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MAGYAR TELEKOM

HALF YEARLY REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED JUNE 30, 2014

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Budapest – August 7, 2014 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the second quarter and first half of 2014, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

1. HIGHLIGHTS

MAGYAR TELEKOM **Group Financial Results - IFRS** (HUF million, except indices)	**Q2** **2013** (Unaudited)	**Q2** **2014** (Unaudited)	**Change** **(%)**	**1-6 months** **2013** (Unaudited)	**1-6 months** **2014** (Unaudited)	**Change** **(%)**
Total revenues	**156,907**	**151,786**	**(3.3%)**	**313,516**	**303,679**	**(3.1%)**
Operating profit	**24,237**	**25,102**	**3.6%**	**38,485**	**41,196**	**7.0%**
Profit attributable to:						
Owners of the parent	12,207	11,583	(5.1%)	13,902	16,411	18.0%
Non-controlling interests	1,630	1,004	(38.4%)	2,864	1,166	(59.3%)
	13,837	**12,587**	**(9.0%)**	**16,766**	**17,577**	**4.8%**
Gross margin	101,373	101,544	0.2%	198,478	199,558	0.5%
EBITDA	49,751	49,613	(0.3%)	88,778	90,141	1.5%
EBITDA margin	31.7%	32.7%	n.a.	28.3%	29.7%	n.a.
Free cash flow				3,103	657	(78.8%)
Basic and diluted earnings per share (HUF)	**11.71**	**11.11**	**(5.1%)**	**13.34**	**15.74**	**18.0%**
CAPEX to Sales				**12.0%**	**11.0%**	**n.a.**
Net debt				**347,082**	**374,583**	**7.9%**
Net debt / total capital				**42.2%**	**42.5%**	**n.a.**
Number of employees (closing full equivalent)				**11,378**	**11,129**	**(2.2%)**

- **Revenues decreased by 3.3% in the second quarter of 2014 compared to the same period of 2013, from HUF 156.9 billion to HUF 151.8 billion.** The decline is the result of lower fixed and mobile voice revenues coupled with lower revenues from energy services: the latter driven by an 11% cut in the regulated retail prices for both gas and electricity as from November 2013, followed by a further cut of 6.5% in gas prices from April 2014.
- **EBITDA declined moderately by 0.3%, from HUF 49.8 billion to HUF 49.6 billion**, as the rise in the telecom tax charge (itself driven by the increase in the tax rates payable on non-private individual subscriber accounts) was mostly mitigated by an expansion in the gross margins of energy and SI/IT services, as well as a reduction in employee related expenses.

Details of telecom and utility taxes **(HUF billion)***	**Q2 2013**	**Q2 2014**	**1-6 months** **2013**	**1-6 months** **2014**
Telecom tax	5.3	6.4	10.9	12.9
Utility tax			7.3	7.5
Total	**5.3**	**6.4**	**18.2**	**20.3**

**Differences might occur due to rounding*

- **Depreciation and amortization expenses declined from HUF 25.5 billion to HUF 24.5 billion**, as the higher levels of depreciation and amortization in Hungary (relating to the extended and newly-purchased spectrum licenses, as well as the capitalization of the annual frequency fees), were counterbalanced by the extension of the useful lives of assets such as radio equipment.
- **Net financial expenses increased from HUF 6.5 billion to HUF 7.8 billion.** This increase is primarily due to the higher net FX losses (including fair valuation of FX derivatives), as during Q2 2014, the HUF weakened by 1.0% against the EUR, whereas during Q2 2013 it had strengthened by 3.0%. The negative impact of higher overall debt levels was offset by lower average interest rates.
- **Income tax expense increased from HUF 3.9 billion in Q2 2013 to HUF 4.8 billion in Q2 2014** despite a slightly lower profit before tax. This increase is primarily due to the growing share of overall profits that is attributable to our Hungarian operations at the expense of our international subsidiaries' as the Hungarian operations are subject to higher income tax rate. In addition, the higher level of deferred tax expense in Q2 2014 is on account of the consolidation effect of foreign exchange movements as in Q2 2014 the HUF weakened by 1.0%

against the EUR compared to the 3.0% strengthening in the equivalent period of 2013. Other income taxes (including the local business tax and the innovation fee) remained broadly stable at around HUF 2.0 billion.

- **Profit attributable to the owners of the parent company (net income) decreased from HUF 12.2 billion in the second quarter of 2013 to HUF 11.6 billion in the second quarter of 2014**, a reflection of the broadly stable EBITDA coupled with both higher financial and income tax expenses for the period.
- **Net cash generated from operating activities increased by HUF 14.7 billion, from HUF 41.5 billion in the first half of 2013 to HUF 56.2 billion in H1 2014**. This increase is driven by improvements in working capital (also reflecting the factoring of vendor invoices in 2013) that was partly mitigated by higher income tax payments. The increase in the income tax payment is due to a change in the Macedonian income tax law which introduced a 10% profit tax charged on dividend declarations in Macedonia regardless of the geographical domicile of the dividend recipient, effective from January 2014. As such, income tax paid that related to our Macedonian subsidiaries was higher by HUF 1.8 billion in H1 2014 compared to a year earlier.
- **Investments in tangible and intangible assets (Capex) decreased from HUF 40.6 billion in H1 2013 to HUF 33.3 billion in H1 2014,** primarily a reflection of the change in the rented IPTV set-top box contracts from an operating to a financial lease basis that resulted in a one-off HUF 7.2 billion increase in Capex for H1 2013. In H1 2014, Telekom Hungary accounted for HUF 29.3 billion of total Capex and HUF 1.2 billion is associated to T-Systems Hungary. In Macedonia and Montenegro, Capex was HUF 1.7 billion and HUF 1.2 billion, respectively.
- **Free cash flow** (operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets and repayment of other financial liabilities) **declined from HUF 3.1 billion in H1 2013 to HUF 0.7 billion in H1 2014.** The improvement in operating cash flow was offset by higher cash Capex reflecting higher payments to Capex creditors in H1 2014 compared to a year earlier, and higher levels of repayment of other financial liabilities, principally factored vendor invoices, coupled with the 2014 payment of the periodic frequency fees.
- **Net debt rose from HUF 347.1 billion** at the **end of Q2 2013 to HUF 374.6 billion at the end of Q2 2014**. The **net debt ratio** (net debt to total capital) was **42.5% at the end of Q2 2014.**

Christopher Mattheisen, CEO commented:

"The positive trends that we saw in the Hungarian market in the first quarter of 2014 were sustained into the second quarter and our leading market position was strengthened further. At the same time, ARPU developments were also promising, particularly if viewed on a household basis thanks to the continued growth in the average number of fixed and mobile services taken up per household.

Group revenues, however, declined by 3% in the second quarter. This was mainly due first to lower energy revenues, driven predominantly by lower regulated retail prices; and secondly, lower equipment sales, a reflection of what we believe to be a temporary saturation in the segments targeted. The persistent competitive challenges in Macedonia and the macroeconomic and regulatory headwinds in Montenegro also negatively impacted the revenue performance.

Despite lower revenues, our gross margin improved in the quarter thanks to improvement in the energy and SI/IT margin, while EBITDA was also supported by lower employee costs, reflecting last year's efficiency enhancing measures. In order to further increase efficiency we established an agreement with the trade unions to reduce headcount by 1,700 by the end of 2015.

Looking ahead to the rest of this year, we expect revenue and Capex to be in line with our previously stated guidance, and EBITDA to come in better than expected. The raising of EBITDA guidance is predominantly driven by our efforts to improve gross margin, along with the slight improvement that we are witnessing in the household spending power in Hungary, supporting our upsell efforts and demand for higher margin services such as mobile voice and TV. Consequently, we now expect EBITDA to decline by no more than 3% compared to the 2013 level. Whilst we anticipate continued pressure on our free cash flow during the remainder of 2014, we hope to see significant improvement in this respect from 2015 onwards."

2014 public guidance:

	2013	Public guidance 2014
Revenue	HUF 637.5 billion	up to 3% decline
EBITDA	HUF 179.5 billion	up to 3% decline*
Capex**	HUF 87.5 billion	ca. HUF 87 billion

**changed from 3%-6% decline*

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

2. CONSOLIDATED IFRS FINANCIAL STATEMENTS

2.1. Consolidated Statements of Financial Position

MAGYAR TELEKOM

Consolidated Statements of Financial Position (HUF million)	Dec 31, 2013 (Audited)	June 30, 2014 (Unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	14,633	13,967	(666)	(4.6%)
Trade and other receivables	136,712	139,603	2,891	2.1%
Other current financial assets	28,615	14,420	(14,195)	(49.6%)
Current income tax receivable	896	950	54	6.0%
Inventories	12,478	13,779	1,301	10.4%
Non current assets held for sale	607	204	(403)	(66.4%)
Total current assets	**193,941**	**182,923**	**(11,018)**	**(5.7%)**
Non current assets				
Property, plant and equipment	493,619	487,346	(6,273)	(1.3%)
Intangible assets	381,199	377,492	(3,707)	(1.0%)
Investments in associates and joint ventures	5	14	9	180.0%
Deferred tax assets	238	209	(29)	(12.2%)
Non current financial assets	21,619	20,597	(1,022)	(4.7%)
Other non current assets	627	900	273	43.5%
Total non current assets	**897,307**	**886,558**	**(10,749)**	**(1.2%)**
Total assets	**1,091,248**	**1,069,481**	**(21,767)**	**(2.0%)**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	58,682	101,806	43,124	73.5%
Other financial liabilities	100,060	82,908	(17,152)	(17.1%)
Trade payables	103,549	80,767	(22,782)	(22.0%)
Current income tax payable	759	1,209	450	59.3%
Provisions	4,076	3,620	(456)	(11.2%)
Other current liabilities	40,097	44,295	4,198	10.5%
Total current liabilities	**307,223**	**314,605**	**7,382**	**2.4%**
Non current liabilities				
Financial liabilities to related parties	239,522	194,266	(45,256)	(18.9%)
Other financial liabilities	26,214	23,990	(2,224)	(8.5%)
Deferred tax liabilities	19,075	19,533	458	2.4%
Provisions	8,516	9,030	514	6.0%
Other non current liabilities	1,122	1,106	(16)	(1.4%)
Total non current liabilities	**294,449**	**247,925**	**(46,524)**	**(15.8%)**
Total liabilities	**601,672**	**562,530**	**(39,142)**	**(6.5%)**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,387	27,392	5	0.0%
Treasury stock	(307)	(307)	0	0.0%
Retained earnings	281,795	298,206	16,411	5.8%
Accumulated other comprehensive income	24,318	30,044	5,726	23.5%
Total Equity of the owners of the parent	**437,468**	**459,610**	**22,142**	**5.1%**
Non-controlling interests	52,108	47,341	(4,767)	(9.1%)
Total equity	**489,576**	**506,951**	**17,375**	**3.5%**
Total liabilities and equity	**1,091,248**	**1,069,481**	**(21,767)**	**(2.0%)**

