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MAGYAR TELEKOM

INTERIM FINANCIAL REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED MARCH 31, 2015

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Budapest – May 12, 2015 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the first quarter of 2015, in accordance with International Financial Reporting Standards (IFRS).

1. HIGHLIGHTS

MAGYAR TELEKOM **Group Financial Results - IFRS** (HUF million, except indices)	**Q1** **2014** (Unaudited)	**Q1** **2015** (Unaudited)	**Change** **(%)**
Total revenues	**151,893**	**156,957**	**3.3%**
Operating profit	**16,094**	**14,798**	**(8.1%)**
Profit attributable to:			
Owners of the parent	4,828	2,506	(48.1%)
Non-controlling interests	162	816	403.7%
	4,990	**3,322**	**(33.4%)**
Gross margin	98,014	99,180	1.2%
EBITDA	40,528	42,466	4.8%
EBITDA margin	26.7%	27.1%	n.a.
Free cash flow	(11,423)	(1,441)	87.4%
Basic and diluted earnings per share (HUF)	**4.63**	**2.40**	**(48.2%)**
CAPEX to Sales	**11.4%**	**7.8%**	**n.a.**
Net debt	**382,334**	**446,186**	**16.7%**
Net debt / total capital	**43.6%**	**46.2%**	**n.a.**
Number of employees (closing full equivalent)	11,141	10,695	(4.0%)

- **Revenues in the first quarter of 2015 up by 3.3% year-on-year from HUF 151.9 billion to HUF 157.0 billion,** primarily driven by higher mobile and energy revenues. Higher mobile equipment and data revenues were only partly offset by the lower mobile voice and SMS revenues. Energy revenue growth was due to the increased gas and electricity revenues in the business segment. Fixed broadband and TV revenue increases were driven by successful customer acquisition and upgrade campaigns as well.
- **Total direct costs increased in the first quarter of 2015 by 7.2% to HUF 57.8 billion** year-on-year, largely driven by higher energy service related costs and the higher cost of equipment sales, as well as increased TV related costs. Gross margin increased slightly, from HUF 98.0 billion in the first quarter of 2014 to HUF 99.2 billion in the first quarter of 2015, reflecting the improvement in the energy service margin and the lower bad debt expense.
- **First quarter EBITDA improved by 4.8% to HUF 42.5 billion,** owing to a higher overall gross margin driven by increased postpaid customer base and ARPU, lower energy discounts, as well as savings in employee related expenses.

Details of special taxes* **(HUF billion)**	**Q1 2014**	**Q1 2015**
Telecom tax	6.4	6.2
Utility tax	7.5	7.6
Total	**13.9**	**13.9**

**Differences might occur due to rounding*

- **Depreciation and amortization expenses for the quarter increased to HUF 27.7 billion, from HUF 24.4 billion during the same period last year.** The change was driven by the amortization of telecom licenses related to the new frequency usage rights acquired in October 2014 and the higher depreciation stemming from the write off of certain network assets.
- **Net financial expenses increased significantly, from HUF 6.0 billion to HUF 8.6 billion,** mainly as a result of losses on foreign exchange translation and the fair valuation of derivatives, driven by a 5.3% strengthening of the HUF against the EUR in the reporting period compared to a 3.4% weakening in the same quarter of 2014. Furthermore, interest expenses increased due to the higher average balance of interest bearing liabilities, primarily affected by the liabilities incurred in relation to the frequency acquisition in October 2014.

- **Income tax expense decreased from HUF 5.1 billion to HUF 2.9 billion**. The primary reason for the decrease was the absence of the HUF 1.1 billion tax expense recognized at Makedonski Telekom in Q1 2014 due to the change in income tax law affecting dividend declarations as well as a lower profit before tax of the Group.
- **Profit attributable to owners of the parent company** (**net income**) **decreased from HUF 4.8 billion to HUF 2.5 billion,** largely due to higher depreciation and amortization and net financial expenses offsetting the improvement in EBITDA.
- **Investments in tangible and intangible assets (CAPEX) decreased by HUF 5.2 billion to HUF 12.2 billion in the first quarter of 2015,** driven by lower spending on 3G/LTE investments, while the Hungarian fixed High Speed Internet roll-out program is due to be launched in the next quarter. In Q1 2015, Telekom Hungary accounted for HUF 10.7 billion of total Capex while HUF 0.7 billion was associated with T-Systems Hungary. In Macedonia and Montenegro, Capex was HUF 0.6 billion and HUF 0.2 billion, respectively.
- **Free cash flow** (FCF, operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets and repayment of other financial liabilities) **improved from HUF -11.4 billion in the first quarter of 2014 to HUF -1.4 billion in the same period of 2015**. The main driver of this improvement was the significant decrease in repayment of other financial liabilities reflecting the payments on factored vendor contracts in the first quarter of 2014. At the same time, lower cash Capex spending due to the slower pick-up in investments also supported free cash flow performance.
- **Net debt rose from HUF 382.3 billion** at the end of the first quarter of 2014 to **HUF 446.2 billion** at the end of the same period of 2015, but remained broadly stable compared to year-end 2014. The year-on-year increase primarily reflects the frequency license payments and the capitalization of the present value of the future annual frequency in Q4 2014. The **net debt ratio** (net debt to total capital) slightly increased to **46.2%.**

Christopher Mattheisen, CEO commented:

"I am pleased to report that we have closed a very successful quarter in terms of operating performance. Our group revenues increased by 3.3% compared to the first quarter of last year driven by strong results from our mobile and energy operations. Thanks to the efforts made last year to invest in 4G networks across our Hungarian and international footprints, our mobile broadband and equipment revenues significantly increased. Revising our discount scheme in the energy business also helped to grow our overall margin, while savings in employee related expenses led to a 4.8% uplift in our group EBITDA.

Looking at our segments, Telekom Hungary was the primary growth driver for the revenue, recording a 6.9% increase year-on-year. We were able to increase further our mobile customer base by 2% and ARPU by 4% among the Hungarian residential and small-medium business subscribers. Our mobile data revenues grew by almost 16% which was driven by a very attractive device portfolio, which includes the iPhone6, and a strong 4G push that was supported by the network sharing agreement with Telenor in the countryside of Hungary. We maintained our leadership positions in the Hungarian fixed line markets and, driven by the successful upgrade campaigns, we were able to achieve higher broadband and TV ARPUs compared to the first quarter of last year.

These very good results in the residential segment were somewhat offset, however, by the continuous pressure on our large enterprise customer base owing to the intense mobile competition leading to a lower mobile ARPU. The state-owned operator caused a further increase in fixed churn at T-Systems but we were able to slightly increase our SI/IT margin coupled with lower employee related expenses. At the same time, in Macedonia, we witnessed a very moderate revenue decrease compared to previous quarters as the mobile market continues to show signs of stabilization. The previously witnessed double digit declines in mobile revenue and EBITDA have slowed down, with the 25% increase in mobile data revenue – in part reflecting the success of prolonging our Christmas campaign into January – is also promising. However, in Montenegro, besides the decline in messaging and prepaid mobile revenues, the regulatory pressures on fixed voice and broadband continued to weigh, leading to an 8% overall decline.

Looking forward, we aim to continue promoting superior 4G experience to take greater advantage of the mobile rebalancing opportunities. We have commenced an intensive fixed network development program, whereby we will enlarge our High Speed Internet coverage by 440,000 households in Hungary over the next three quarters. Next generation network development will also be implemented at our foreign subsidiaries. A greater focus of our marketing activities across our whole footprint over the upcoming quarters will be geared on fixed-mobile convergence products.

In terms of our financial targets, we maintain our EBITDA and Capex guidance. However, due to the planned exit from the residential gas market in August this year and the previously announced decision to set-up a JV in respect of energy services to our business customers in the second half of 2015 – implying that its results will no longer be consolidated –, we are now expecting roughly stable revenues in 2015 compared to a year earlier."

