus 2013 in HUF terms due to the 7.2% lower gross margin partly offset by the 12.1% lower other operating expenses.

Segment Capex

Segment Capex decreased by 3.1% in Q4 2014, mainly due to lower Capex on broadband network development.

3.2.5 Montenegro

HUF millions	Q4 2013	Q4 2014	Change	Change (%)	1-12 months 2013	1-12 months 2014	Change	Change (%)
Voice revenues	1,976	1,830	(146)	(7.4%)	9,223	8,272	(951)	(10.3%)
Non-voice revenue	945	1,004	59	6.2%	3,830	3,945	115	3.0%
Other mobile revenues	336	478	142	42.3%	1,059	1,419	360	34.0%
Total mobile revenues	**3,257**	**3,312**	**55**	**1.7%**	**14,112**	**13,636**	**(476)**	**(3.4%)**
Voice revenues	2,325	2,031	(294)	(12.6%)	9,951	8,993	(958)	(9.6%)
Internet revenues	927	954	27	2.9%	3,569	3,880	311	8.7%
TV revenues	513	567	54	10.5%	1,955	2,235	280	14.3%
Data revenues	333	304	(29)	(8.7%)	1,499	1,278	(221)	(14.7%)
Other fixed line revenues	539	385	(154)	(28.6%)	1,045	1,086	41	3.9%
Total fixed line revenues	**4,637**	**4,241**	**(396)**	**(8.5%)**	**18,019**	**17,472**	**(547)**	**(3.0%)**
SI/IT revenues	165	257	92	55.8%	673	1,197	524	77.9%
Total revenues	**8,059**	**7,810**	**(249)**	**(3.1%)**	**32,804**	**32,305**	**(499)**	**(1.5%)**
Direct costs	**(2,191)**	**(2,269)**	**(78)**	**(3.6%)**	**(8,760)**	**(8,879)**	**(119)**	**(1.4%)**
Gross margin	**5,868**	**5,541**	**(327)**	**(5.6%)**	**24,044**	**23,426**	**(618)**	**(2.6%)**
Other operating expenses (net)	(3,564)	(2,869)	695	19.5%	(11,977)	(10,990)	987	8.2%
EBITDA	**2,304**	**2,672**	**368**	**16.0%**	**12,067**	**12,436**	**369**	**3.1%**
Segment Capex	**2,282**	**2,154**	**(128)**	**(5.6%)**	**4,304**	**5,017**	**713**	**16.6%**

The 3.8% stronger EUR against the HUF on average in Q4 2014 versus Q4 2013 had a positive impact on the results of our Montenegrin operations in HUF terms.

Revenues

In HUF terms, total revenues decreased by 3.1% quarter over quarter, mainly due to the decrease in voice revenues.

Mobile services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Mobile penetration [(1)]	160.3%	163.4%	n.a.	160.3%	163.4%	n.a.
Market share of T-Mobile Crna Gora [(1)]	35.5%	34.1%	n.a.	35.5%	34.1%	n.a.
Number of customers (RPC) [(1)]	352,840	345,863	(2.0%)	352,840	345,863	(2.0%)
Postpaid share in the RPC base	38.4%	42.9%	n.a.	38.4%	42.9%	n.a.
MOU	160	177	10.6%	166	179	7.8%
ARPU (HUF)	2,532	2,572	1.6%	2,815	2,790	(0.9%)

(1) According to data published by the Montenegrin Agency for Electronic Communications and Postal Services (EKIP).

Mobile revenues increased by 1.7% quarter over quarter, while there was a decrease of 3.4% year over year. The increase in other mobile revenues owing to higher handset sales due to successful marketing campaigns in Q4 2014 could compensate for the loss of voice revenues, while the decline of voice revenues year over year was higher than the increase in equipment sales and non voice revenues.

The decrease in voice revenues is primarily the result of the lower average customer base and lower outgoing traffic in the prepaid segment. Decreased tariff level of the voice-wholesale revenues also contributed to the decline.

Fixed line services	Q4 2013	Q4 2014	change %	1-12 months 2013	1-12 months 2014	change %
Voice services						
Fixed line penetration	25.4%	23.4%	n.a.	25.4%	23.4%	n.a.
Total voice access	152,119	148,551	(2.3%)	152,119	148,551	(2.3%)
Total outgoing traffic (thousand minutes)	64,475	54,403	(15.6%)	265,911	224,995	(15.4%)
Internet and TV services						
Retail DSL market share (estimated)	81.8%	85.8%	n.a.	81.8%	85.8%	n.a.
Number of DSL access	88,840	91,972	3.5%	88,840	91,972	3.5%
Number of IPTV customers	59,188	61,127	3.3%	59,188	61,127	3.3%

Total fixed line revenues decreased by 8.5% quarter over quarter in HUF terms as lower voice, data and other revenues were only partly counterbalanced by higher Internet and TV revenues. Voice revenues decreased owing to lower prices, less traffic and lower average RPC quarter over quarter. Data revenues decreased due to lower revenues from leased lines.