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

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q2 2013 (Unaudited)	Q2 2014 (Unaudited)	Change	Change (%)
Revenues				
Voice - retail	41,903	39,926	(1,977)	(4.7%)
Voice - wholesale	7,036	6,770	(266)	(3.8%)
Voice - visitor	631	489	(142)	(22.5%)
Non-voice	16,444	17,957	1,513	9.2%
Equipment	10,919	9,311	(1,608)	(14.7%)
Other mobile revenues	2,006	2,919	913	45.5%
Mobile revenues	**78,939**	**77,372**	**(1,567)**	**(2.0%)**
Voice - retail	18,350	16,863	(1,487)	(8.1%)
Voice - wholesale	3,369	3,026	(343)	(10.2%)
Internet	12,833	13,322	489	3.8%
Data	4,955	4,470	(485)	(9.8%)
TV	9,216	10,104	888	9.6%
Equipment	1,624	1,284	(340)	(20.9%)
Other fixed line revenues	3,175	2,464	(711)	(22.4%)
Fixed line revenues	**53,522**	**51,533**	**(1,989)**	**(3.7%)**
System Integration/Information Technology revenues	15,191	14,785	(406)	(2.7%)
Revenue from Energy Services	9,255	8,096	(1,159)	(12.5%)
Total revenues	**156,907**	**151,786**	**(5,121)**	**(3.3%)**
Direct costs				
Mobile revenue-related payments	(21,251)	(19,529)	1,722	8.1%
Fixed line revenue-related payments	(10,484)	(9,611)	873	8.3%
SI/IT revenue-related payments	(9,379)	(8,851)	528	5.6%
Energy revenue-related payments	(9,593)	(7,615)	1,978	20.6%
Agent commissions	(2,914)	(2,522)	392	13.5%
Bad debt expense	(1,913)	(2,114)	(201)	(10.5%)
Direct costs	**(55,534)**	**(50,242)**	**5,292**	**9.5%**
Gross margin	**101,373**	**101,544**	**171**	**0.2%**
Employee-related expenses	(23,683)	(23,143)	540	2.3%
Other operating expenses	(28,446)	(29,582)	(1,136)	(4.0%)
Other operating income	507	794	287	56.6%
EBITDA	**49,751**	**49,613**	**(138)**	**(0.3%)**
Depreciation and amortization	(25,514)	(24,511)	1,003	3.9%
Operating profit	**24,237**	**25,102**	**865**	**3.6%**
Net financial result	(6,549)	(7,767)	(1,218)	(18.6%)
Share of associates' and joint ventures' profits	0	9	9	n.a.
Profit before income tax	**17,688**	**17,344**	**(344)**	**(1.9%)**
Income tax	(3,851)	(4,757)	(906)	(23.5%)
Profit for the period	**13,837**	**12,587**	**(1,250)**	**(9.0%)**
Change in exchange differences on translating foreign operations	(5,862)	1,732	7,594	n.m.
Revaluation of available-for-sale financial assets	(36)	29	65	n.m.
Other comprehensive income for the period	(5,898)	1,761	7,659	n.m.
Total comprehensive income for the period	**7,939**	**14,348**	**6,409**	**80.7%**
Profit attributable to:				
Owners of the parent	12,207	11,583	(624)	(5.1%)
Non-controlling interests	1,630	1,004	(626)	(38.4%)
	13,837	**12,587**	**(1,250)**	**(9.0%)**
Total comprehensive income attributable to:				
Owners of the parent	7,895	12,884	4,989	63.2%
Non-controlling interests	44	1,464	1,420	n.m.
	7,939	**14,348**	**6,409**	**80.7%**
Basic and diluted earnings per share (HUF)	**11.71**	**11.11**	**(0.60)**	**(5.1%)**

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2.3. Consolidated Statements of Profit or loss and other comprehensive income – year over year

MAGYAR TELEKOM Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	1-6 months 2013 (Unaudited)	1-6 months 2014 (Unaudited)	Change	Change (%)
Revenues				
Voice - retail	81,574	78,680	(2,894)	(3.5%)
Voice - wholesale	13,454	13,066	(388)	(2.9%)
Voice - visitor	1,128	815	(313)	(27.7%)
Non-voice	32,866	35,002	2,136	6.5%
Equipment	19,454	17,338	(2,116)	(10.9%)
Other mobile revenues	3,676	5,853	2,177	59.2%
Mobile revenues	**152,152**	**150,754**	**(1,398)**	**(0.9%)**
Voice - retail	36,845	33,951	(2,894)	(7.9%)
Voice - wholesale	6,721	5,975	(746)	(11.1%)
Internet	25,885	26,539	654	2.5%
Data	10,057	8,918	(1,139)	(11.3%)
TV	18,196	20,007	1,811	10.0%
Equipment	3,953	3,053	(900)	(22.8%)
Other fixed line revenues	5,912	4,903	(1,009)	(17.1%)
Fixed line revenues	**107,569**	**103,346**	**(4,223)**	**(3.9%)**
System Integration/Information Technology revenues	29,203	27,974	(1,229)	(4.2%)
Revenue from Energy Services	24,592	21,605	(2,987)	(12.1%)
Total revenues	**313,516**	**303,679**	**(9,837)**	**(3.1%)**
Direct costs				
Mobile revenue-related payments	(40,498)	(37,393)	3,105	7.7%
Fixed line revenue-related payments	(21,411)	(19,540)	1,871	8.7%
SI/IT revenue-related payments	(17,948)	(15,821)	2,127	11.9%
Energy revenue-related payments	(26,108)	(20,846)	5,262	20.2%
Agent commissions	(5,457)	(5,169)	288	5.3%
Bad debt expense	(3,616)	(5,352)	(1,736)	(48.0%)
Direct costs	**(115,038)**	**(104,121)**	**10,917**	**9.5%**
Gross margin	**198,478**	**199,558**	**1,080**	**0.5%**
Employee-related expenses	(46,284)	(45,706)	578	1.2%
Other operating expenses	(64,779)	(64,972)	(193)	(0.3%)
Other operating income	1,363	1,261	(102)	(7.5%)
EBITDA	**88,778**	**90,141**	**1,363**	**1.5%**
Depreciation and amortization	(50,293)	(48,945)	1,348	2.7%
Operating profit	**38,485**	**41,196**	**2,711**	**7.0%**
Net financial result	(14,294)	(13,813)	481	3.4%
Share of associates' and joint ventures' profits	0	9	9	n.a.
Profit before income tax	**24,191**	**27,392**	**3,201**	**13.2%**
Income tax	(7,425)	(9,815)	(2,390)	(32.2%)
Profit for the period	**16,766**	**17,577**	**811**	**4.8%**
Change in exchange differences on translating foreign operations	2,818	7,838	5,020	178.1%
Revaluation of available-for-sale financial assets	(14)	24	38	n.m.
Other comprehensive income for the period	2,804	7,862	5,058	180.4%
Total comprehensive income for the period	**19,570**	**25,439**	**5,869**	**30.0%**
Profit attributable to:				
Owners of the parent	13,902	16,411	2,509	18.0%
Non-controlling interests	2,864	1,166	(1,698)	(59.3%)
	16,766	**17,577**	**811**	**4.8%**
Total comprehensive income attributable to:				
Owners of the parent	16,069	22,137	6,068	37.8%
Non-controlling interests	3,501	3,302	(199)	(5.7%)
	19,570	**25,439**	**5,869**	**30.0%**
Basic and diluted earnings per share (HUF)	**13.34**	**15.74**	**2.40**	**18.0%**

2.4. Consolidated Statements of Cash Flows

MAGYAR TELEKOM Consolidated Statements of Cash Flows (HUF million)	1-6 months 2013 (Unaudited)	1-6 months 2014 (Unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	16,766	17,577	811	4.8%
Depreciation and amortization	50,293	48,945	(1,348)	(2.7%)
Income tax expense	7,425	9,815	2,390	32.2%
Net financial result	14,294	13,813	(481)	(3.4%)
Share of associates' and joint ventures' profits	0	(9)	(9)	n.a.
Change in assets carried as working capital	(10,298)	(2,441)	7,857	76.3%
Change in provisions	(3,490)	(495)	2,995	85.8%
Change in liabilities carried as working capital	(14,001)	(8,580)	5,421	38.7%
Income tax paid	(7,320)	(8,986)	(1,666)	(22.8%)
Interest and other financial charges paid	(14,492)	(14,654)	(162)	(1.1%)
Interest received	803	593	(210)	(26.2%)
Other cashflows from operations	1,488	638	(850)	(57.1%)
Net cash generated from operating activities	**41,468**	**56,216**	**14,748**	**35.6%**
Cash flows from investing activities				
Investments in tangible and intangible assets	(40,620)	(33,330)	7,290	17.9%
Adjustments to cash purchases	2,758	(9,390)	(12,148)	n.m.
Purchase of subsidiaries and business units	(100)	(428)	(328)	(328.0%)
Proceeds from other financial assets - net	20,765	17,526	(3,239)	(15.6%)
Proceeds from disposal of property, plant and equipment (PPE) and intangible	336	1,616	1,280	381.0%
Net cash used in investing activities	**(16,861)**	**(24,006)**	**(7,145)**	**(42.4%)**
Cash flows from financing activities				
Dividends paid to shareholders and Non-controlling interests	(65,174)	(6,411)	58,763	90.2%
Proceeds from / (repayments of) loans and other borrowings	41,107	(12,828)	(53,935)	n.m.
Repayment of other financial liabilities	(739)	(14,027)	(13,288)	n.m.
Net cash used in financing activities	**(24,806)**	**(33,266)**	**(8,460)**	**(34.1%)**
Exchange gains on translation of cash and cash equivalents	106	390	284	267.9%
Change in cash and cash equivalents	**(93)**	**(666)**	**(573)**	**n.m.**
Cash and cash equivalents, beginning of period	15,211	14,633	(578)	(3.8%)
Cash and cash equivalents, end of period	15,118	13,967	(1,151)	(7.6%)
Change in cash and cash equivalents	**(93)**	**(666)**	**(573)**	**n.m.**

2.5. Consolidated Statements of Changes in Equity

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

	pieces	in HUF millions									
			Capital reserves				Accumulated Other Comprehensive Income				
	Shares of common stock	Common stock	Additional paid in capital	Reserve for equity settled share-based transactions	Treasury stock	Retained earnings	Cumulative translation adjustment	Revaluation reserve for AFS financial assets – net of tax	Equity of the owners of the parent	Non-controlling interests	Total Equity
Balance at December 31, 2012	1,042,742,543	104,275	27,379	4	(307)	310,452	21,335	(82)	463,056	59,027	522,083
Dividend						(52,117)			(52,117)		(52,117)
Dividend declared to Non-controlling interests									0	(13,312)	(13,312)
Equity settled share-based transactions				2					2		2
Total comprehensive income						13,902	2,173	(6)	16,069	3,501	19,570
Balance at June 30, 2013	1,042,742,543	104,275	27,379	6	(307)	272,237	23,508	(88)	427,010	49,216	476,226
Equity settled share-based transactions				2					2		2
Total comprehensive income						9,558	917	(19)	10,456	2,892	13,348
Balance at December 31, 2013	1,042,742,543	104,275	27,379	8	(307)	281,795	24,425	(107)	437,468	52,108	489,576
Dividend declared to Non-controlling interests									0	(6,822)	(6,822)
Equity settled share-based transactions				5					5		5
Capital reduction [(1)]									0	(1,247)	(1,247)
Total comprehensive income						16,411	5,712	14	22,137	3,302	25,439
Balance at June 30, 2014	1,042,742,543	104,275	27,379	13	(307)	298,206	30,137	(93)	459,610	47,341	506,951

[(1)] The AGM of Crnogorski Telekom on March 5, 2014 made a decision on share capital reduction in a total amount of EUR 17.1 million.