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2015 public guidance:

	2014	Public guidance 2015
Revenue	HUF 626.4 billion	roughly stable*
EBITDA	HUF 181.2 billion	0-3% decline
Capex**	HUF 86.8 billion	ca. HUF 105 billion

**modified from 0-3% increase*

***excluding spectrum acquisitions and annual frequency fee capitalization*

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2. CONSOLIDATED IFRS FINANCIAL STATEMENTS

2.1. Consolidated Statements of Financial Position

MAGYAR TELEKOM

Consolidated Statements of Financial Position (HUF million)	Dec 31, 2014 (Audited)	Mar 31, 2015 (Unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	14,625	13,333	(1,292)	(8.8%)
Trade and other receivables	144,266	145,416	1,150	0.8%
Other current financial assets	23,690	19,154	(4,536)	(19.1%)
Current income tax receivable	899	2,317	1,418	157.7%
Inventories	13,749	16,877	3,128	22.8%
Non current assets held for sale	668	390	(278)	(41.6%)
Total current assets	**197,897**	**197,487**	**(410)**	**(0.2%)**
Non current assets				
Property, plant and equipment	487,778	474,692	(13,086)	(2.7%)
Intangible assets	259,984	253,299	(6,685)	(2.6%)
Goodwill	218,502	218,128	(374)	(0.2%)
Deferred tax assets	155	96	(59)	(38.1%)
Other non current financial assets	25,243	24,370	(873)	(3.5%)
Other non current assets	1,217	918	(299)	(24.6%)
Total non current assets	**992,879**	**971,503**	**(21,376)**	**(2.2%)**
Total assets	**1,190,776**	**1,168,990**	**(21,786)**	**(1.8%)**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	110,858	129,088	18,230	16.4%
Other financial liabilities	65,131	51,656	(13,475)	(20.7%)
Trade payables	110,361	84,835	(25,526)	(23.1%)
Current income tax payable	1,778	358	(1,420)	(79.9%)
Provisions	5,579	4,690	(889)	(15.9%)
Other current liabilities	36,129	47,232	11,103	30.7%
Total current liabilities	**329,836**	**317,859**	**(11,977)**	**(3.6%)**
Non current liabilities				
Financial liabilities to related parties	245,071	239,661	(5,410)	(2.2%)
Other financial liabilities	59,422	58,268	(1,154)	(1.9%)
Deferred tax liabilities	22,064	22,334	270	1.2%
Provisions	8,816	9,126	310	3.5%
Other non current liabilities	1,169	1,191	22	1.9%
Total non current liabilities	**336,542**	**330,580**	**(5,962)**	**(1.8%)**
Total liabilities	**666,378**	**648,439**	**(17,939)**	**(2.7%)**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,396	27,404	8	0.0%
Treasury stock	(307)	(307)	0	0.0%
Retained earnings	310,406	312,912	2,506	0.8%
Accumulated other comprehensive income	32,184	27,486	(4,698)	(14.6%)
Total Equity of the owners of the parent	**473,954**	**471,770**	**(2,184)**	**(0.5%)**
Non-controlling interests	50,444	48,781	(1,663)	(3.3%)
Total equity	**524,398**	**520,551**	**(3,847)**	**(0.7%)**
Total liabilities and equity	**1,190,776**	**1,168,990**	**(21,786)**	**(1.8%)**

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

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q1 2014 (Unaudited)	Q1 2015 (Unaudited)	Change	Change (%)
Revenues				
Voice retail	38,754	38,237	(517)	(1.3%)
Voice wholesale	6,530	6,834	304	4.7%
Data	12,150	13,893	1,743	14.3%
SMS	4,767	4,524	(243)	(5.1%)
Equipment	8,027	10,022	1,995	24.9%
Other mobile revenues	3,388	3,428	40	1.2%
Mobile revenues	**73,616**	**76,938**	**3,322**	**4.5%**
Voice retail	16,495	15,207	(1,288)	(7.8%)
Broadband retail	11,699	12,251	552	4.7%
TV	9,360	10,338	978	10.4%
Equipment	1,699	1,905	206	12.1%
Data retail	2,915	2,569	(346)	(11.9%)
Wholesale	5,147	4,636	(511)	(9.9%)
Other fixed line revenues	4,264	3,743	(521)	(12.2%)
Fixed line revenues	**51,579**	**50,649**	**(930)**	**(1.8%)**
System Integration/Information Technology revenues	13,189	12,581	(608)	(4.6%)
Energy service revenues	13,509	16,789	3,280	24.3%
Total revenues	**151,893**	**156,957**	**5,064**	**3.3%**
Direct costs				
Interconnect costs	(7,860)	(8,049)	(189)	(2.4%)
SI/IT service related costs	(6,970)	(6,873)	97	1.4%
Energy service related costs	(13,231)	(15,769)	(2,538)	(19.2%)
Bad debt expense	(3,238)	(1,892)	1,346	41.6%
Other direct costs	(22,580)	(25,194)	(2,614)	(11.6%)
Direct costs	**(53,879)**	**(57,777)**	**(3,898)**	**(7.2%)**
Gross margin	**98,014**	**99,180**	**1,166**	**1.2%**
Employee-related expenses	(22,563)	(21,898)	665	2.9%
Hungarian sector specific special taxes	(13,912)	(13,875)	37	0.3%
Other operating expenses	(21,478)	(21,711)	(233)	(1.1%)
Other operating income	467	770	303	64.9%
EBITDA	**40,528**	**42,466**	**1,938**	**4.8%**
Depreciation and amortization	(24,434)	(27,668)	(3,234)	(13.2%)
Operating profit	**16,094**	**14,798**	**(1,296)**	**(8.1%)**
Net financial result	(6,046)	(8,613)	(2,567)	(42.5%)
Profit before income tax	**10,048**	**6,185**	**(3,863)**	**(38.4%)**
Income tax	(5,058)	(2,863)	2,195	43.4%
Profit for the period	**4,990**	**3,322**	**(1,668)**	**(33.4%)**
Change in exchange differences on translating foreign operations	6,106	(7,165)	(13,271)	n.m.
Revaluation of available-for-sale financial assets	(5)	(12)	(7)	(140.0%)
Other comprehensive income for the period	6,101	(7,177)	(13,278)	n.m.
Total comprehensive income for the period	**11,091**	**(3,855)**	**(14,946)**	**n.m.**
Profit attributable to:				
Owners of the parent	4,828	2,506	(2,322)	(48.1%)
Non-controlling interests	162	816	654	403.7%
	4,990	**3,322**	**(1,668)**	**(33.4%)**
Total comprehensive income attributable to:				
Owners of the parent	9,253	(2,192)	(11,445)	n.m.
Non-controlling interests	1,838	(1,663)	(3,501)	n.m.
	11,091	**(3,855)**	**(14,946)**	**n.m.**
Basic and diluted earnings per share (HUF)	**4.63**	**2.40**	**(2.23)**	**(48.2%)**