These decreases were slightly offset by the increase in TV revenues owing to the 3.3% increase in the IPTV subscriber base. Internet revenues remained stable in EUR terms quarter over quarter.

EBITDA

The EBITDA of our Montenegrin operations increased by 16.0% in HUF terms quarter over quarter mainly as a result of the significantly lower operating expenses due to the “save to invest” initiatives (renegotiated SLA contracts for material and maintenance costs & rental costs and lower customer invoices printing and postal costs), which were only partially counterbalanced by the 5.6% lower gross margin.

Segment Capex

Segment Capex decreased by 5.6% in Q4 2014 compared to the same quarter last year, owing to lower spending on the Billing and CRM information system development projects. Segment Capex increased by 16.6% year over year primarily due to higher spending on 3G/4G network equipment.

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. Although in one of the cases the second instance court decision was unfavorable for the Company, the management still believes that it is not probable that a significant liability will arise from these claims.

Macedonia

Alleged breach of certain deadlines

MKT and T-Mobile MK have contingent liabilities in respect of legal and regulatory claims arising in the ordinary course of business. The major part of the contingent liabilities relate to several requests for initiating misdemeanor procedures from regulatory bodies for alleged breach of certain deadlines for decision upon subscriber's request. The maximum possible fine for each individual case is 4% - 10% of the annual revenue (HUF 35-43 billion) of the companies for the year preceding the misdemeanor, in accordance with the previously effective local legislation possibly applicable. Management believes that it is not probable that a significant liability will arise from these claims because of unsubstantial basis for initiating these misdemeanor procedures.

Guarantees

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 15.6 billion as at December 31, 2014. These guarantees were issued by banks on behalf of Magyar Telekom as collateral to secure the fulfillment of the Group's certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no significant drawdown of the guarantees happened in 2014 or 2013, and is not expected to happen in the future..

Commitments

There has not been any material change in the nature and amount of our commitments in 2014.

3.4. Other matters

Investigation 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 totaled 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, totaling 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, 2013 or 2014 for these cases.

3.5. Significant events between the end of the quarter and the publishing of the "Interim financial report"

GTS acquisition

On February 25, 2015, at the Board meeting that accepted these consolidated financial statements for submission to the AGM of the Company, the Board of Directors of the Company also approved to buy the 100% share in GTS Hungary Kft. (GTS) from another member company of DT Group for a maximum cash and debt free purchase price of EUR 42 million (HUF 13,225 million using the closing exchange rate as at December 31, 2014). The closing of the transaction is expected in Q2 2015.

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 about to follow that trend with stagnant customer base and lower prices. 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, though with limited impact on the market and the appearance of a fourth mobile operator is also expected. There is a fierce competition in broadband and content services. The battle for customer contracts 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 and even if improvement may prove only virtual, relief is expected to sustain. Still market development is challenged by significant uncertainties in macroeconomic outlook and increasing regulation putting further pressure on market players.

The weakness of domestic demand entails negative changes in the economic structure and a decline in services. Although 2014 brought GDP increase, it is not reflected at the household level since the driver of this growth is the export of industrial production. We expect a modest growth in GDP again in 2015 but the structure remains the same. It will take a longer period for households to benefit from the better economic environment.

Macedonia

Gradual acceleration of growth is expected in the next period of 4.1% for 2015 and 4.5% for 2016. The main carrier of the growth prospect will be export and consumption, with positive impact on the labor market and further stimulate investment. Average inflation for 2015 is estimated at about 1.0%, with pronounced downward risks, due to pressures on the demand side and deflationary pressures through foreign pass-through prices.

Operating in a highly challenging business environment and declining telecommunication business predictions in short-to-mid term (-8% market decline in 2015 and -3.4% in 2019), strong competition resulted in continuation of price drops and value erosion. Continuous mobile substitution on fixed market, supplemented with increased competition on all fixed and mobile markets.

The competitive environment keeps consolidating, VIP (Telekom Austria) and ONE (Telekom Slovenije) announced their intention to merge. Earlier this year, VIP had acquired Blizoo, one of the two major CaTV operators in Macedonia. Also, at the begining of 2014, a new MVNO player, Albafone, targeting the Albanian ethnic residents entered the market.

Montenegro

The Montenegrin telco market is facing strong challenges: macroeconomic conditions are still challenging; competition is growing, while regulatory pressure is more intense than ever.