2.6. About Magyar Telekom

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

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

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

As of October 4, 2013 MagyarCom GmbH (MagyarCom), the immediate controlling shareholder of the Company owning 59.21% of the issued shares was merged into T-Mobile Global Holding Nr. 2 GmbH, also 100% owned by Deutsche Telekom AG. Subsequently, on December 18, 2013 T-Mobile Global Holding Nr. 2 GmbH increased the registered capital of its 100% owned subsidiary CMobil B.V. registered in the Netherlands (Stationsplein 8, 6221 BT Maastricht, the Netherlands) through in-kind contribution of Magyar Telekom shares. As a result of the transaction CMobil B.V. became a shareholder of Magyar Telekom Plc. directly owning 59.21% of the Company's voting rights (registered in Share Register on February 7, 2014). The ultimate controlling parent of Magyar Telekom is Deutsche Telekom AG (DT or DTAG).

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

This condensed consolidated interim financial information was prepared in accordance with IAS 34 (Interim Financial Reporting) and should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

This consolidated interim financial information has not been audited. The statutory accounts for December 31, 2013 have been filed with the Budapest Stock Exchange and the Hungarian National Bank. The statutory accounts for December 31, 2013 were audited and the audit report was unqualified.

2.8. Accounting policies

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated annual financial statements for the year ended December 31, 2013 with the following exceptions.

As of January 1, 2014 the Group adopted the following IFRS Standards, amendments and interpretations:

IAS 32 (amended)

The amendments to IAS 32 clarify the IASB's requirements for offsetting financial instruments. The pronouncement clarifies:

- the meaning of "currently has a legally enforceable right of set off the recognized amounts"; and
- that some gross settlement systems may be considered equivalent to net settlement.

The application of the amended standard did not result in significant changes in the financial statements of the Group, therefore no restatement of the previously reported balances is necessary.

IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended) and IAS28 (amended)

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 – Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement, whereby the parties that have joint control have rights to the net assets.

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27 – Separate Financial Statements. The other portions of IAS 27 are replaced by IFRS 10.

IAS 28 – Investments in Associates and Joint Ventures is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

The adoption of the above new and amended standards did not result in significant changes in the financial statements of the Group, therefore no restatement of prior periods became necessary.

IAS 39 (amended)

The IASB published "Novation of Derivatives and Continuation of Hedge Accounting", amendments to IAS 39 – Financial Instruments: Recognition and Measurement in June 2013. Magyar Telekom has not applied hedge accounting to any of its derivatives, therefore the amendment has not had any impact on the financial statements of the Group.

IFRIC 21

IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The new interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. As Magyar Telekom's interpretation of IAS 37 has been in line with the newly issued IFRIC, the adoption of the Interpretation does not have impact on the Group's financial statements.

Change in the revenue recognition policy

In addition to the above changes in accounting policies due to new and amended standards, Magyar Telekom Group has changed one element of its accounting policy for revenue recognition from January 1, 2014 to fully align our revenue recognition policies to those of Deutsche Telekom Group that we are a member of due to Deutsche Telekom's power over Magyar Telekom. This change relates to the allocation of revenue to the individual elements of multiple deliverable arrangements.

Customer subscriber arrangements typically include an equipment sale, subscription fee and charge for the actual voice, internet, data or multimedia services used. The Group considers the various elements of these arrangements to be separate earnings processes and classifies the revenue for each of the deliverables into the categories. Until the end of 2013 we made these allocations using the residual method for each of the elements, i.e. the amount of consideration allocated to the delivered elements of the arrangements equaled the total consideration less the fair value of the undelivered elements. To become fully in line with Deutsche Telekom's revenue recognition policies, from January 1, 2014, we apply the following change to the allocation method for multiple element arrangements.

The revenue allocable to a delivered item is limited to the amount that is not contingent upon the delivery of additional items (the non-contingent amount). The revenue to be recognized is therefore restricted by the amount received that is not contingent upon undelivered elements of the arrangement. The retrospective application of the above extension of the Group's revenue recognition policy would not result in significant changes in the financial statements of the Group issued for prior years, therefore no restatement of the financial statements of the Group issued for prior years became necessary.

3. CONSOLIDATED MANAGEMENT REPORT

3.1. Operating and financial review – Group

3.1.1 Exchange rate information

Exchange rate	Q2 2013	Q2 2014	Change	1-6 months 2013	1-6 months 2014	Change
HUF/EUR beginning of period	304.30	307.06	**0.9%**	291.29	296.91	**1.9%**
HUF/EUR period-end	295.16	310.19	**5.1%**	295.16	310.19	**5.1%**
HUF/EUR cumulative monthly average	297.14	307.09	**3.3%**	297.14	307.09	**3.3%**
HUF/MKD beginning of period	4.94	4.98	**0.8%**	4.74	4.83	**1.9%**
HUF/MKD period-end	4.79	5.03	**5.0%**	4.79	5.03	**5.0%**
HUF/MKD cumulative monthly average	4.82	4.98	**3.3%**	4.82	4.98	**3.3%**

In Q2 2014, foreign exchange rates had an effect on the revenue and expense lines of our foreign subsidiaries expressed in HUF as these are translated at the cumulative average rates.

3.1.2 Revenues

Total revenues decreased by 3.1% from HUF 313.5 billion in H1 2013 to HUF 303.7 billion in H1 2014. Reasons for movements of half yearly results usually correspond with the explanations relating to the second quarter. If the reason for the movement is different in the two periods compared, the analysis of the change in the half yearly result is highlighted and analyzed separately.

Total revenues amounted to HUF 151.8 billion in Q2 2014 compared to HUF 156.9 billion in Q2 2013, representing a 3.3% decrease quarter over quarter caused by the following:

Mobile revenues amounted to HUF 77.4 billion in Q2 2014, compared to HUF 78.9 billion in the same period of the previous year representing a 2.0% decrease. Lower mobile voice and equipment revenues were partly offset by the higher mobile non-voice and other mobile revenues.

Mobile voice revenues, which represent the largest portion of revenues within mobile telecommunications services, declined by 4.8% to HUF 47.2 billion in Q2 2014 compared to HUF 49.6 billion in Q2 2013.

Voice-retail revenues decreased by 4.7% to HUF 39.9 billion in Q2 2014. This was mainly due to lower outgoing mobile voice revenues in Hungary mainly in the prepaid segment as both minutes of use (MOU) and the number of customers decreased. In the postpaid segment, growth in MOU and in the customer base could not offset the average tariff decrease. In Hungary, the significantly lower roaming revenues were caused by EU regulated average tariff erosion, effective from July 1, 2013. In Macedonia, mobile voice-retail revenues declined despite the increased volume of outgoing minutes quarter over quarter, as average price per minute decreased after the introduction of new offers and promotion in response to competitive pressures in the market. In Montenegro, lower voice-retail revenues were driven by the decrease in average customer base as well as lower tariff levels and the decrease in usage quarter over quarter.

Voice-wholesale revenues were down by 3.8% and amounted to HUF 6.8 billion in Q2 2014, mainly due to lower mobile termination rates applicable as of November 1, 2013 and decrease in international incoming traffic in Macedonia. In Hungary, voice-wholesale revenues increased driven by higher incoming traffic.

Non-voice revenues amounted to HUF 18.0 billion in Q2 2014, compared to HUF 16.4 billion in Q2 2013, representing a 9.2% increase. Higher non-voice revenues primarily came from higher mobile Internet revenues in Hungary, as both subscriber numbers and usage increased in Q2 2014.

Mobile equipment revenues decreased by 14.7% to HUF 9.3 billion in Q2 2014 compared to HUF 10.9 billion in Q2 2013, attributable to our Hungarian operation. The decrease in revenues was driven by lower average handset prices and decreased sales volume of accessories and other equipment. The decline was slightly offset by increased revenues at our foreign subsidiaries due to the higher number of handsets sold.

Other mobile revenues grew from HUF 2.0 billion in Q2 2013 to HUF 2.9 billion in Q2 2014 owing to higher revenues derived from penalty charges and from mobile handset insurance in Hungary.

Fixed line revenues amounted to HUF 51.5 billion in Q2 2014, compared to HUF 53.5 billion in the same period of the previous year, representing a 3.7% decline. The decrease was driven by falling voice, data, equipment and other revenues, partly offset by increased TV and Internet revenues.

Voice-retail revenues decreased by 8.1% to HUF 16.9 billion in Q2 2014 compared to HUF 18.4 billion in Q2 2013, mainly driven by the continuous decline in the number of revenue producing PSTN lines and lower average tariff levels.

Voice-wholesale revenues decreased by 10.2% to HUF 3.0 billion in Q2 2014, primarily due to tariff decline in Hungary causing lower domestic revenues from LTOs and from mobile operators. Call origination and termination also decreased in Hungary owing to mobile and OTT substitution and the intense competition with cable TV service providers. In Montenegro, lower international incoming traffic revenues resulted from lower volume of traffic, which also contributed to the decline in voice-wholesale revenues.

Internet revenues increased from HUF 12.8 billion in Q2 2013 to HUF 13.3 billion in Q2 2014, representing a 3.8% growth. In Hungary, DSL connections slightly increased together with cablenet and fiber optic connections. The broadband volume increase could compensate for the effect of the lower ARPU caused by lower prices due to strong competition and by the migration towards double- and triple-play packages, resulting in higher Internet access revenues. Revenues from content services also increased in Hungary. In Montenegro, higher revenues were due to the growth in number of DSL connections. In Macedonia, Internet broadband revenues remained stable as lower prices were compensated by the 5.5% higher number of DSL access.

Data revenues amounted to HUF 4.5 billion in Q2 2014 compared to HUF 5.0 billion in Q2 2013. The decrease in both broadband and narrowband revenues was mainly deriving from lower number of domestic and international leased line customers, both in Hungary and at our foreign subsidiaries. Broadband data price erosion also contributed to the revenue decline.

TV revenues amounted to HUF 10.1 billion in Q2 2014 compared to HUF 9.2 billion in Q2 2013, representing an increase of 9.6%. 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 number of customers compared to the same quarter last year. These increases were partly offset by lower Cable TV revenues owing to the fact that an increasing number of existing subscribers have been migrating over to IPTV services in Hungary.