2.3. Consolidated Statements of Cash Flows

MAGYAR TELEKOM

Consolidated Statements of Cash Flows (HUF million)	1-3 months 2014 (Unaudited)	1-3 months 2015 (Unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	4,990	3,322	(1,668)	(33.4%)
Depreciation and amortization	24,434	27,668	3,234	13.2%
Income tax expense	5,058	2,863	(2,195)	(43.4%)
Net financial result	6,046	8,613	2,567	42.5%
Change in assets carried as working capital	(1,194)	(3,460)	(2,266)	(189.8%)
Change in provisions	(444)	(540)	(96)	(21.6%)
Change in liabilities carried as working capital	(4,145)	(338)	3,807	91.8%
Income tax paid	(4,239)	(5,357)	(1,118)	(26.4%)
Interest and other financial charges paid	(6,238)	(7,688)	(1,450)	(23.2%)
Interest received	305	262	(43)	(14.1%)
Other cashflows from operations	690	(105)	(795)	n.m.
Net cash generated from operating activities	**25,263**	**25,240**	**(23)**	**(0.1%)**
Cash flows from investing activities				
Investments in tangible and intangible assets	(17,292)	(12,179)	5,113	29.6%
Adjustments to cash purchases	(8,031)	(10,734)	(2,703)	(33.7%)
Purchase of subsidiaries and business units	(201)	(1,469)	(1,268)	n.m.
(Payments for) / Proceeds from other financial assets - net	(1,992)	4,134	6,126	n.m.
Proceeds from disposal of property, plant and equipment (PPE) and intangible assets	268	235	(33)	(12.3%)
Net cash used in investing activities	**(27,248)**	**(20,013)**	**7,235**	**26.6%**
Cash flows from financing activities				
Dividends paid to shareholders and Non-controlling interests	(4)	(37)	(33)	n.m.
(Repayment of)/ Proceeds from loans and other borrowings -net	12,246	(3,456)	(15,702)	n.m.
Repayment of other financial liabilities	(11,430)	(2,534)	8,896	77.8%
Net cash used in financing activities	**812**	**(6,027)**	**(6,839)**	**n.m.**
Exchange differences on cash and cash equivalents	288	(492)	(780)	n.m.
Change in cash and cash equivalents	**(885)**	**(1,292)**	**(407)**	**(46.0%)**
Cash and cash equivalents, beginning of period	14,633	14,625	(8)	(0.1%)
Cash and cash equivalents, end of period	13,748	13,333	(415)	(3.0%)
Change in cash and cash equivalents	**(885)**	**(1,292)**	**(407)**	**(46.0%)**

2.4. Consolidated Statements of Changes in Equity

MAGYAR TELEKOM - Consolidated Statements of Changes in Equity (unaudited)

	pieces	in HUF millions										
			Capital reserves				Accumulated Other Comprehensive Income					
	Shares of common stock	Common stock	Additional paid in capital	Reserve for equity settled share-based transactions	Treasury stock	Retained earnings	Cumulative translation adjustment	Revaluation reserve for AFS financial assets – net of tax	Equity of the owners of the parent	Non-controlling interests	Total Equity
Balance at December 31, 2013	1,042,742,543	104,275	27,379	8	(307)	281,795	24,425	(107)	437,468	52,108	489,576
Dividend declared to Non-controlling interests									0	(5,286)	(5,286)
Equity settled share-based transactions				1					1		1
Capital reduction [(1)]									0	(1,247)	(1,247)
Total comprehensive income						4,828	4,428	(3)	9,253	1,838	11,091
Balance at March 31, 2014	1,042,742,543	104,275	27,379	9	(307)	286,623	28,853	(110)	446,722	47,413	494,135
Dividend declared to Non-controlling interests									0	(1,536)	(1,536)
Equity settled share-based transactions				8					8		8
Deconsolidation effect									0	(10)	(10)
Total comprehensive income						23,783	3,423	18	27,224	4,577	31,801
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
Equity settled share-based transactions				8					8		8
Total comprehensive income						2,506	(4,691)	(7)	(2,192)	(1,663)	(3,855)
Balance at March 31, 2015	1,042,742,543	104,275	27,379	25	(307)	312,912	27,585	(99)	471,770	48,781	520,551

2.5. About Magyar Telekom

Magyar Telekom Telecommunications Public Limited Company (the Company or Magyar Telekom Plc.) with its subsidiaries form Magyar Telekom Group (Magyar Telekom or the Group). Magyar Telekom is the principal provider of telecommunications services in Hungary, Macedonia and Montenegro and alternative service provider in Bulgaria and Romania. These services are subject to various telecommunications regulations depending on the countries of operations.

The Company was incorporated in Hungary on December 31, 1991 and commenced business on January 1, 1992. The Company's registered office is Krisztina körút 55., 1013 Budapest, Hungary.

Magyar Telekom Plc. is listed on the Budapest Stock Exchange where its shares are traded. Magyar Telekom's American Depository Shares (ADSs), each representing five ordinary shares, were also traded on the New York Stock Exchange until November 12, 2010, when the ADSs were delisted. Magyar Telekom terminated the registration of its shares and ADSs in the US in February 2012. The Company maintains its American Depositary Receipt program on a Level I basis.

The ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG). Deutsche Telekom Europe 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.

2.6. Basis of preparation and audit of the interim financial report

This condensed consolidated interim financial information was prepared in accordance with IAS 34 (Interim Financial Reporting) and should be read in conjunction with the annual financial statements for the year ended December 31, 2014, 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, 2014 have been filed with the Budapest Stock Exchange and the Hungarian National Bank. The statutory accounts for December 31, 2014 were audited and the audit report was unqualified.

2.7. Accounting policies

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated annual financial statements for the year ended December 31, 2014.

3. CONSOLIDATED MANAGEMENT REPORT

3.1. Operating and financial review – Group

3.1.1 Exchange rate information

Exchange rate	Q1 2014	Q1 2015	Change
HUF/EUR beginning of period	296.91	314.89	6.1%
HUF/EUR period-end	307.06	299.14	(2.6%)
HUF/EUR cumulative monthly average	307.81	306.99	(0.3%)
HUF/MKD beginning of period	4.83	5.12	6.0%
HUF/MKD period-end	4.98	4.86	(2.4%)
HUF/MKD cumulative monthly average	4.99	4.99	0.0%

Compared to Q1 2014, the changes in foreign exchange rates had no significant effect on the Q1 2015 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 157.0 billion in Q1 2015 compared to HUF 151.9 billion in Q1 2014, representing a 3.3% increase quarter over quarter caused by the following:

Mobile revenues amounted to HUF 76.9 billion in Q1 2015, compared to HUF 73.6 billion in the same period of the previous year representing a 4.5% increase. Higher mobile equipment and data revenues were only partly offset by the lower mobile voice and SMS revenues.

Voice-retail revenues decreased by 1.3% to HUF 38.2 billion in Q1 2015. This was mainly due to, lower mobile voice-retail revenues in Macedonia despite the increased volume of outgoing minutes quarter over quarter, as the average price per minute decreased after the introduction of new offers and promotion in response to competitive pressures in the market. In Hungary, outgoing mobile voice revenues remained stable as the growth in the postpaid segment due to the combined effect of higher minutes of use (MOU), higher customer base and lower average price per minutes was largely offset by the decrease in prepaid segment. In the prepaid segment both MOU and the number of customers decreased, partly offset by the higher prepaid outgoing tariff. In Montenegro, lower voice-retail revenues were driven by the decrease in outgoing traffic especially in the prepaid segment. Lower roaming revenues were caused by EU regulated average tariff erosion, effective from July 1, 2014.

Voice-wholesale revenues were up by 4.7% and amounted to HUF 6.8 billion in Q1 2015, 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 September 1, 2014 and decrease in international incoming traffic.

Data revenues amounted to HUF 13.9 billion in Q1 2015, compared to HUF 12.2 billion in Q1 2014, representing a 14.3% increase. Higher revenues primarily came from higher mobile Internet revenues in Hungary, as both subscriber numbers and usage increased in Q1 2015.

SMS revenues amounted to HUF 4.5 billion in Q1 2015, compared to HUF 4.8 billion in Q1 2014, representing a 5.1% decrease, primarily due to the lower number of SMSs sent.

Mobile equipment revenues increased by 24.9% to HUF 10.0 billion in Q1 2015 compared to HUF 8.0 billion in Q1 2014, mostly attributable to our Hungarian operation. Higher revenues were driven by the increase in sales volume and the higher average handset prices in Q1 2015 versus Q1 2014.

Fixed line revenues amounted to HUF 50.6 billion in Q1 2015, compared to HUF 51.6 billion in the same period of the previous year, representing a 1.8% decline. The decrease was driven by falling voice retail, wholesale and data revenues, partly offset by increased TV, broadband and equipment revenues.

Voice-retail revenues decreased by 7.8% to HUF 15.2 billion in Q1 2015 compared to HUF 16.5 billion in Q1 2014, mainly driven by the continuous decline in the number of PSTN lines, lower usage and decreased average tariff levels.

Broadband retail revenues increased from HUF 11.7 billion in Q1 2014 to HUF 12.3 billion in Q1 2015, representing a 4.7% growth. In Hungary, DSL connections increased together with cablenet and fiber optic connections, resulting in higher revenues.