Fixed line market is becoming more competitive with cable operators trying to expand their footprint. In October 2014, a regional cable operator, SBB, has acquired BBM (a local cable operator) and became leader in the Pay TV market. Also, m:tel has announced major investments in cable TV in 2015. 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 in December 2014. CT had to decrease retail and wholesale broadband prices as well, in accordance with the 2013 Costing model as of December 1, 2014. In a highly penetrated mobile market there is fierce price competition. The Regulator initiated signing of multilateral Agreement on roaming price decrease (retail and WS) with the aim of harmonizing it with those within the EU.

Real GDP growth reached 1.3% in the third quarter of 2014, while projections for 2014 are approximately 2%, which is lower than planned but higher compared to the region. Public debt amounted to 58.1% in the third quarter and is close to the EU limit of 60%. The World Bank and the IMF warned that Public debt and fiscal stability are threatened by the loan for the financing construction of the first Montenegrin highway, which is planned to start in the beginning of 2015. However, the Government expects that the construction of the highway will have significant multiplier effects on the rest of the economy, together with the expected high inflow of foreign direct investment (FDI). Freezing of pensions and public wages, together with the banks' restrictive credit policy and low level of liquidity of the real sector, affect 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 Q4 2014. 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 offered 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 towards a diversified service company based on our strategic imperatives to innovate, grow and extend the core business – thus growing revenue while becoming a more agile organization. The strategic objective in the mid-term is to become more agile, enhance efficiency, simplify the product and services portfolio and increase process automation. As an integrated provider we continue to deliver a unique customer experience supported by our leading brand and best technology.

While anticipating new competencies required by the changing customer behavior, technological advances, and new business models, 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.

Following our strategy enables us to exploit and develop our extended customer base, improve efficiency and capture growth opportunities in an extended market of telecommunications and related industries, which secures stable cash generation in the long run.

Macedonia

Makedonski Telekom and T-Mobile MK managed to maintain the leading positions in all the telco markets in 2014, but we expect to become second player in the Mobile and Pay TV markets early 2015 due to the agreement between Telekom Austria Group and Telekom Slovenije to merge their subsidiaries, VIP and ONE.

Intensified competition, predominantly from CaTV, which offer BB & TV bundles without monthly fee for voice part, puts pressure on the fixed line services. Retail data market reduces due to stronger market competition. Cloud services are being introduced and the IT market shows dynamic growth.

Addressing local challenges in order to fulfil our strategic aspiration, the new Ambition Program 2.0 was introduced, as a strategic direction, with a final objective to maintain transformational path through:

- Transforming technology into superior customer experience;
- Stabilization of the Revenue/EBITDA trend;
- Lean administrative machine (reduce time-to-market by comprehensive process automation);
- Operational excellence (production flexibility, improved customer responsiveness and cost minimization);
- Create new market trends and develop a new digital smart world using social media.

Montenegro

Crnogorski Telekom successfully completed the 2014 business year, preserving its market superiority, stable financial performance and made significant achievements on its transformational path.

Major business challenges are macroeconomic pressure, regulation pressure, emerging competition, digital lifestyle demand; while the major business goals 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 line 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 shares 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 shares.

- Our operations are subject to substantial government regulations, further restrictions related to consumer protection and the price setting methodology of regulated wholesale products are probable, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition, the role of the Mobile Virtual Network Operators (MVNOs) is increasing in the mobile market;
- Beyond current market players in Hungary, DIGI also acquired a 10 MHz spectrum block in the 1800 MHz band in the latest frequency auction, and it can enter the mobile market as a new player;
- 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 impairment 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;
- The regulatory environment in Montenegro and Macedonia is getting stricter, in Montenegro the consolidation of governmental infrastructure could influence our operations unfavorably;
- On September 29, 2014, ministries in charge of electronic communication in Macedonia, Montenegro, Serbia and Bosnia-Herzegovina signed an agreement to decrease roaming prices gradually among these countries from January 2015 in three consecutive years to the level of prices in the EU;
- In Macedonia, the main development is the announcement of the merger of two competitors, ONE and VIP. The closing of the transaction remains subject to a confirmatory due diligence of ONE and approval by the Macedonian authorities. If approved, we expect this transaction to reshape the competitive environment in the Macedonian telecoms market;
- 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 the Hungarian tax regulations;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- Disputes and litigation with regulators, competitors and other parties 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.

Each of our business segments is affected by their own unique business environment, and we are subject to circumstances and events that are unforeseen or beyond our control. The global economy recovered from the crisis but it is largely depend on the monetary policy of the FED. The European growth is still fragile. There are major uncertainties surrounding the future of the euro especially in Greece.