Fixed equipment revenues amounted to HUF 1.3 billion in Q2 2014 compared to HUF 1.6 billion in Q2 2013. The decrease is mainly owing to the lower sale of tablets, TV sets and notebooks in Hungary. In Macedonia, the decrease in fixed equipment revenues was driven by the one-time effect of the sale of set-top boxes to the Macedonian National Television in Q2 2013 as part of the rollout of digital broadcasting. The decline was somewhat mitigated by the higher sale of TV sets and laptops in Montenegro.

Other fixed line revenues decreased by 22.4% in Q2 2014 compared to the same period previous year, and amounted to HUF 2.5 billion. The decrease was mainly due to less services delivered as well as lower revenues derived from other material sales and from telephone book publishing in Hungary.

System Integration ("SI") and IT revenues decreased by 2.7% from HUF 15.2 billion in Q2 2013 to HUF 14.8 billion in the same period of 2014. Lower revenues were due to the decrease in outsourcing revenues driven by the renegotiation of some large contracts during 2013, coupled with fewer large application and infrastructure projects in Q2 2014.

Energy Services revenues decreased to HUF 8.1 billion in Q2 2014 compared to HUF 9.3 billion in Q2 2013. The decline resulted mostly from the universal service provider price reductions from November 2013 and from April, 2014. As at June 30, 2014, the number of gas points of delivery amounted to 66,757, while the number of electricity points of delivery had reached 106,407.

3.1.3 Direct costs

Direct costs decreased by 9.5% in H1 2014 from HUF 115.0 billion in H1 2013 to HUF 104.1 billion in H1 2014. Reasons of movements usually correspond with the explanations relating to the second quarter. If the reason of the movement is different in the two periods compared, those are highlighted and analyzed separately.

Quarter over quarter direct costs decreased by 9.5%, and amounted to HUF 50.2 billion in Q2 2014.

Mobile services-related payments decreased by 8.1% in Q2 2014 quarter over quarter, and amounted to HUF 19.5 billion. Lower mobile voice payments are primarily due to lower interconnection cost at our foreign subsidiaries and lower roaming payments in Hungary. Mobile equipment costs decreased due to lower average unit prices and lower volume of smartphone sales in Hungary.

Fixed line-related payments decreased by 8.3% to HUF 9.6 billion in Q2 2014. The decrease was mainly driven by lower equipment sales in Hungary and in Macedonia, due to the decrease in tablet, PC and TV-set sales quarter over quarter. Continuously declining voice-related payments and lower data payments also contributed to the decrease. These decreases were partly counterbalanced by higher TV payments, owing to the increasing subscriber base in Hungary and in Macedonia.

Fewer large application and infrastructure projects at T-Systems Hungary caused SI/IT-related payments to decrease from HUF 9.4 billion in Q2 2013 to HUF 8.9 billion in Q2 2014.

Energy-related payments in Hungary decreased (from HUF 9.6 billion in Q2 2013 to HUF 7.6 billion in Q2 2014) in line with the decrease in revenues, due to lower system usage fees and energy purchase prices.

Agent commissions decreased by 13.5 % in Q2 2014, owing to lower commission levels and to lower volume of sales.

Bad debt expenses increased by 10.5% from HUF 1.9 billion in Q2 2013 to HUF 2.1 billion in Q2 2014, primarily due to the higher amount of impairment loss on receivables from equipment sales on instalments in Hungary.

3.1.4 Gross margin

Gross margin increased slightly from HUF 101.4 billion in Q2 2013 to HUF 101.5 billion in Q2 2014, as the decrease of direct costs exceeded the decrease in revenues.

3.1.5 Employee-related expenses

Employee-related expenses decreased by 2.3% quarter over quarter, and amounted to HUF 23.1 billion. The decrease is in line with the 2.2% decrease in average employee figure from Q2 2013 to Q2 2014.

3.1.6 Other operating expenses

Other operating expenses increased by 4.0%, from HUF 28.4 billion in Q2 2013 to HUF 29.6 in Q2 2014.

The increase is primarily due to the increase in the telecom tax expense in Hungary, which increased by HUF 1.1 billion, from HUF 5.3 billion in Q2 2013 to HUF 6.4 billion in Q2 2014. In 2013, the tax imposed on fixed and mobile usage amounted to HUF 2 per minute and HUF 2 per SMS/MMS. The tax was capped at HUF 700 per month per calling number for private individuals' subscriptions, and was HUF 2,500 per month per calling number for non-private individual subscribers' subscriptions. From August 1, 2013, the tax measure was raised to HUF 3 per minute and HUF 3 per SMS/MMS for non-private individual subscribers' subscriptions and also the cap applicable to these subscriptions was raised to HUF 5,000 per month.

The utility tax expense amounted to HUF 7.5 billion in H1 2014, which is an increase of HUF 0.2 billion compared to H1 2013.

Marketing expenses increased by 12.5% and amounted to HUF 3.6 billion, mainly due to higher advertising costs in Macedonia. Consultancy expenses increased from HUF 0.8 billion to HUF 1.0 billion, owing to an internal enterprise resource planning system development project.

These increases were somewhat offset by lower fees and levies, which decreased from HUF 3.0 billion to HUF 1.8 billion as a combined impact of the reduction of the annual frequency fees and the capitalization of these fees in Hungary in Q3 2013. Material and maintenance expenses decreased by 4.0% and amounted to HUF 7.0 billion, primarily due to an energy saving project in Hungary. Other service fees amounting to HUF 5.8 billion and rental fees in the amount of HUF 3.5 billion remained stable quarter over quarter.

3.1.7 Other operating income

Other operating income increased from HUF 0.5 billion to HUF 0.9 billion quarter over quarter. The increase is primarily due to higher profits on real estate sales in Q2 2014.

3.1.8 EBITDA

EBITDA decreased slightly by 0.3% from HUF 49.8 billion in Q2 2013 to HUF 49.6 billion in Q2 2014, primarily due to the higher telecom tax charge in Q2 2014, which couldn't be counterbalanced by higher gross margins and lower employee related expenses.

3.1.9 Depreciation and amortization

Depreciation and amortization expenses decreased by 3.9% from HUF 25.5 billion in Q2 2013 to HUF 24.5 billion in Q2 2014, mainly due to the lower depreciation of telecom equipment in Q2 2014, as a result of the extension of useful life of certain equipment at the end of 2013. This decrease was partly counterbalanced by higher depreciation in Hungary due to the capitalization of the extended- and newly purchased spectrum licenses in 2013.

3.1.10 Operating profit

Operating profit increased from HUF 24.2 billion in Q2 2013 to HUF 25.1 billion in Q2 2014 for the reasons described above.

3.1.11 Net financial result

Net financial expenses increased by 18.6%, from HUF 6.5 billion in Q2 2013 to HUF 7.8 billion in Q2 2014. Higher expenses are due to the higher net loss on foreign exchange translation and hedges, as the HUF weakened by 1.0% against the EUR in Q2 2014 compared to the 3.0% strengthening in Q2 2013.

3.1.12 Income tax

The income tax expense increased from HUF 3.9 billion in Q2 2013 to HUF 4.8 billion in Q2 2014. The 23.5% increase is due to the higher profit of our Hungarian operations with higher tax rate, while the ratio of the results of our international subsidiaries with lower tax rate is decreasing, shifting the effective tax rate to a higher level. Higher deferred tax expense in Q2 2014 owing to the consolidation effect of foreign exchange movement also contributed to the increase, as in Q2 2014, HUF weakened against the EUR compared to the strengthening in Q2 2013.

3.1.13 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests in Q2 2014 decreased by 38.4% compared to the same period in 2013. The decrease was predominantly due to the weaker result of our Macedonian subsidiaries, resulting from the 43.3% lower operating profit in MKD terms. In Montenegro, operating profit increased by 5.0% in EUR terms quarter over quarter.

3.1.14 Cash flows

HUF millions	H1 2013	H1 2014	Change
Operating cash flow	41,468	56,216	14,748
Investing cash flow	(16,861)	(24,006)	(7,145)
Less: Proceeds from other financial assets - net	(20,765)	(17,526)	3,239
Investing cash flow excluding Proceeds from other financial assets – net	(37,626)	(41,532)	(3,906)
Repayment of other financial liabilities	(739)	(14,027)	(13,288)
Free cash flow	**3,103**	**657**	**(2,446)**
Proceeds from other financial assets - net	20,765	17,526	(3,239)
Proceeds from / (repayments of) loans and other borrowings	41,107	(12,828)	(53,935)
Dividend paid to shareholders and Non-controlling interests	(65,174)	(6,411)	58,763
Exchange gains on cash and cash equivalents	106	390	284
Change in cash and cash equivalents	**(93)**	**(666)**	**(573)**

Free cash flow

Operating cash flow

Net cash generated from operating activities amounted to HUF 56.2 billion in H1 2014, compared to HUF 41.5 billion in H1 2013. Main reasons for the increase of HUF 14.7 billion were the following:

- HUF 11 billion change due to lower increase of receivables in 2014 due to lower investment in 0-24 equipment sale (smartphones, TV, tablet, etc.)
- HUF 9 billion change as payments to trade creditors in 2014 decreased as result of reclassification of payments to financial cash flow due to reverse factoring transactions.
- HUF -1 bn change due to recovery of 2012 crisis tax overpayment in H1 2013
- HUF -3 bn change due to higher tax payments in Macedonia as a result of the changes of the tax law in 2014, which brought the payment of the dividend related taxes earlier
- HUF -1 bn change due to higher income on PPE sale in H1 2014 than H1 2013

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF 41.5 billion in H1 2014, compared to HUF 37.6 billion in H1 2013. Main reasons for the HUF 3.9 billion higher cash outflow were the following:

- HUF -2 billion change mainly due to higher investment in 3G/4G networks in H1 2014
- HUF -3 billion change from capex to be paid in cash as financing cash flow due to reverse factoring was higher in H1 2013 than in H1 2014
- HUF 1 billion higher proceeds from PPE sale in H1 2014 than H1 2013, mainly due to the Q2 2014 real estate sale in Győr

Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF 0.7 billion in H1 2013 to HUF 14.0 billion in H1 2014. Main reasons for the HUF 13.3 billion higher payments were the following:

- HUF -11 billion payments on reverse factored vendor invoices in 2014, no such payments in H1 2013
- HUF -1 billion higher payments on finance lease liabilities in H1 2014 than in H1 2013 mainly due to the amendment of the STB lease contract in 2013
- HUF -1 billion payment on annual frequency fees in H1 2014 (recognized as financial liability in Q3 2013), no such financial payments in H1 2013

Free cash flow (FCF) overall decreased from HUF 3.1 billion in H1 2013 to HUF 0.7 billion in H1 2014 due to the reasons described above.