TV revenues amounted to HUF 10.3 billion in Q1 2015 compared to HUF 9.4 billion in Q1 2014, representing an increase of 10.4%. 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 Q1 2015 compared to the same quarter last year. These increases were partly offset by lower Cable TV revenues owing to the migration to IPTV services in Hungary.

Fixed equipment revenues amounted to HUF 1.9 billion in Q1 2015 compared to HUF 1.7 billion in Q1 2014. The increase was mainly owing to the higher sale of TV sets in Hungary. The growth was somewhat mitigated by the lower sale of TV sets and laptops in Montenegro.

Data retail revenues amounted to HUF 2.6 billion in Q1 2015 as compared to HUF 2.9 billion in Q1 2014. The decrease was mainly deriving from the lower number of domestic and international leased line customers as well as decreased prices, both in Hungary and at our foreign subsidiaries in Q1 2015.

Wholesale revenues decreased by 9.9% to HUF 4.6 billion in Q1 2015. In Hungary, Data and Broadband wholesale revenues decreased due to price erosion. In Hungary, the number of wholesale DSL connections decreased significantly. Voice wholesale revenues decreased owing to lower incoming traffic generated in Hungary and at our foreign subsidiaries in Q1 2015.

Other fixed line revenues decreased by 12.2% in Q1 2015 compared to the same period previous year, and amounted to HUF 3.7 billion. The decrease was mainly due to lower revenues derived from value added services and lower revenues from satellite TV rental. These decreases were partly offset by higher dunning fees in Q1 2015.

System Integration (SI) and IT revenues decreased by 4.6% from HUF 13.2 billion in Q1 2014 to HUF 12.6 billion in the same period of 2015. Lower revenues were due to the termination of some large projects in Hungary. In Montenegro, higher number of ICT customers resulted in higher SI/IT revenues.

Energy Services revenues increased to HUF 16.8 billion in Q1 2015 compared to HUF 13.5 billion in Q1 2014. As at March 31, 2015 the number of electricity points of delivery increased to 109,489 while gas points of delivery decreased to 66,107. The consumption was higher quarter over quarter, but the universal service price reduction from April 2014 and further from September 2014 had a negative effect on the revenues.

3.1.3 Direct costs

Direct costs increased by 7.2% quarter over quarter and amounted to HUF 57.8 billion in Q1 2015.

Interconnect costs increased by 2.4% in Q1 2015 quarter over quarter, and amounted to HUF 8.0 billion. There was a significant increase in the voice network access charges in Hungary and Macedonia due to higher traffic generated in Q1 2015.

SI/IT service related costs remained stable at HUF 6.9 billion quarter over quarter.

Energy service related costs in Hungary increased from HUF 13.2 billion in Q1 2014 to HUF 15.8 billion in Q1 2015 primarily driven by higher volume of electricity and gas consumption. This was partly counterbalanced by decreased purchase prices in Q1 2015.

Bad debt expenses decreased sharply by 41.6% from HUF 3.2 billion in Q1 2014 to HUF 1.9 billion in Q1 2015, mainly owing to significantly higher amount of impairment loss charged in Q1 2014 on receivables from equipment sales on installments in Hungary.

Other direct costs increased from HUF 22.6 billion in Q1 2014 to HUF 25.2 billion in Q1 2015 primarily due to higher cost of equipment sales as a result of the higher number and unit cost of equipment sold, due to the higher portion of smartphone sales.

3.1.4 Gross margin

Gross margin increased slightly from HUF 98.0 billion in Q1 2014 to HUF 99.2 billion in Q1 2015, as direct costs in nominal terms increased to a lesser extent than revenues quarter over quarter.

3.1.5 Employee-related expenses

Employee-related expenses decreased by 2.9% from HUF 22.6 billion in Q1 2014 to HUF 21.9 billion in Q1 2015, owing to the 3.4% decrease in average employee figure quarter over quarter.

3.1.6 Hungarian sector specific special taxes

Hungarian sector specific special taxes remained stable at HUF 13.9 billion quarter over quarter.

3.1.7 Other operating expenses

Other operating expenses increased slightly from HUF 21.5 billion in Q1 2014 to HUF 21.7 billion in Q1 2015 primarily due to penalties received by Magyar Telekom Plc. in Q1 2015.

3.1.8 Other operating income

Other operating income increased from HUF 0.5 billion to HUF 0.8 billion quarter over quarter. The increase is primarily due to higher income from compensation for own network construction works in Q1 2015.

3.1.9 EBITDA

EBITDA increased by 4.8% from HUF 40.5 billion in Q1 2015 to HUF 42.5 billion in Q1 2015, primarily due to higher gross margin coupled with lower employee related expenses in Q1 2015.

3.1.10 Depreciation and amortization

Depreciation and amortization expenses increased by 13.2% from HUF 24.4 billion in Q1 2014 to HUF 27.7 billion in Q1 2015, mainly due to the increase in the amortization of telecom licenses due to the new frequency usage rights acquired on October 15, 2014. The higher amount of scrapping of certain network assets also contributed to the increase in depreciation.

3.1.11 Operating profit

Operating profit decreased from HUF 16.1 billion in Q1 2014 to HUF 14.8 billion in Q1 2015 for the reasons described above.

3.1.12 Net financial result

The net financial result deteriorated by 42.5% from HUF 6.0 billion in Q1 2014 to HUF 8.6 billion Q1 2015. The result was primarily due to the higher combined net loss on foreign exchange translation and fair valuation of derivatives in Q1 2015 compared to the HUF 0.6 billion gain in Q1 2014. The HUF strengthened by 5.3% against the EUR in Q1 2015 compared to a 3.4% weakening in Q1 2014. This was strengthened by the increase in interest expenses due to the higher average balance of interest bearing liabilities primarily due to the liabilities incurred in relation to the frequency acquisition in October 2014.

3.1.13 Income tax

Income tax expenses have decreased from Q1 2014 to Q1 2015 by HUF 2.2 bn. The decrease is primarily due to a one-time tax expense recognized on dividend declared at Makedonski Telekom in Q1 2014 (HUF 1.1 bn). According to the changes of the tax law in Macedonia in January 2014 profit tax of 10% was levied upon dividend declaration, irrespectively of the shareholders of the entity. Further, the significantly lower Profit before income tax of the Group also contributed to the decrease of income taxes.

3.1.14 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests increased from HUF 0.2 billion in Q1 2014 to HUF 0.8 billion in Q1 2015. The significant increase is primarily owing to the tax on dividend declaration at Makedonski Telekom recognized in 2014 (HUF 1.1 billion) which resulted in loss for Q1 2014 at the Macedonian segment, as opposed to the profit in Q1 2015.

The above described significant effect was partly offset by the lower profit of Crnogorski Telekom in Q1 2015 which resulted in the slightly lower profit attributable to non-controlling interests in 2015.

3.1.15 Cash flows

HUF millions	Q1 2014	Q1 2015	Change
Operating cash flow	25,263	25,240	(23)
Investing cash flow	(27,248)	(20,013)	7,235
Less: (Payments for) / Proceeds from other financial assets - net	1,992	(4,134)	(6,126)
Investing cash flow excluding (Payments for) / Proceeds from other financial assets – net	(25,256)	(24,147)	1,109
Repayment of other financial liabilities	(11,430)	(2,534)	8,896
Free cash flow	**(11,423)**	**(1,441)**	**9,982**
(Payments for) /Proceeds from other financial assets - net	(1,992)	4,134	6,126
(Repayment of) /Proceeds from loans and other borrowings - net	12,246	(3,456)	(15,702)
Dividend paid to shareholders and Non-controlling interests	(4)	(37)	(33)
Exchange gains on cash and cash equivalents	288	(492)	(780)
Change in cash and cash equivalents	**(885)**	**(1,292)**	**(407)**

Free cash flow

Operating cash flow

Net cash generated from operating activities remained stable at HUF 25 billion in 2015. The stable performance was the result of the following counterbalancing changes:

- HUF 2 billion positive change due to the higher EBITDA in 2015 than in 2014
- HUF -3 billion negative change in active working capital due to higher sales of equipment (0-24) and energy in 2015, the receivables from which are not fully collected yet.
- HUF 4 billion positive change in passive working capital due to higher purchase of equipment and energy in 2015, the liabilities from which are not fully paid yet.
- HUF -1 billion negative change due to higher tax payments in Macedonia as a result of the changes of the tax law in 2014, resulting in corporate tax payments on the 2014 profits in Q1 2015, no such payments in Q1 2014
- HUF -1 billion negative change due to higher interest paid on capitalized annual frequency fees in 2015 due to the prolonged frequencies in 2013 and the new frequencies acquired in 2014
- HUF -1 billion negative change due to various other effects of working capital

Investing cash flow excluding (payments for) / proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF -24 billion in 2015, compared to HUF -25 billion in 2014. Main reasons for the HUF 1 billion lower cash outflow were the following:

- HUF 5 billion positive effect due to the slower pick-up of Capex investments in 2015 than in 2014
- HUF -3 billion negative change due to the higher amount of Capex creditors paid in 2015 than in 2014
- HUF -1 billion negative change due to higher volume of acquisitions of cable TV operations in 2015 than in 2014.