Hungary

The Hungarian economy came out of recession in 2013 and the GDP growth in 2014 was above 3 percent, fueled by export performance, utilization of EU funds and lowered energy prices. The Central Bank of Hungary forecasts indicate GDP growth of about 2.3 percent for 2015. The unemployment rate decreased to 8.1 percent, and the volatility of the Hungarian currency is expected to continue.

In order to balance the 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. The telecommunication tax payable by Magyar Telekom in 2014 was HUF 25.8 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 7.6 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.

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. In September 2014, Magyar Telekom won the rights of use of frequency blocks until June 2034 in the tender of the National Media and Infocommunications Authority in the 800 MHz, 900 MHz, 1800 MHz and 2600 MHz frequency bands. Magyar Telekom paid an initial price of HUF 59 billion for these frequency blocks in Q4 2014.

In 2014, a "Partnership for Digital Hungary" was agreed with the Hungarian Government aiming for full coverage of Hungary with HSI (Highspeed Internet, >30 Mbps) by 2018, in case favorable roll-out conditions are given and EU funds can be utilized.

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.

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. Albafone also entered the market as an MVNO, only with prepaid portfolio. 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. In order to become a modern, lean and fully converged telco operator, Macedonski Telekom launched the Ambition Program 2.0.

We also expect more intensive regulatory measures in Macedonia in the future. Pure LRIC for fixed line termination rates (FTR) and IP interconnection is expected. A margin squeeze test is expected for retail optic products in the beginning of 2015. We also expect obligations for all operators to put their aerial cables in urban areas underground and digital agenda obligation for coverage of households with 30 and 100 Mbps with technical neutrality until 2020. The Balkan roaming regulation decreases the retail and wholesale prices to EU roaming III level. Broadband will be included in Universal Service from 2015.

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, fully exploiting its multi-play, multiscreen and financing capabilities. Fiber roll out will increase broadband penetration, but without premium monetization. Competitors are increasing coverage and service scale through CaTV acquisitions or own new generation network (NGN) investments gaining high-value customer looking for X-Play experience and value-ad. In the mobile market, the environment is very competitive and price sensitive. Flat tariffs in the postpaid segment with unlimited on–net traffic and internet are initiated by market followers. Market players are committed to network capacity increase by 4G/NGM rollout. Competitors can build X-Play capabilities by coalition with, or by acquisitions of, CaTV/SatTV operators to be able to offer fixed line services as well.

Regarding the regulatory measures, regional roaming regulation may heavily influence our roaming revenues. Indirectly, it may have negative influence on international MTRs as well. Regulated FTR and MTR decrease is on track in the period of 2013-2016. The cost based regulation on retail prices (access to the network, fix voice and ADSL) will also negatively influence our revenues, especially due to the fact that the LRIC model will be applied for the 2014 regulatory reports. Margin squeeze test for retail products is expected in the second half of 2015. Implementation of the new eLaw and the new bylaws will result in more strict, demanding and expensive obligations for the operators. The State may also decide to utilize its own infrastructure in order to provide telco services (cost optimization).

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 2015. Free or low price fixed voice tariffs are taking up fast in bundled services. 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. HSI roll-out is speeding up through partnership agreements as well. Fixed line inter-connection tariff 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 reached market leader position in the Hungarian TV market in 2014 and we are aiming to expand further our RPC figures in 2015; 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. OTT solutions).

In the mobile market, penetration has reached saturation point, and we expect declining voice revenues. 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. Flat uptake is already quite intense (and expected to grow) and prices dropped heavily. Mobile termination rates are expected to be reduced further in the future. The market entry of the 4th mobile operator in Hungary is also expected.

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 wage increase measures for 2015-2016 at Magyar Telekom Plc. According to the terms of the agreement, the Company plans to make maximum 1700 employees redundant. 40% is expected to leave the Company between October 1, 2014 and March 1, 2015 while the remaining 60% is expected to leave as of January 1, 2016. Total severance expenses related to the 2-year headcount reduction program will be approximately HUF 12 billion and out of that HUF 4 billion was accounted for in 2014. Meanwhile, in order to keep the wages competitive, there will be a 4% wage increase for employees in lower wage categories as of January 1, 2016 effective retrospectively from July 1, 2015. The above measures are expected to result in net HUF 15 billion cost savings in 2 years, i.e. the program is expected to have a return period of 9 months.

Programming fee payment for previously free to broadcast TV channels remains a possibility in 2015.

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., 4G, HSI) 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. The successful implementation of the new ERP system is also essential.

We are continuously seeking further value-creating acquisitions and investment targets.

EGYÜTT. VELED

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	János Szabó
Chief Executive Officer, member of the Board	Chief Financial Officer

Budapest, February 25, 2015

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 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.