Proceeds from other financial assets - net

Proceeds from other financial assets - net decreased by HUF 3.2 billion. Main reasons for the decrease were the following:

- HUF -18 billion lower amount of MKT's bank deposits over 3 months were converted into cash in H1 2014 in a net term
- HUF 12 billion lower amount of CT's cash was invested as bank deposits over 3 months in H1 2014 in a net term

- HUF 3 billion lower cash outflows from derivatives in H1 2014

Proceeds from loans and other borrowings - net

MT had net loan repayments in H1 2014 as opposed to net loan proceeds in H1 2013 primarily due to no dividend payment to MT's shareholders.

Dividend paid to shareholders and Non-controlling interests

Dividend paid to shareholders and Non-controlling interest decreased by HUF 58.8 billion. Main reasons for the decrease were the following:

- HUF 52 billion - There was no MT dividend payment in 2014
- HUF 7 billion - MKT's minority owners received lower amount of dividends in 2014 than in 2013

Exchange gains on cash and cash equivalents

Higher exchange gain on cash as the depreciation of HUF was higher in H1 2014 than in H1 2013.

3.1.15 Statements of Financial position

The most significant change in the balances of the Statements of Financial position from December 31, 2013 to June 30, 2014 relates to the shift in the balances of the current and non- current portion of the Financial liabilities to related parties. The current portion of the balances increased primarily as a result of the over-one-year loans becoming falling due within one year, with a corresponding decrease in the non current balances.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2013 to June 30, 2014. The less significant changes in balances of the Consolidated Statements of Financial Position are explained by the items of the Consolidated Statement of Cash Flows for H1 2014, and the related explanations provided above in section 3.1.14 Cash flows.

3.1.16 Key Performance Indicators / Key operating statistics

The financial and operating statistics are available on the following website:

http://www.telekom.hu/investor_relations/financial

3.2. Segment information

3.2.1 Description of segments

The Group's operating segments are Telekom Hungary, T-Systems Hungary, Macedonia and Montenegro.

The Telekom Hungary segment operates in Hungary providing mobile and fixed line telecommunications and TV distribution and energy retail services to millions of residential and small and medium business customers mainly under the Telekom brand. The Telekom brand name is gradually expanded to cover all services offered to the general public as well as to small and medium-sized companies. 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 operates in Hungary providing mobile and fixed line telecommunications, infocommunications and system integration services mainly 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	Q2 2013	Q2 2014	1-6 months 2013	1-6 months 2014
Total Telekom Hungary revenues	113,972	110,820	230,546	224,476
Less: Telekom Hungary revenues from other segments	(6,873)	(6,080)	(14,255)	(12,592)
Telekom Hungary revenues from external customers	**107,099**	**104,740**	**216,291**	**211,884**
Total T-Systems Hungary revenues	29,950	27,916	58,033	55,216
Less: T-Systems Hungary revenues from other segments	(3,687)	(2,422)	(6,610)	(5,896)
T-Systems Hungary revenues from external customers	**26,263**	**25,494**	**51,423**	**49,320**
Total Macedonia revenues	15,318	13,545	30,161	26,937
Less: Macedonia revenues from other segments	(7)	(31)	(13)	(52)
Macedonia revenues from external customers	**15,311**	**13,514**	**30,148**	**26,885**
Total Montenegro revenues	8,239	8,037	15,654	15,592
Less: Montenegro revenues from other segments	(5)	(10)	(12)	(15)
Montenegro revenues from external customers	**8,234**	**8,027**	**15,642**	**15,577**
Total consolidated revenue of the segments	156,907	151,775	313,504	303,666
Measurement differences to Group revenue	0	11	12	13
Total revenue of the Group	**156,907**	**151,786**	**313,516**	**303,679**
Segment results (EBITDA)				
Telekom Hungary	36,206	37,422	63,473	66,572
T-Systems Hungary	4,029	3,788	7,493	6,983
Macedonia	6,692	5,143	12,226	10,570
Montenegro	3,324	3,378	6,054	6,084
Total EBITDA of the segments	**50,251**	**49,731**	**89,246**	**90,209**
Measurement differences to Group EBITDA	(500)	(128)	(468)	(78)
Total EBITDA of the Group	**49,751**	**49,603**	**88,778**	**90,131**
Total depreciation and amortization of the Group	(25,514)	(24,511)	(50,293)	(48,945)
Total operating profit of the Group	**24,237**	**25,092**	**38,485**	**41,186**

3.2.2 Telekom Hungary

HUF millions	Q2 2013	Q2 2014	Change	Change (%)	1-6 months 2013	1-6 months 2014	Change	Change (%)
Voice revenues	38,014	36,973	(1,041)	(2.7%)	73,864	72,550	(1,314)	(1.8%)
Non-voice revenue	12,312	13,709	1,397	11.3%	24,613	26,633	2,020	8.2%
Equipment revenues	9,775	7,937	(1,838)	(18.8%)	17,183	14,671	(2,512)	(14.6%)
Other mobile revenues	1,453	2,440	987	67.9%	2,553	4,900	2,347	91.9%
Total mobile revenues	**61,554**	**61,059**	**(495)**	**(0.8%)**	**118,213**	**118,754**	**541**	**0.5%**
Voice revenues	13,584	12,809	(775)	(5.7%)	28,409	25,809	(2,600)	(9.2%)
Internet revenues	9,947	10,331	384	3.9%	20,111	20,578	467	2.3%
TV revenues	7,892	8,605	713	9.0%	15,633	17,059	1,426	9.1%
Equipment revenues	927	835	(92)	(9.9%)	2,744	2,053	(691)	(25.2%)
Other fixed line revenues	10,481	8,654	(1,827)	(17.4%)	20,197	17,778	(2,419)	(12.0%)
Total fixed line revenues	**42,831**	**41,234**	**(1,597)**	**(3.7%)**	**87,094**	**83,277**	**(3,817)**	**(4.4%)**
SI/IT revenues	332	431	99	29.8%	647	840	193	29.8%
Revenue from Energy Services	9,255	8,096	(1,159)	(12.5%)	24,592	21,605	(2,987)	(12.1%)
Total revenues	**113,972**	**110,820**	**(3,152)**	**(2.8%)**	**230,546**	**224,476**	**(6,070)**	**(2.6%)**
Direct cost	**(39,268)**	**(35 184)**	**4 084**	**10,4%**	**(83 464)**	**(75 345)**	**8 119**	**9,7%**
Gross margin	**74,704**	**75,636**	**932**	**1.2%**	**147,082**	**149,131**	**2,049**	**1.4%**
Telecom tax	(4,495)	(5,112)	(617)	(13.7%)	(9,142)	(10,244)	(1,102)	(12.1%)
Utility tax	0	0	0	n.a.	(6,812)	(6,950)	(138)	(2.0%)
Other operating expenses (net)	(34,003)	(33,102)	901	2.6%	(67,655)	(65,365)	2,290	3.4%
EBITDA	**36,206**	**37,422**	**1,216**	**3.4%**	**63,473**	**66,572**	**3,099**	**4.9%**
STB lease to finance lease	7,225	0	(7,225)	(100.0%)	7,225	0	(7,225)	(100.0%)
Other investments in tangible and intangible assets	13,195	14,132	937	7.1%	26,719	29,317	2,598	9.7%
Segment Capex	**20,420**	**14,132**	**(6,288)**	**(30.8%)**	**33,944**	**29,317**	**(4,627)**	**(13.6%)**

Revenues

Total revenues in the Telekom Hungary segment decreased in Q2 2014 compared with the same quarter in the previous year due to considerably lower mobile and fixed equipment and mobile and fixed voice revenues as well as decreased revenues from energy services and lower other fixed line revenues. These decreases were mitigated by higher Internet, TV and other mobile revenues.

Mobile services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Mobile penetration [1]	116.1%	116.8%	n.a.	116.1%	116.8%	n.a.
Mobile SIM market share [2]	46.4%	46.3%	n.a.	46.4%	46.3%	n.a.
Number of customers (RPC)	**4,838,450**	**4,897,647**	**1.2%**	**4,838,450**	**4,897,647**	**1.2%**
Postpaid share in the RPC base	48.0%	49.3%	n.a.	48.0%	49.3%	n.a.
MOU	**163**	**171**	**4.9%**	**160**	**165**	**3.1%**
ARPU (HUF)	**3,388**	**3,477**	**2.6%**	**3,317**	**3,405**	**2.7%**
Postpaid	5,541	5,741	3.6%	5,453	5,663	3.9%
Prepaid	1,363	1,303	(4.4%)	1,315	1,256	(4.5%)
Churn rate	18.1%	17.3%	n.a.	18.0%	17.7%	n.a.
Postpaid	12.8%	10.3%	n.a.	14.4%	11.8%	n.a.
Prepaid	22.9%	23.9%	n.a.	21.4%	23.4%	n.a.
Ratio of non-voice revenues in ARPU	25.0%	26.7%	n.a.	25.0%	26.7%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	5,376	4,975	(7.5%)	5,569	5,325	(4.4%)
Average retention cost (SRC) per retained customer (HUF)	12,193	12,826	5.2%	12,968	13,360	3.0%
Number of mobile broadband subscriptions [3]	**1,518,149**	**n.a.**	**n.a.**	**1,518,149**	**n.a.**	**n.a.**
Mobile broadband market share based on total number of subscriptions [3]	**45.6%**	**n.a.**	**n.a.**	**45.6%**	**n.a.**	**n.a.**
Population-based outdoor 3G coverage	82.1%	83.0%	n.a.	82.1%	83.0%	n.a.
Population-based outdoor 4G coverage	36.9%	50.8%	n.a.	36.9%	50.8%	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) Mobile Internet data are available only till January 2014 by NMIAH due to definition update.

Mobile revenues decreased in Q2 2014 versus Q2 2013 due to lower equipment revenues driven by lower average prices and lower revenues from sales of accessories and other equipment. Voice revenues decreased owing to the decline in the prepaid segment as both minutes of use and the number of customers decreased. These decreases were partly offset by the increase in non-voice revenues due to wider usage of mobile Internet and the higher other mobile revenues caused by increased amount of penalties charged and the growth in mobile handset insurance revenues in Hungary.

Fixed line services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Voice services						
Total voice access	1,438,474	1,421,063	(1.2%)	1,438,474	1,421,063	(1.2%)
Total outgoing traffic (thousand minutes)	767,276	683,842	(10.9%)	1,622,925	1,426,969	(12.1%)
Blended MOU (outgoing) [1]	178	161	(9.6%)	187	167	(10.8%)
Blended ARPU (HUF) [1]	2,786	2,598	(6.7%)	2,791	2,618	(6.2%)

(1) Including PSTN, VoIP and VoCable.

Fixed line voice revenues declined by 5.7% in Q2 2014 compared to Q2 2013 due to lower subscription fee revenues resulting from the decrease in the average number of fixed lines. The decrease was also driven by lower outgoing traffic revenues due to the loss of lines and price discounts reflecting the migration towards multiplay packages and mobile substitution, as well as competition with VoIP and VoCable operators. The increasing popularity of flat rate packages (e.g. Hoppá) also led to lower ARPU.