Repayment of other financial liabilities

Repayment of other financial liabilities decreased from HUF -11 billion in 2014 to HUF -2 billion in 2015. Main reasons for the lower payments of HUF 9 billion were the following:

- HUF 10 billion positive change due to Q1 2014 payments on vendor invoices reverse factored in Q4 2013
- HUF -1 billion higher payment on annual frequency fees in 2015 (recognized as financial liability in Q3 2013 and Q4 2014), than in 2014

Free cash flow (FCF) overall improved from HUF -11.4 billion in 2014 to HUF -1.4 billion in 2015 due to the reasons described above.

(Payments for) / Proceeds from other financial assets - net

Proceeds from other financial assets - net increased by HUF 6 billion. Main reasons for the increase were the following:

- HUF 5 billion cash inflows from derivatives in 2015 as opposed to
- HUF 2 billion cash outflows from derivatives in 2014
- HUF -1 billion higher amount of CT's cash was invested as bank deposits over 3 months in Q1 2015 in net terms

(Repayment of) / Proceeds from loans and other borrowings - net

Repayment of / Proceeds from loans and other borrowings- net changed by HUF 16 billion as a result of the changes described above

Dividend paid to shareholders and Non-controlling interest

Dividend paid to shareholders and Non-controlling interest was negligable in the first quarters.

Exchange losses on cash and cash equivalents

The exchange loss on cash and cash equivalent is the result of two opposite effects. The depreciation of the HUF in 2014 was lower than the appreciation of the HUF in 2015.

3.1.16 Statements of Financial Position

The most significant change in the balances of the Statements of Financial Position from December 31, 2014 to March 31, 2015 can be observed in the following lines:

- Property, plant and equipment
- Financial liabilities to related parties
- Other financial liabilities – current portion
- Trade payables

Property, plant and equipment (PPE) decreased by HUF 13 billion from December 31, 2014 to March 31, 2015. The main reason for the decrease is that the depreciation and scrapping of the assets exceeded the capital expenditure in Q1 2015. Also, the stronger HUF as at March 31, 2015 than as at December 31, 2014 resulted in the HUF carrying value of the PPE of the foreign subsidiaries to decrease.

Financial liabilities to related parties increased by HUF 13 billion from December 31, 2014 to March 31, 2015. The main reason for the increase is that certain short term bank loans were refinanced by short term DT group loans.

The current portion of Other financial liabilities decreased by HUF 13 billion from December 31, 2014 to March 31, 2015. The main reason for the decrease is that certain short term bank loans were refinanced by short term DT group loans.

Trade payables decreased by HUF 26 billion from December 31, 2014 to March 31, 2015. The main reason for the decrease is that capex, equipment and energy sales picked up in the last quarter of the year, the vendors of which are usually paid in the first quarter of the following year.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2014 to March 31, 2015. 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 Q1 2015, and the related explanations provided above in section 3.1.15 Cash flows.

3.1.17 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	Q1 2014	Q1 2015	Change	Change (%)
Total Telekom Hungary revenues	113,656	121,505	7,849	6.9%
Less: Telekom Hungary revenues from other segments	(6,512)	(6,178)	334	5.1%
Telekom Hungary revenues from external customers	**107,144**	**115,327**	**8,183**	**7.6%**
Total T-Systems Hungary revenues	27,300	23,512	(3,788)	(13.9%)
Less: T-Systems Hungary revenues from other segments	(3,474)	(1,337)	2,137	61.5%
T-Systems Hungary revenues from external customers	**23,826**	**22,175**	**(1,651)**	**(6.9%)**
Total Macedonia revenues	13,392	12,504	(888)	(6.6%)
Less: Macedonia revenues from other segments	(21)	(15)	6	28.6%
Macedonia revenues from external customers	**13,371**	**12,489**	**(882)**	**(6.6%)**
Total Montenegro revenues	7,555	6,974	(581)	(7.7%)
Less: Montenegro revenues from other segments	(5)	(8)	(3)	(60.0%)
Montenegro revenues from external customers	**7,550**	**6,966**	**(584)**	**(7.7%)**
Total consolidated revenue of the segments	151,891	156,957	5,066	3.3%
Measurement/rounding differences to Group revenue	2	0	(2)	(100.0%)
Total revenue of the Group	**151,893**	**156,957**	**5,064**	**3.3%**
Segment results (EBITDA)				
Telekom Hungary	29,150	32,513	3,363	11.5%
T-Systems Hungary	3,195	2,647	(548)	(17.2%)
Macedonia	5,427	5,047	(380)	(7.0%)
Montenegro	2,706	2,420	(286)	(10.6%)
Total EBITDA of the segments	**40,478**	**42,627**	**2,149**	**5.3%**
Measurement/rounding differences to Group EBITDA	50	(161)	(211)	n.m.
Total EBITDA of the Group	**40,528**	**42,466**	**1,938**	**4.8%**

3.2.2 Telekom Hungary

HUF millions	Q1 2014	Q1 2015	Change	Change (%)
Voice	34,663	35,684	1,021	2.9%
Non-voice	12,619	14,082	1,463	11.6%
Other	10,413	12,236	1,823	17.5%
Total mobile revenues	**57,695**	**62,002**	**4,307**	**7.5%**
Voice retail	11,346	10,719	(627)	(5.5%)
Broadband - retail	8,828	9,627	799	9.1%
TV	8,216	9,027	811	9.9%
Other	13,653	12,905	(748)	(5.5%)
Fixed line revenues	**42,043**	**42,278**	**235**	**0.6%**
SI/IT revenues	409	435	26	6.4%
Revenue from Energy services	13,509	16,790	3,281	24.3%
Total revenues	**113,656**	**121,505**	**7,849**	**6.9%**
Direct cost	**(40,161)**	**(45,441)**	**(5,280)**	**(13.1%)**
Gross margin	**73,495**	**76,064**	**2,569**	**3.5%**
Telecom tax	(5,132)	(5,032)	100	1.9%
Utility tax	(6,950)	(7,107)	(157)	(2.3%)
Other operating expenses (net)	(32,263)	(31,412)	851	2.6%
EBITDA	**29,150**	**32,513**	**3,363**	**11.5%**
Segment Capex	**15,185**	**10,675**	**(4,510)**	**(29.7%)**

Revenues

Total revenues in the Telekom Hungary segment increased in Q1 2015 compared with the same quarter in the previous year due to higher mobile revenues as well as higher TV, Broadband retail and Energy services revenues. These increases were mitigated by lower fixed voice retail and other fixed line revenues.