Magyar Telekom Plc. has several favorable offers for customers choosing different flat-rate and optional tariff packages. Our Hoppá tariff package was very successful, generating 638,731 subscribers by the end of June 2014. The vast majority of customers choosing this package signed a 2-year loyalty contract; therefore, this offer proves to be a very effective tool in decreasing fixed line customer churn in Hungary.

Internet services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Blended retail broadband market share [1]	**37.2%**	**37.6%**	**n.a.**	**37.2%**	**37.6%**	**n.a.**
Number of retail DSL customers	504,465	525,773	4.2%	504,465	525,773	4.2%
Number of cable broadband customers	260,377	296,636	13.9%	260,377	296,636	13.9%
Number of fiber optic connections	46,788	54,531	16.5%	46,788	54,531	16.5%
Total retail broadband customers	**811,630**	**876,940**	**8.0%**	**811,630**	**876,940**	**8.0%**
Blended broadband ARPU (HUF)	3,519	3,415	(3.0%)	3,610	3,418	(5.3%)
Number of wholesale DSL access	79,031	66,936	(15.3%)	79,031	66,936	(15.3%)

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

Internet revenues increased by 3.9% and amounted to HUF 10.3 billion in Q2 2014. The increase was mainly owing to higher revenues from content services. The Internet access revenues increased as the number of retail broadband customers could compensate for the decrease in wholesale connections and the effect of lower ARPU, reflecting lower prices forced by strong competition. The migration towards double- and triple-play packages also had a negative effect on the blended ARPU level.

TV services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Blended TV market share [1]	**25.7%**	**26.3%**	**n.a.**	**25.7%**	**26.3%**	**n.a.**
Number of IPTV customers	354,242	419,351	18.4%	354,242	419,351	18.4%
Number of satellite TV customers	300,397	308,088	2.6%	300,397	308,088	2.6%
Number of cable TV customers	200,637	179,112	(10.7%)	200,637	179,112	(10.7%)
Total TV customers	**855,276**	**906,551**	**6.0%**	**855,276**	**906,551**	**6.0%**
Blended TV ARPU (HUF)	3,102	3,090	(0.4%)	3,090	3,079	(0.4%)

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

IPTV and satellite TV revenues increased in Q2 2014 compared to the same quarter last year; however, this increase was partly offset by lower Cable TV revenues influenced by the significantly lower customer base primarily due to migration from Cable TV to IPTV.

Energy services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Electricity points of delivery	106,239	106,407	0.2%	106,239	106,407	0.2%
Gas points of delivery	68,700	66,757	(2.8%)	68,700	66,757	(2.8%)

Energy services revenues decreased by HUF 1.2 billion in Q2 2014 versus Q2 2013, mostly due to the universal service provider price reduction from November 2013 and April 2014.

EBITDA

EBITDA of the Telekom Hungary segment increased by 3.4% in Q2 2014 versus Q2 2013, the main reasons are the higher gross margin coupled with lower fees and levies in Q2 2014, due to the capitalization of the annual frequency fees in Q3 2013.

Segment Capex

Segment Capex decreased by HUF 6.3 billion driven by the change of the IPTV set-top box rental contracts from operating to financial leases, due to the extension of the contracts in 2013. Without this effect, investments in tangible and intangible assets increased owing to higher spending on 3G/4G investments in Q2 2014.

3.2.3 T-Systems Hungary

HUF millions	Q2 2013	Q2 2014	Change	Change (%)	1-6 months 2013	1-6 months 2014	Change	Change (%)
Mobile voice revenues	3,646	3,657	11	0.3%	7,128	7,354	226	3.2%
Non-voice revenue	2,302	2,407	105	4.6%	4,508	4,718	210	4.7%
Other mobile revenues	831	797	(34)	(4.1%)	1,681	1,645	(36)	(2.1%)
Total mobile revenues	**6,779**	**6,861**	**82**	**1.2%**	**13,317**	**13,717**	**400**	**3.0%**
Fixed voice revenues	2,149	2,005	(144)	(6.7%)	4,288	3,949	(339)	(7.9%)
Internet revenues	583	561	(22)	(3.8%)	1,201	1,138	(63)	(5.2%)
Data revenues	2,313	2,171	(142)	(6.1%)	4,721	4,262	(459)	(9.7%)
Other fixed line revenues	563	483	(80)	(14.2%)	1,153	889	(264)	(22.9%)
Total fixed line revenues	**5,608**	**5,220**	**(388)**	**(6.9%)**	**11,363**	**10,238**	**(1,125)**	**(9.9%)**
SI/IT revenues	17,563	15,835	(1,728)	(9.8%)	33,353	31,261	(2,092)	(6.3%)
Total revenues	**29,950**	**27,916**	**(2,034)**	**(6.8%)**	**58,033**	**55,216**	**(2,817)**	**(4.9%)**
Direct cost	**(18,308)**	**(15,601)**	**2,707**	**14.8%**	**(35,103)**	**(30,942)**	**4,161**	**11.9%**
Gross margin	**11,642**	**12,315**	**673**	**5.8%**	**22,930**	**24,274**	**1,344**	**5.9%**
Telecom tax	(847)	(1,313)	(466)	(55.0%)	(1,729)	(2,617)	(888)	(51.4%)
Utility tax	0	0	0	n.a.	(509)	(526)	(17)	(3.3%)
Other operating expenses (net)	(6,766)	(7,214)	(448)	(6.6%)	(13,199)	(14,148)	(949)	(7.2%)
EBITDA	**4,029**	**3,788**	**(241)**	**(6.0%)**	**7,493**	**6,983**	**(510)**	**(6.8%)**
Segment Capex	**660**	**421**	**(239)**	**(36.2%)**	**971**	**1,164**	**193**	**19.9%**

Revenues

Total revenues of T-Systems Hungary decreased by 6.8% in Q2 2014 compared to Q2 2013 mainly due to the lower SI/IT and fixed line revenues.

Mobile services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Number of customers (number or SIM cards)	493,355	505,885	2.5%	493,355	505,885	2.5%
Churn rate	4.9%	18.6%	n.a.	7.6%	16.9%	n.a.
MOU	291	255	(12.4%)	287	255	(11.0%)
ARPU (HUF)	4,071	3,967	(2.6%)	4,016	3,919	(2.4%)
Ratio of non-voice revenues in ARPU	38.8%	39.8%	n.a.	38.9%	39.2%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	4,948	2,683	(45.8%)	3,831	2,636	(31.2%)
Number of mobile broadband subscriptions (1)	99,264	n.a.	n.a.	99,264	n.a.	n.a.

(1) Mobile Internet data are available only till January 2014 by NMIAH due to definition update

Mobile voice revenues slightly increased by 0.3% in Q2 2014 versus Q2 2013, as the revenues from connection fee introduced in November 2013 and the higher average customer base could more than offset the effects of decreased MOU and lower average price per minute. The increase in non-voice revenues was 4.6% driven by higher Internet revenues, reflecting the increased number of mobile broadband subscriptions.

Fixed line services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Voice services						
Total voice access	70,640	67,983	(3.8%)	70,640	67,983	(3.8%)
Total outgoing traffic (thousand minutes)	71,611	65,582	(8.4%)	141,404	134,938	(4.6%)
MOU (outgoing)	333	321	(3.7%)	336	328	(2.2%)
ARPU (HUF)	8,732	8,656	(0.9%)	8,681	8,481	(2.3%)
Internet services						
Number of retail broadband access	14,572	12,419	(14.8%)	14,572	12,419	(14.8%)
Blended broadband ARPU (HUF)	13,444	15,009	11.6%	14,035	14,904	6.2%

Fixed line voice revenues decreased by 6.7% caused by the erosion both in the customer base and traffic quarter over quarter. Fixed line data revenues were down, as a result of a lower number of leased lines in Q2 2014. Fixed line Internet revenues also declined. Although the blended broadband ARPU increased, the lower number of retail broadband access resulted in a decrease in Internet revenues.

SI/IT services

The 9.8% decrease in SI/IT revenues quarter over quarter resulted mainly from the decline in revenues from outsourcing, coupled with fewer large application and infrastructure projects in Q2 2014.

EBITDA

EBITDA decreased by 6.0% in Q2 2014 compared to Q2 2013, despite the higher gross margin, mainly due to the higher telecom tax and other expenses.

Segment Capex

Segment Capex decreased slightly by HUF 0.2 billion in Q2 2014 compared to Q2 2013, as a result of lower amount of new projects requiring higher spending on tangible and intangible assets.

On a year-to-date basis, Segment Capex increased by HUF 0.2 billion due to the higher amount of asset intensive services in Q1 2014.

3.2.4 Macedonia

HUF millions	Q2 2013	Q2 2014	Change	Change (%)	1-6 months 2013	1-6 months 2014	Change	Change (%)
Voice revenues	6,724	5,513	(1,211)	(18.0%)	13,128	10,717	(2,411)	(18.4%)
Non-voice revenues	1,303	1,265	(38)	(2.9%)	2,691	2,523	(168)	(6.2%)
Equipment revenues	547	658	111	20.3%	1,095	1,247	152	13.9%
Other mobile revenues	145	132	(13)	(9.0%)	324	282	(42)	(13.0%)
Total mobile revenues	**8,719**	**7,568**	**(1,151)**	**(13.2%)**	**17,238**	**14,769**	**(2,469)**	**(14.3%)**
Voice revenues	3,247	2,969	(278)	(8.6%)	6,593	6,043	(550)	(8.3%)
Internet revenues	1,458	1,490	32	2.2%	2,893	2,957	64	2.2%
TV revenues	548	625	77	14.1%	1,029	1,225	196	19.0%
Equipment revenues	579	235	(344)	(59.4%)	981	600	(381)	(38.8%)
Other fixed line revenues	700	558	(142)	(20.3%)	1,299	1,153	(146)	(11.2%)
Total fixed line revenues	**6,532**	**5,877**	**(655)**	**(10.0%)**	**12,795**	**11,978**	**(817)**	**(6.4%)**
SI/IT revenues	67	100	33	49.3%	128	190	62	48.4%
Total revenues	**15,318**	**13,545**	**(1,773)**	**(11.6%)**	**30,161**	**26,937**	**(3,224)**	**(10.7%)**
Direct costs	**(4,402)**	**(4,026)**	**376**	**8.5%**	**(8,899)**	**(7,715)**	**1,184**	**13.3%**
Gross margin	**10,916**	**9,519**	**(1,397)**	**(12.8%)**	**21,262**	**19,222**	**(2,040)**	**(9.6%)**
Other operating expenses (net)	(4,224)	(4,376)	(152)	(3.6%)	(9,036)	(8,652)	384	4.2%
EBITDA	**6,692**	**5,143**	**(1,549)**	**(23.1%)**	**12,226**	**10,570**	**(1,656)**	**(13.5%)**
Segment Capex	**2,079**	**995**	**(1,084)**	**(52.1%)**	**4,396**	**1,747**	**(2,649)**	**(60.3%)**

The 3.2% stronger MKD against the HUF on average in Q2 2014 compared with the same quarter last year had a positive impact on the results of the Macedonian segment in HUF terms.