Mobile services	Q1 2014	Q1 2015	change %
Mobile penetration (1) (3)	116.9%	116.8%	n.a.
Mobile SIM market share (2) (3)	46.3%	46.3%	n.a.
Number of customers (RPC)	**4,877,960**	**4,947,510**	**1.4%**
Postpaid share in the RPC base	48.7%	50.4%	n.a.
MOU	**159**	**179**	**12.4%**
ARPU (HUF)	**3,333**	**3,462**	**3.9%**
Postpaid	5,583	5,710	2.3%
Prepaid	1,210	1,195	(1.2%)
Churn rate	18.2%	18.3%	n.a.
Postpaid	13.3%	12.0%	n.a.
Prepaid	22.9%	24.7%	n.a.
Ratio of non-voice revenues in ARPU	26.6%	28.3%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	5,703	5,820	2.1%
Average retention cost (SRC) per retained customer (HUF)	13,935	15,641	12.2%
Number of mobile broadband subscriptions	**1,755,428**	**2,047,302**	**16.6%**
Mobile broadband market share based on total number of subscriptions (4)	**44.8%**	**n.a.**	**n.a.**
Population-based outdoor 3G coverage	82.9%	83.0%	n.a.
Population-based outdoor 4G coverage	44.6%	79.9%	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 by 7.5% in Q1 2015 versus Q1 2014. Voice retail revenues increased owing to higher postpaid revenues mainly due to higher outgoing traffic and higher customer base, partly offset by lower prepaid revenues. Roaming voice revenues decreased mainly due to EU regulation driven average tariff erosion. Increase in non-voice revenues were driven by wider usage of mobile Broadband. Higher equipment revenues were driven by higher number of handsets sold and the increase in average selling prices in Q1 2015 versus Q1 2014.

Fixed line services	Q1 2014	Q1 2015	change %
Voice services			
Total voice access	1,425,855	1,408,478	(1.2%)
Total outgoing traffic (thousand minutes)	743,127	702,759	(5.4%)
Blended MOU (outgoing) (1)	174	166	(4.7%)
Blended ARPU (HUF) (1)	2,638	2,532	(4.0%)

(1) Including PSTN, VoIP and VoCable.

Fixed line voice retail revenues declined by 5.5% in Q1 2015 compared to Q1 2014 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	Q1 2014	Q1 2015	change %
Blended retail broadband market share [1]	**37.5%**	**38.6%**	**n.a.**
Number of retail DSL customers	523,489	555,850	6.2%
Number of cable broadband customers	290,353	324,111	11.6%
Number of fiber optic connections	53,080	60,694	14.3%
Total retail broadband customers	**866,922**	**940,655**	**8.5%**
Blended broadband ARPU (HUF)	3,421	3,441	0.6%
Number of wholesale DSL access	69,040	40,795	(40.9%)

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

Broadband retail revenues increased by 9.1% and amounted to HUF 9.6 billion in Q1 2015 driven by the higher number of retail broadband customers.

TV services	Q1 2014	Q1 2015	change %
Blended TV market share [1]	**26.2%**	**27.4%**	**n.a.**
Number of IPTV customers	406,398	455,095	12.0%
Number of satellite TV customers	308,023	305,933	(0.7%)
Number of cable TV customers	183,120	173,463	(5.3%)
Total TV customers	**897,541**	**934,491**	**4.1%**
Blended TV ARPU (HUF)	3,069	3,224	5.1%

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

IPTV and satellite TV revenues increased in Q1 2015 compared to the same quarter last year; however, this increase was partly offset by lower Cable TV revenues influenced by the lower customer base primarily due to migration from Cable TV to IPTV. Growth in satellite TV revenues was due to higher subscription fees in Q1 2015 compared to Q1 2015.

Energy services	Q1 2014	Q1 2015	change %
Electricity points of delivery	106,794	109,489	2.5%
Gas points of delivery	67,451	66,107	(2.0%)

Energy services revenues increased by HUF 3.3 billion in Q1 2015 versus Q1 2014 owing to the higher number of electricity points of delivery and the increased average consumption quarter over quarter. The universal service provider price reduction from April 2014 and further from September 2014 had a negative effect on the revenues.

EBITDA

EBITDA of the Telekom Hungary segment increased by 11.5% in Q1 2015 versus Q1 2014, the main reason is that the higher gross margin was coupled with decreased employee-related expenses owing to lower average headcount in Q1 2015.

Segment Capex

Segment Capex decreased by HUF 4.5 billion primarily due to lower spending on 3G/LTE investments and broadband network development in Q1 2015.

3.2.3 T-Systems Hungary

HUF millions	Q1 2014	Q1 2015	Change	Change (%)
Voice	3,697	3,368	(329)	(8.9%)
Non-voice	2,312	2,394	82	3.5%
Other	847	710	(137)	(16.2%)
Mobile revenues	**6,856**	**6,472**	**(384)**	**(5.6%)**
Voice retail	1,715	1,575	(140)	(8.2%)
Broadband-retail	553	450	(103)	(18.6%)
Data	2,085	1,794	(291)	(14.0%)
Other	665	755	90	13.5%
Total fixed line revenues	**5,018**	**4,574**	**(444)**	**(8.8%)**
SI/IT revenues	15,426	12,466	(2,960)	(19.2%)
Total revenues	**27,300**	**23,512**	**(3,788)**	**(13.9%)**
Direct cost	**(15,341)**	**(12,454)**	**2,887**	**18.8%**
Gross margin	**11,959**	**11,058**	**(901)**	**(7.5%)**
Telecom tax	(1,304)	(1,194)	110	8.4%
Utility tax	(526)	(542)	(16)	(3.0%)
Other operating expenses (net)	(6,934)	(6,675)	259	3.7%
EBITDA	**3,195**	**2,647**	**(548)**	**(17.2%)**
Segment Capex	**743**	**700**	**(43)**	**(5.8%)**

Revenues

Total revenues of T-Systems Hungary decreased by 13.9% in Q1 2015 compared to Q1 2014.

Mobile services	Q1 2014	Q1 2015	change %
Number of customers (number or SIM cards)	516,023	515,595	(0.1%)
Churn rate	15.0%	9.5%	n.a.
MOU	256	225	(12.2%)
ARPU (HUF)	3,872	3,725	(3.8%)
Ratio of non-voice revenues in ARPU	38.7%	41.6%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	3,176	2,853	(10.2%)
Number of mobile broadband subscriptions	130,377	140,749	8.0%

Mobile voice revenues decreased by 8.9% in Q1 2015 versus Q1 2014 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 3.5% driven by higher mobile broadband revenues, reflecting the increased number of mobile broadband subscriptions and higher usage.

Fixed line services	Q1 2014	Q1 2015	change %
Voice services			
Total voice access	68,289	64,634	(5.4%)
Total outgoing traffic (thousand minutes)	69,356	62,428	(10.0%)
MOU (outgoing)	336	321	(4.4%)
ARPU (HUF)	8,308	8,098	(2.5%)
Internet services			
Number of retail broadband access	12,583	8,750	(30.5%)
Blended broadband ARPU (HUF)	14,802	15,442	4.3%

Fixed line voice retail revenues decreased by 8.2% caused by the erosion both in the customer base and traffic quarter over quarter. Fixed line Broadband retail revenues were down by 18.6% as a result of the lower number of retail broadband access, which could not be compensated by the limited broadband ARPU increase. Fixed line data revenues also declined as a result of the lower number of leased lines in Q1 2015.

SI/IT services

The 19.2% decrease in SI/IT revenues quarter over quarter resulted mainly from the lower number of projects in Q1 2015.

EBITDA

EBITDA decreased by 17.2% in Q1 2015 compared to Q1 2014, due to the generally lower market performance, which was partly counterbalanced by the lower employee-related expenses driven by the lower average headcount.

Segment Capex

Segment Capex decreased by HUF 43 million in Q1 2015 compared to Q1 2014, as a result of lower amount of new projects requiring spending on tangible and intangible assets.