Revenues

Despite the positive FX effect, revenues decreased by 11.6% in HUF terms over the same period last year, mainly driven by the significant decrease in mobile- and fixed voice, and fixed equipment revenues.

Mobile services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Mobile penetration(1)	107.4%	107.5%	n.a.	107.4%	107.5%	n.a.
Market share of T-Mobile Macedonia(1)(2)	48.1%	46.4%	n.a.	48.1%	46.4%	n.a.
Number of customers	1,197,665	1,166,262	(2.6%)	1,197,665	1,166,262	(2.6%)
Postpaid share in the customer base	32.3%	35.0%	n.a.	32.3%	35.0%	n.a.
MOU	189	206	9.0%	184	197	6.9%
ARPU (HUF))	2,205	1,852	(16.0%)	2,168	1,799	(17.0%)

(1) Data published by Macedonian Agency for Electronic Communications (AEC)
(2) Based on RPC

Mobile voice revenues decreased by 18.0% quarter over quarter, mainly driven by lower voice-wholesale revenues as a result of lower mobile termination rates for domestic calls from November 2013, although the level of domestic incoming traffic increased. Voice-retail revenues decreased as well, as higher outgoing minutes could not offset the lower subscription fees as a result of new promotions and offers in response to the strong competition.

Non-voice revenues decreased due to the lower messaging revenues owing to lower number of SMS sent, decreased SMS interconnect prices and decreased content revenues. This decline could not be offset by the increased mobile internet revenue due to higher GPRS traffic and increased usage of data tariff models.

Mobile equipment revenues increased due to higher number of handsets sold in customer acquisition, and to higher sales of accessories in Q2 2014.

Other mobile revenues remained fairly stable quarter over quarter.

Fixed line services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Voice services						
Fixed line penetration	14.2%	12.7%	n.a.	14.2%	12.7%	n.a.
Total voice access	256,562	243,728	(5.0%)	256,562	243,728	(5.0%)
Total outgoing traffic (thousand minutes)	97,857	77,083	(21.2%)	205,345	160,408	(21.9%)
Internet and TV services						
Retail DSL market share (estimated)	82.6%	82.4%	n.a.	82.6%	82.4%	n.a.
Number of retail DSL customers	152,897	164,040	7.3%	152,897	164,040	7.3%
Number of wholesale DSL access	26,998	25,735	(4.7%)	26,998	25,735	(4.7%)
Number of total DSL access	179,895	189,775	5.5%	179,895	189,775	5.5%
Number of IPTV customers	80,320	95,276	18.6%	80,320	95,276	18.6%

Fixed-line revenues decreased by 10.0% quarter over quarter, mainly driven by lower voice-retail and equipment revenues. Voice-retail revenues declined reflecting lower traffic and customer number. The decrease in fixed equipment revenues was driven by the one-time effect of the sale of set-top boxes to the Macedonian National Television in Q2 2013 as part of the rollout of digital broadcasting. These decreases were partly counterbalanced by the increase in TV revenues, owing to the growing IPTV subscriber base.

EBITDA

EBITDA of our Macedonian operations decreased by 23.1% in Q2 2014 versus Q2 2013 in HUF terms due to the 12.8% lower gross margin and the 3.6% higher other operating expenses.

Segment Capex

Segment Capex decreased by 52.1% in Q2 2014, mainly due to lower Capex on IPTV and broadband network development.

3.2.5 Montenegro

HUF millions	Q2 2013	Q2 2014	Change	Change (%)	1-6 months 2013	1-6 months 2014	Change	Change (%)
Voice revenues	2,412	2,084	(328)	(13.6%)	4,372	3,951	(421)	(9.6%)
Non-voice revenue	936	955	19	2.0%	1,851	1,910	59	3.2%
Other mobile revenues	251	323	72	28.7%	446	584	138	30.9%
Total mobile revenues	**3,599**	**3,362**	**(237)**	**(6.6%)**	**6,669**	**6,445**	**(224)**	**(3.4%)**
Voice revenues	2,490	2,286	(204)	(8.2%)	4,810	4,490	(320)	(6.7%)
Internet revenues	868	966	98	11.3%	1,732	1,918	186	10.7%
TV revenues	473	552	79	16.7%	947	1,098	151	15.9%
Data revenues	384	330	(54)	(14.1%)	801	663	(138)	(17.2%)
Other fixed line revenues	155	245	90	58.1%	321	482	161	50.2%
Total fixed line revenues	**4,370**	**4,379**	**9**	**0.2%**	**8,611**	**8,651**	**40**	**0.5%**
SI/IT revenues	270	296	26	9.6%	374	496	122	32.6%
Total revenues	**8,239**	**8,037**	**(202)**	**(2.5%)**	**15,654**	**15,592**	**(62)**	**(0.4%)**
Direct costs	**(2,122)**	**(2,116)**	**6**	**0.3%**	**(4,068)**	**(4,167)**	**(99)**	**(2.4%)**
Gross margin	**6,117**	**5,921**	**(196)**	**(3.2%)**	**11,586**	**11,425**	**(161)**	**(1.4%)**
Other operating expenses (net)	(2,793)	(2,543)	250	9.0%	(5,532)	(5,341)	191	3.5%
EBITDA	**3,324**	**3,378**	**54**	**1.6%**	**6,054**	**6,084**	**30**	**0.5%**
Segment Capex	**772**	**536**	**(236)**	**(30.6%)**	**1,337**	**1,191**	**(146)**	**(10.9%)**

The 3.3% stronger EUR against the HUF on average in Q2 2014 versus Q2 2013 had a positive impact on the results of our Montenegrin operations in HUF terms.

Revenues

In HUF terms, total revenues decreased by 2.5% quarter over quarter, mainly due to the decrease in voice revenues.

Mobile services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Mobile penetration (1)	162.2%	159.8%	n.a.	162.2%	159.8%	n.a.
Market share of T-Mobile Crna Gora (1)	35.4%	34.2%	n.a.	35.4%	34.2%	n.a.
Number of customers (RPC) (1)	355,926	339,344	(4.7%)	355,926	339,344	(4.7%)
Postpaid share in the RPC base	37.6%	41.8%	n.a.	37.6%	41.8%	n.a.
MOU	174	162	(6.9%)	168	164	(2.38%)
ARPU (HUF)	3,024	2,892	(4.4%)	2,884	2,807	(2.7%)

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

Compared with the same period last year, mobile revenues decreased by 6.6%. Voice-retail revenues decreased as a combined result of the decrease in average RPC, lower outgoing traffic and lower prices.

These decreases were partly offset by the increase in other mobile revenues, owing to higher handset sales due to successful smartphone marketing campaigns in Q2 2014.

Fixed line services	Q2 2013	Q2 2014	change %	1-6 months 2013	1-6 months 2014	change %
Voice services						
Fixed line penetration	25.7%	25.1%	n.a.	25.7%	25.1%	n.a.
Total voice access	153,579	150,177	(2.2%)	153,579	150,177	(2.2%)
Total outgoing traffic (thousand minutes)	68,081	58,533	(14.0%)	138,054	117,932	(14.6%)
Internet and TV services						
Retail DSL market share (estimated)	82.3%	81.2%	n.a.	82.3%	81.2%	n.a.
Number of DSL access	85,450	91,064	6.6%	85,450	91,064	6.6%
Number of IPTV customers	56,677	60,394	6.6%	56,677	60,394	6.6%

Total fixed line revenues remained stable quarter over quarter in HUF terms, but in local currency (EUR) they decreased by 2.3%, as lower voice and data revenues were only partly counterbalanced by higher Internet and TV revenues. Voice revenues decreased owing to lower traffic and lower average RPC quarter over quarter. Data revenues decreased due to lower revenues from leased lines.

These decreases were offset by the increase in Internet revenues resulting from the 6.6% growth in ADSL subscriber number, and higher TV revenues owing to the 6.6% increase in the IPTV subscriber base.

EBITDA

The EBITDA of our Montenegrin subsidiary increased by 1.6% in HUF terms quarter over quarter. In EUR terms, EBITDA decreased by 1.4% quarter over quarter, mainly due to the lower gross margin, which was only partly counterbalanced by lower operating expenses.

Segment Capex

Segment Capex increased by 30.6% in Q2 2014 compared to the same quarter last year, owing to higher spending on the One Billing and CRM information system development project, as well as on network development.

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 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 Plc. is exposed to risks that arise from the possible drawdown of guarantees.

Commitments

There has not been any material change in the nature and amount of our commitments in H1 2014.

3.4. Other matters

Investigations 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 totalled 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, totalling USD 90.8 million (HUF 22,078 million) paid with respect to the settlements with the DOJ and the SEC.

The aggregate amount of USD 90.8 million payable by the Company in settlement of the DOJ's and SEC's investigations was fully provided for before the end of 2011. No further provisions were made in 2012, 2013 or 2014 for these cases.

3.5. Significant events between the end of the quarter and the publishing of the "Half yearly report"

No such events have taken place since June 30, 2014 to the publication date of this report.

3.6. Business environment

The telecommunications industry is undergoing a major change globally. Worldwide trends are driving towards an integrated telecommunications, information, media and entertainment market. The increasing need for mobility and interactivity together with local specifics create new set-up in our eco-system both in terms of infrastructure, servicing and new types of business models.

Hungary

The saturating traditional telecommunications market delivers moderate growth in Hungary with strong restructuring between segments that puts pressure on margin levels. The fixed voice market as a major revenue and profit source is declining, mobile is about to follow that trend with stagnant customer base and lower prices. The fixed market is characterized by 3Play bundles, with broadband becoming a core element of service offerings. We expect continued consolidation in the fixed arena and the appearance of new over-the-top (OTT) technologies. An increasing technology platform-based competition can be observed in the domestic market, where our competitors are extensively deploying next-generation countrywide fixed and mobile networks. The mobile voice market is becoming more flat, new entrants as virtual network operators appeared, though with limited impact on the market. There is a fierce competition in broadband and content services. The battle for customer contacts has pushed prices down. We expect that the new core segments, especially mobile broadband, broadcasting and IT services will deliver revenue growth in the coming years.

Economic recession/stagnation ended in Hungary in 2013. Even if improvement may prove only virtual, relief expected to sustain. Still market development is challenged by significant uncertainties in macroeconomic outlook putting further pressure on market players.

The weakness of domestic demand entails negative changes in the economic structure and a decline in services. Decrease in corporate tax rate has not generated an increase in either consumption or investments. The flat personal income tax rate system increased savings at higher income categories, though the government program on reducing energy prices left some extra money at households. The special taxes accepted by the EU will remain for long, however the Hungarian Government may support infrastructure developments through tax allowances. GDP is expected to reach the pre-crisis level after 2014.

Macedonia

Economic performance had a solid first quarter growth rate of 3.9%, slightly stronger than anticipated, driven primarily by a strong rise in investment. Recent real sector indicators point of further detention of the favorable trends in the second quarter of the year, industry production grew by 4.5% in the first five months of 2014. It is not expected that growth will be strong enough to cause major imbalances in the economy in the form of inflationary pressures, the latest inflation data in June 2014 showed further annual decline in prices (from -0.6% in May to -1.1% in June). The country continues to make strong effort to attract much needed FDI, and these efforts should maintain positive growth prospects in the coming years and enable the benefits of sustained macroeconomic stability and business environment reforms that have been pursued in recent years.

Operating in a highly challenging competitive business environment and strongly price sensitive market in all telecommunication segments, we are focused on new services and on the retention of the existing customers.

Montenegro

Telecommunication operators are facing wide range of operational and financial challenges due to unfavorable market conditions: emerging telco and non-telco competition, rising regulatory pressure, unfavorable socio-economic conditions and fast-changing customer needs and expectations.

The Montenegrin market is characterized by strengthening broadband competition in the fixed market, especially by cable operators, and evolving X-Play/Fixed- Mobile convergence competition. The regulatory agency intervened in the retail fixed voice market and decreased the prices with a two-step approach: first one in April 2014 and the second one agreed for December 2014. In the highly penetrated mobile market there is fierce price competition.

The country's debt is close to the EU limit with 58% of GDP, which coupled with moderate growth (+3.5%) is a real burden to the economy. The government introduced extensive fiscal adjustments like crisis tax of 1 EUR monthly on SIM cards and Pay TV subscriptions (which ended at the end of 2013), freeze of pensions and public wages, personal tax rate increase, VAT increase from 17% to 19%. In addition, restrictive credit policy by the banks, bankruptcy of the indebted Aluminum industry giant and rising private debt in the real sector will hit disposable income and increase overall cost-conscious customer behavior.

3.7. Strategy

Hungary

As a result of our focused strategic efforts, Magyar Telekom has maintained leading positions in its Hungarian fixed line, mobile, Internet and ICT businesses in Q2 2014. Even under uncertain macroeconomic and market conditions, we successfully improved customer retention and delivered strong volume figures. We have also gradually extended our network and offering capabilities proactively leveraging on various partnering models as well. The evolving external environment continues to drive the need for changes in our approach to our customers and our business.

We continue our transformation towards a diversified service company based on our strategic imperatives to innovate, grow and extend the core business – thus growing revenue whilst becoming a more agile organization. The strategic objective in the mid-term is to become more agile, enhance efficiency, simplify the product and services portfolio and increase process automation. As an integrated provider we continue to deliver a unique customer experience supported by our leading brand and best technology.

Whilst anticipating new competencies required by the changing customer behavior, technological advances, and new business models, we aim to exploit our abilities to become a leader in all digital services around the home for both consumers and third parties. Our non-core areas, such as energy, e-health, finance and insurance services, support customer retention and new revenue streams.

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

Macedonia

Makedonski Telekom and T-Mobile MK are the leading telecommunications providers in all segments, Mobile, Fixed Voice, Fixed Data and Pay-TV.

Based on current potential and strength, our ambition is to secure the core and extend the business, driving into improved unique market positioning. Therefore we continue toward ensuring technology leadership and increasing value for customers.

Makedonski Telekom's aspirations of sustainable cash flow generation based on stabilized revenue and remaining market leader are planned to be enabled with radical business model transformation.

Makedonski Telekom's strategic goals to be achieved in 2014:

- Sustain revenue & strengthen leadership position;
- Aggressive business-to-business (B2B) and information and communication technology (ICT) growth, improving capabilities and organization;
- Committed to create new value, to grow with innovations;
- Integration, being one team both externally and internally;
- Transformation toward increased operational efficiency and exploit new revenue opportunities;
- Technology based leadership, optimized network coverage and the best customer experience.

Montenegro

Crnogorski Telekom successfully completed the 2013 business year, preserving its market superiority, stable financial performance and made significant achievements on its transformational path.

Major business challenges are macroeconomic pressure, threat of new taxes, regulation pressure, emerging competition, digital lifestyle demand; while major business drivers are the slowdown of revenue decline, cost discipline and e-transformation.

CT will continue to execute its strategy framework and transformation program based on three strategic layers:

- Stand for Broadband: FTTH/4G rollout and X-Play/fixed-mobile convergence (FMC) offers proliferation to ensure ultra-high speed connectivity and seamless customer experience over fixed and mobile data streams and quality service features in order to keep long-term competitiveness in broadband, TV and FMC offers.
- Transform to Outperform: Digital engagement of customers and employees through transformation initiatives and consolidation strategies in order to support All IP cost-effective network architecture, service convergence, multichannel business model and faster and flexible go-to-market.
- New Way to Play: Push ICT/Cloud and Hardware initiatives; improving content variety and interactivity; new business development opportunities and exploring partnering concept.

EGYÜTT. VELED

3.8. Resources and risk factors

Our financial condition, results of operations or the trading prices of our securities 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 securities.

- Our operations are subject to substantial government regulation, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition;
- Our ability to meet our revenue targets will depend in part on our ability to offset the declining voice revenues with TV, Internet, SI/IT and retail energy revenues;
- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors may result in impairments 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;
- 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 Hungarian tax regulations;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- We are continuously involved in disputes and litigation with regulators, competitors and other parties, the outcome of which 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.

Hungary

Each of our business segments is affected by its own unique business environment, and we are subject to circumstances and events that are unforeseen or beyond our control. In the European economy a slow recovery has started however it is still fragile. Major uncertainties surrounding the future of the euro have escalated the debt crisis for several euro-zone members. The Hungarian economy has been impacted heavily by the second wave of the financial crisis. The recovery is slow and fragile, the Central Bank of Hungary forecasts indicate GDP growth of about 2.9 percent for 2014. The unemployment rate stays around ten percent, and the volatility of the Hungarian currency is expected to continue.

In order to balance the government 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. On June 27, 2013, the Parliament of Hungary adopted an act amending the amount of the telecommunication tax, raising the tax measure to HUF 3 per minute and HUF 3 per SMS/MMS for non-private individual subscribers' subscriptions and also raising the cap applicable to these subscriptions to HUF 5,000 per month. These changes took effect from August 1, 2013. The telecommunication tax payable by Magyar Telekom for H1 2014 was HUF 12.9 billion. The Parliament also adopted an act imposing a further tax levied on utility networks (e.g.: ducts, cables) from 2013. The tax expense and liability for 2014 were recognized in the first quarter of 2014 as the full annual tax liability (HUF 7.5 billion) is payable based on the taxable infrastructure in place on January 1, 2014. Our T-Systems Hungary segment is also affected by heavy spending cuts by the government, our largest business customer. After the general elections on April 6, 2014 the government may impose further austerity measures to reach the deficit target of the budget.

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 Q2 2014, Magyar Telekom filed an application with the National Media and Infocommunications Authority in the tender for the utilization of currently unused 800 MHz and 2600 MHz frequency bands and for the available blocks within the 900 MHz, 1800 MHz and 26 GHz frequency bands.

Magyar Telekom is continuously seeking business opportunities beyond core services. A significant step was made in this direction upon our entrance into the Hungarian retail energy market. This new revenue stream enables us to compensate for the decrease in our Hungarian revenue, however, these revenues are associated with lower margins. The Hungarian government has approved a cut in household energy prices by 10% from January 1, 2013, and another 11% from November 1, 2013. On February 6, 2014 further 6.5% cut in gas prices, effective from April 1, 2014 and 5.7% cut in electricity prices, effective from September 2014 were approved. In the future, we shift our business focus to the competitive energy segment.

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. 4G licenses were obtained by all 3 mobile operators. 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. We also expect more intensive regulatory measures in Macedonia in the future. Intensifying retail price regulation and competition pressure will result in significant decrease of retail prices. Regulation expected for NGA (Next Generation Access) networks, fiber unbundling and introduction of bit stream access over NGA. Further main focuses are: fostering of wholesale and retail service regulation, introduction of pure LRIC based pricing (for fixed and mobile voice, SMS, etc), NGA and FTTH regulation in line with NGA recommendation, reframing and frequency allocation for 4G services, obligation for all operators to put their aerial cables in urban areas underground.

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, however price competition in broadband market and technology/content based competition in Pay TV market lead by cable companies have already started offering low-entry broadband packages. Fiber roll out will increase broadband penetration, but without premium monetization. Broadband and Pay TV are beginning to exhibit the signs of market saturation while IT market is highly fragmented. In the mobile market, the environment is very competitive and price sensitive. Flat tariffs in postpaid segment with unlimited on–net traffic and internet are initiated by market followers. Stronger growth expected in Confined Connectivity mobile data segment, as Full Connectivity will partly suffer from liberalization and cable competition. Mobile network modernization (4G) is ongoing. Telenor already launched pilot and CT also had a soft 4G launch in selected urban areas. Regarding the regulatory measures, two new relevant retail markets are subject to expected market analysis: broadband and mobile services. Further risks are: international termination rates decline, NGA regulation, price regimes of bundling services.

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 2014. 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. By having the full range of telecommunications services, we are capable of offering 5Play packages, unique in the Hungarian market. Magyar Telekom - due to unfavourable economic and market trends - has implemented tariff change effective from November 2013. Fixed line inter-connection tariffs were reduced by 66% in January 2014. Further 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 are aiming to expand further our RPC figures in 2014; 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. by offering interactive SAT TV).

In the mobile market, penetration has reached saturation point, and we expect declining voice revenues in 2014. 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. In 2013 all three MNOs launched full flat mobile tariff packages, which could have negative impact on our revenues. Mobile termination rates are expected to be reduced further in the future. The market entry of the 4th mobile operator in Hungary is not likely in 2014.

To sustain our competitiveness in the corporate sector, we are committed to developing further our IT competencies by focusing on complex service offerings through managed services, system integration and outsourcing of consultant services to corporate customers.

3.9.2 Expenses

We are entirely committed to improving internal operational efficiency in all of our business segments. To accomplish our goals despite the intensifying competitive environment, we expect to partially offset decreasing revenue with strict cost control. We will continue our group-wide efforts to increase cost efficiency. We have reached an agreement with trade unions on headcount reduction and wage increase measures for 2015-2016 at Magyar Telekom Plc. According to the terms of the agreement, the Company plans to make maximum 1700 employees redundant. 40% is expected to leave the Company between October 1, 2014 and March 1, 2015 while the remaining 60% is expected to leave as of January

1, 2016. Total severance expenses related to the 2-year headcount reduction program will be approximately HUF 12 billion and out of that around HUF 4 billion is expected to be accounted for in September 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.

In line with global market developments and the liberalization of the Hungarian energy market, we have experienced rapid growth in energy prices above the rate of inflation. We expect energy costs to remain high in 2014, impacting us negatively.

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, FTTx) 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.

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, August 7, 2014

This investor news contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore should not have undue reliance placed upon them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our annual financial statements for the year ended December 31, 2013, available on our website at http://www.telekom.hu which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

In addition to figures prepared in accordance with IFRS, Magyar Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin, underlying EBITDA, underlying 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.