3.2.4 Macedonia

HUF millions	Q1 2014	Q1 2015	Change	Change (%)
Voice revenues	5,122	4,515	(607)	(11.9%)
Non-voice revenues	1,178	1,275	97	8.2%
Other mobile revenues	901	977	76	8.4%
Total mobile revenues	**7,201**	**6,767**	**(434)**	**(6.0%)**
Voice-retail	1,902	1,566	(336)	(17.7%)
Broadband retail	1,383	1,308	(75)	(5.4%)
TV	589	740	151	25.6%
Other fixed line revenues	2,227	1,934	(293)	(13.2%)
Total fixed line revenues	**6,101**	**5,548**	**(553)**	**(9.1%)**
SI/IT revenues	90	189	99	110.0%
Total revenues	**13,392**	**12,504**	**(888)**	**(6.6%)**
Direct costs	**(3,689)**	**(3,587)**	**102**	**2.8%**
Gross margin	**9,703**	**8,917**	**(786)**	**(8.1%)**
Other operating expenses (net)	(4,276)	(3,870)	406	9.5%
EBITDA	**5,427**	**5,047**	**(380)**	**(7.0%)**
Segment Capex	**752**	**557**	**(195)**	**(25.9%)**

In Q1 2015, there was no significant change in the HUF/MKD average foreign exchange rates compared with the same quarter last year which had a neutral impact on the results of the Macedonian segment in HUF terms.

Revenues

Total revenues decreased by 6.6% in HUF terms over the same period last year, mainly driven by the significant decrease in mobile and fixed voice revenues.

Mobile services	Q1 2014	Q1 2015	change %
Mobile penetration[(1)]	107.5%	106.4%	n.a.
Market share of T-Mobile Macedonia[(1)(2)]	47.2%	46.0%	n.a.
Number of customers	1,194,154	1,189,296	(0.4%)
Postpaid share in the customer base	33.0%	36.3%	n.a.
MOU	188	202	7.4%
ARPU (HUF)	1,750	1,613	(7.8%)

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

Mobile voice revenues decreased by 11.9% quarter over quarter, mainly due to lower voice wholesale revenues driven by lower international incoming mobile terminating volume of traffic in Q1 2015 compared to Q1 2014. Voice-retail revenues decreased as well, due to lower subscription fees as a result of new promotions and offers in response to the fierce competition in spite of the increase in average outgoing minutes.

Non-voice revenues increased by 8.2% quarter over quarter. Mobile internet revenues increased in Q1 2015 mainly due to higher GPRS traffic and increased usage of tariff models with voice-data bundle. Decreased SMS retail revenues owing to lower number of SMS sent in Q1 2015 counterbalanced partly the increased mobile internet revenue.

As part of other mobile revenues, mobile equipment revenues increased due to the higher average selling price in Q1 2015 compared to the same period in 2014.

Fixed line services	Q1 2014	Q1 2015	change %
Voice services			
Fixed line penetration	13.0%	11.9%	n.a.
Total voice access	246,476	232,834	(5.5%)
Total outgoing traffic (thousand minutes)	83,325	60,622	(27.2%)
Internet and TV services			
Retail DSL market share (estimated)	82.2%	82.2%	n.a.
Number of retail DSL customers	162,361	163,624	0.8%
Number of wholesale DSL access	26,191	25,041	(4.4%)
Number of total DSL access	188,552	188,665	0.1%
Number of IPTV customers	90,464	98,895	9.3%

Fixed line revenues decreased by 9.1% quarter over quarter, mainly driven by lower voice-retail, broadband retail and other fixed line revenues. Voice-retail revenues declined reflecting lower traffic and customer number while the decrease in broadband retail was driven by lower internet ARPU. Other revenues decreased mainly due to lower international incoming revenues as a result of lower volume of traffic in Q1 2015. These decreases were partly counterbalanced by the increase in TV revenues, owing to the growing IPTV subscriber base.

System integration revenues increased significantly quarter over quarter due to increased revenues from customized ICT projects and network equipment sales.

EBITDA

EBITDA of our Macedonian operations decreased by 7.0% in Q1 2014 versus Q1 2015 in HUF terms due to the 8.1% lower gross margin partly offset by the 9.5% lower other operating expenses.

Segment Capex

Segment Capex decreased by 25.9% in Q1 2015, mainly due to lower Capex on the next generation operation support system.

3.2.5 Montenegro

HUF millions	Q1 2014	Q1 2015	Change	Change (%)
Voice revenues	2,056	1,920	(136)	(6.6%)
Non-voice revenues	940	787	(153)	(16.3%)
Other mobile revenues	321	380	59	18.4%
Total mobile revenues	**3,317**	**3,087**	**(230)**	**(6.9%)**
Voice-retail	1,537	1,350	(187)	(12.2%)
Broadband retail	952	878	(74)	(7.8%)
TV	546	561	15	2.7%
Other fixed line revenues	1,003	784	(219)	(21.8%)
Total fixed line revenues	**4,038**	**3,573**	**(465)**	**(11.5%)**
SI/IT revenues	200	314	114	57.0%
Total revenues	**7,555**	**6,974**	**(581)**	**(7.7%)**
Direct costs	**(2,051)**	**(1,947)**	**104**	**5.1%**
Gross margin	**5,504**	**5,027**	**(477)**	**(8.7%)**
Other operating expenses (net)	(2,798)	(2,607)	191	6.8%
EBITDA	**2,706**	**2,420**	**(286)**	**(10.6%)**
Segment Capex	**655**	**247**	**(408)**	**(62.3%)**

In Q1 2015, there was no significant change in the HUF/EUR average foreign exchange rates compared with the same quarter last year which had a neutral impact on the results of the Montenegrin segment in HUF terms.

Revenues

In HUF terms, total revenues decreased by 7.7% quarter over quarter.

Mobile services	Q1 2014	Q1 2015	change %
Mobile penetration [1]	153.0%	159.3%	n.a.
Market share of T-Mobile Crna Gora [1]	35.1%	34.3%	n.a.
Number of customers (RPC) [1]	332,833	328,544	(1.3%)
Postpaid share in the RPC base	41.9%	45.3%	n.a.
MOU	164	158	(3.7%)
ARPU (HUF)	2,729	2,630	(3.6%)

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

Mobile revenues decreased by 6.9% quarter over quarter. The decrease in voice revenues is primarily the result of the lower average customer base and lower ARPU and MOU. Decreased tariff level of the voice-wholesale revenues also contributed to the decline. The decrease in non-voice revenues is primarily driven by lower number of SMSs (both outgoing and incoming).

The above decline was partly counterbalanced by the increase in other mobile revenues owing to higher sales of mobile phones and other mobile accessories compared to Q1 2014. Higher visitor revenues also contributed to the higher other mobile revenues.

Fixed line services	Q1 2014	Q1 2015	change %
Voice services			
Fixed line penetration	25.1%	23.0%	n.a.
Total voice access	150,004	146,310	(2.5%)
Total outgoing traffic (thousand minutes)	59,399	51,736	(12.9%)
Internet and TV services			
Retail DSL market share (estimated)	81.8%	84.2%	n.a.
Number of DSL access	89,387	91,733	2.6%
Number of IPTV customers	59,616	60,759	1.9%

Total fixed line revenues decreased by 11.5% quarter over quarter in HUF terms as lower voice-retail, broadband retail and other fixed revenues were only slightly offset by higher TV revenues. Voice-retail revenues decreased owing to less traffic. Broadband retail revenues decreased due to lower average prices. Other fixed revenues decreased due to lower traffic from international to fix compared to the same quarter in 2014.

These decreases were slightly offset by a slight increase in TV revenues owing to the 1.9% increase in the IPTV subscriber base.

EBITDA

The EBITDA of our Montenegrin operations decreased by 10.6% in HUF terms quarter over quarter mainly as a result of the lower gross margin, which was only partially counterbalanced by the 6.8% lower Other operating expenses (net).

Segment Capex

Segment Capex decreased by 62.3% in Q1 2015 compared to the same quarter last year, owing to lower spending on the Billing and CRM information system development and on the New Core Network Services projects.

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, 2014 or 2015 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, the Company's Board 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 took place on April 1, 2015. GTS will be consolidated in the T-Hungary segment from 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 is fueled by the government's Digital Hungary program. The extensive development program aims to cover every household in Hungary with high-speed internet access until 2018. The digitalization of technology, services and education are key pillars of the country's competitiveness and the quality of life of its citizens.

Parallel with the fixed network developments, LTE network expansion is accelerated by the competition and due to more available mobile frequencies. Meanwhile the mobile voice market is characterized by flat rate packages; the appearance of new market players is expected with significant impact on the market. There is a fierce competition in broadband and content services; the battle for customer contracts has pushed prices down but the mobile BB uptake still fuels the overall mobile market. The increasing regulation, in particular the abolishment of roaming fees and the decrease in mobile termination rates, is putting further pressure on market players.

After a 3.4% GDP growth in 2014 we expect an improving economic environment in 2015. The positive signs of economic recovery will have an effect on the households as well. Despite the increasing household budget, prices will not reach pre-crisis levels. However, operators can find ways to exploit higher household spending – with cross-sell and up-sell opportunities. We expect that the new core segments, especially mobile broadband, pay TV and IT services will deliver revenue growth in the coming years.

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.

Acceleration of growth is in line with projections. GDP had YoY growth of 3.9% in first nine months of 2014, lead by the export and investment components. All indicators lead toward achieving forecasted rate of growth (4.1%).

Domestic prices continued with decreasing trend, after 0.5% in December 2014, followed with declining trend in January 2015 (-1.5% YoY), coming from all inflation elements, but mostly due to communications, food & beverages and IT equipment. Deflationary pressure on prices has favorable effect on real wage.

FDI supports export performance - FDI indicator of investment activity within the activity of previous year was YTD November 2014; EUR 230 m in line previous year activity. In next period GDP growth is expected to be driven by strong investment activity and utilized export potential.

Montenegro

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

Fixed line market is becoming more competitive with cable operators trying to expand their footprint. After two acquisitions in 2014 (Telenor and SBB bought B2B operator MNNews and cable operator BBM respectively), m:tel is in process of acquiring local cable operator Cabling. In a highly penetrated mobile market fierce price competition continues. After Regional Roaming Agreement between Montenegro, Serbia, Macedonia and B&H was signed in September 2014, the Regulator issued a decision on roaming price cap implying three-step glide path of price decrease until June 2017.

In April 2015, the IMF corrected its prediction for real GDP growth for 2015 to 4.7% instead of 3.4%, while the European Commission in the Winter Economic forecast predicts real GDP growth of 3% for this year. Public debt amounted to 59.6% at the end of 2014 and almost reached the EU limit of 60%. It is expected that public debt will rise in following years due to construction of first Montenegrin highway. Preparatory works for construction of highway started in March 2015 while construction should commence in May. 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). However, this capital project will have important impact on public finances and demands cautious spending, in order to avoid possible delay in pension and social transfer payments. Private consumption will be affected too, due to imposition of new taxes. Bank credit policy is still very restrictive with high interest rates but entrance of three new foreign banks is expected for 2015. People are still cautious regarding their spending.

3.7. Strategy

Hungary

As a result of our focused strategic efforts, Magyar Telekom maintained leading positions in its Hungarian fixed line, fixed BB, pay TV, mobile and ICT businesses in Q1 2015, 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.

We continue our transformation towards a diversified digital service company based on our strategic imperatives to innovate, grow and extend the core business – thus growing free cash flow 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, increase process automation and online customer servicing. 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 customers and third parties. We continue to identify and leverage new business opportunities in e-health, cloud, finance and insurance services, support customer retention and new revenue streams both in the residential and business segments. As a result of the changed market environment we decided to exit from the residential gas market. At the same time, we are about to establish a joint venture that will provide energy services for business customers in order to improve and optimize our energy operations.

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

Macedonia

Makedonski Telekom and T-Mobile MK maintain the leading positions in the fixed line, mobile and PayTV market.

Major competition in fix voice services comes predominantly from CaTV, which offer BB & TV bundles without monthly fee for voice part. Retail data market reduces due to stronger market competition. Cloud services are being introduced and IT market shows dynamic growth.

Within the next period (2015-2018), following major trends are expected:

- Maintaining moderate economic growth of 3-4% GDP growth, decreasing unemployment on the long run, consumption growth between 3-4% and declining telecommunication business forecasted in short-to-mid term (-8% market decline in 2015 and -3,4% in 2019), strong competition resulted with continuation of price drop and value erosion.
- Continuous mobile substitution on fixed market, supplemented with consolidation on fixed and mobile markets.

- Introduction of Cloud services, IT market with dynamic growth; Mobile internet growth expectations, mostly driven by increase of smart-phone penetration, which cannot substitute market revenue decrease from voice services. Better utilization of different platforms and integrated offerings (FMC opportunities) expected to support planned growth;
- Increase in PayTV users; increase in broadband revenue share; very small growth expected form online services market; System solution steady growth; declining data communication revenues due to strong competition and very high margins.

Addressing local challenges in order to fulfill strategic aspiration, new Ambition Program 2.0 was introduced, as a strategic direction, with final objective of transforming technology into superior customer experience, regaining number 1 position in Mobile and PayTV business, stabilization of the Revenue/EBITDA trend, sustaining the strong market position and becoming new modern, lean and fully converged telco operator. Ambition Program 2.0 consists of more than 60 initiatives aggregated into 14 pillars, covering both structural and operational transformation aspects.

Market consolidation is ongoing. VIP acquired Blizoo in 2014, and VIP informed the Commission for Protection of Competition about the intention to merge with ONE. Official decision by relevant institutions is expected. MKT's leading position is under threat (in mobile and PayTV). Balkan roaming regulation - EU level of roaming prices in Macedonia, Montenegro, Serbia and BiH will negatively influence the Telco market starting from H2 2015. Local Strategy implementation program - Ambition Program achieved its goal in 2014. Reasonable actions are undertaken to slow down the declining trend on both Revenue and EBITDA.

Ambition Program 2.0 for 2015 has been prepared and kicked-off:
- 2015 proclaimed as "Year of Service", i.e. intensive focus on improving customer service at all customer touch-points;
- Mobile market repair: pre-to-postpaid migration and stop price erosion;
- Re-evaluate TV segment to increase profitability;
- Introduce flexible bundles;
- All-IP product innovation and monetization;
- Time2Market improvement;
- Moving towards fully integrated Telco provider and e-company:
    - Improve customer responsiveness and production flexibility by leaner organizational structure and process automation;
    - Revision of core vs non-core activities, possible outsourcing scenarios;
- Further cost reduction based on expected revenue development;
- Billing & DWH consolidation; CRM and OSS implementation.

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 were macroeconomic pressure, regulation pressure, emerging competition, digital lifestyle demand; while the major business goals were the slowdown of revenue decline, cost discipline and e-transformation.

The vision statement of Crnogorski Telekom emphasizes CT's ambition to become customers' first choice in a fully digital lifestyle by aspiring to be the best in class. This aspiration is still valid and provided good basis for a strategy update.

In order to remain no. 1 telecommunications operator in Montenegro, three main pillars are defined in the new Corporate Strategy document:

- Technology leadership
- Best customer experience
- New businesses

New Corporate Strategy implementation program, named "Tesla" started in January 2015.

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 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 3.6 percent, fueled by export performance, utilization of EU funds and lowered energy prices. The Central Bank of Hungary forecasts indicate that the GDP growth remain high, about 3.2 percent in 2015. The unemployment rate decreased to 7.7 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 2015 were recognized in the first quarter of 2015 as the full annual tax liability (HUF 7.6 billion) is payable based on the taxable infrastructure in place on January 1, 2015. 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.

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 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 were decreased to HUF 1.71/minute from April 1, 2015. The market entry of the fourth 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. Approximately 35% left the Company between October 1, 2014 and March 1, 2015 while the remaining 65% is expected to leave by 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.

4. DECLARATION

We the undersigned declare that to the best of our knowledge this report prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, gives a true and fair view of the assets, liabilities, financial position and profit or loss of Magyar Telekom Plc. and its consolidated undertakings. In addition, the report gives a fair view of the position, development and performance of Magyar Telekom Plc. and its consolidated undertakings, and contains risk factors and uncertainties relating to the future events of the financial year.

Independent Auditor's Report was not prepared on the Interim financial report.

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

Budapest, May 12, 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, 2014, 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.