EGYÜTT. VELED

MAGYAR TELEKOM

INTERIM FINANCIAL REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2015

TABLE OF CONTENTS

EGYÜTT. VELED

Company name:	Magyar Telekom Plc.	Company address: e-mail address:	H-1013 Budapest Krisztina krt. 55. investor.relations@telekom.hu
IR contacts:	Position:	Telephone:	E-mail address:
Márton Lennert Gerda Gáti	Head of Investor Relations IR manager	+36-1-457-6084 +36-1-458-0334	lennert.marton@telekom.hu gati.gerda@telekom.hu

Budapest – February 24, 2016 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the fourth quarter and the full year of 2015, in accordance with International Financial Reporting Standards (IFRS).

1. HIGHLIGHTS

MAGYAR TELEKOM Group Financial Results - IFRS (HUF million, except ratios)	Q4 2014 (Unaudited)	Q4 2015 (Unaudited)	Change (%)	1-12 months 2014 (Audited)	1-12 months 2015 (Unaudited)	Change (%)
Total revenues	**165,264**	**182,884**	**10.7%**	**626,447**	**656,342**	**4.8%**
Operating profit	**15,168**	**11,984**	**(21.0%)**	**80,574**	**73,517**	**(8.8%)**
Profit attributable to:						
Owners of the parent	1,540	3,353	117.7%	28,611	27,715	(3.1%)
Non-controlling interests	1,110	750	(32.4%)	3,413	3,832	12.3%
	2,650	**4,103**	**54.8%**	**32,024**	**31,547**	**(1.5%)**
Gross margin	97,423	101,127	3.8%	400,090	406,965	1.7%
EBITDA	41,862	43,730	4.5%	181,224	187,301	3.4%
EBITDA margin	25.3%	23.9%	n.a.	28.9%	28.5%	n.a.
Free cash flow				(13,774)	26,725	n.m.
Basic and diluted earnings per share (HUF)	**1.48**	**3.22**	**117.6%**	**27.45**	**26.59**	**(3.1%)**
CAPEX to Sales				**29.4%**	**16.7%**	**n.a.**
Net debt				**442,167**	**409,393**	**(7.4%)**
Net debt / total capital				**45.7%**	**42.9%**	**n.a.**
Number of employees (closing full equivalent)				**10,883**	**10,357**	**(4.8%)**

- **Revenues in Q4 2015 rose by 10.7% quarter on quarter from HUF 165.3 billion to HUF 182.9 billion**, driven by outstanding SI/IT performance, as well as the solid growth in the fixed line business. **Mobile revenues decreased by 4.1%** compared to the same period of last year, mainly due to the fall in wholesale revenues following the sharp decrease in Mobile Termination Rates (MTRs) in Hungary, as well as a decline in SMS and equipment sales. At the same time, mobile data revenues increased significantly over this period due to growth in the subscriber base. **Fixed line revenues** improved by 8.1% as a result of higher broadband retail, equipment and wholesale revenues, boosted also by the GTS Hungary acquisition. **System Integration (SI) and IT revenues** almost doubled compared to the fourth quarter of 2014 mostly driven by major Hungarian IT projects at the end of the year. Despite the exit from the residential gas business as of 31 July, 2015 **energy revenues** increased by 5.5% quarter on quarter underpinned by strong performance in the business sub-segment both in gas and electricity services. With regards **the 2015 full year results, total revenues grew by 4.8%** compared to 2014 which is higher than previously guided. The marginal decline in mobile revenues was offset by higher fixed line and energy service revenues, as well as very strong SI/IT sales underpinned by EU funded projects. Revenues increased at both T-Hungary and T-Systems by 3.4% and 13.1% respectively; while in Macedonia and Montenegro, revenues declined by 3.9% and 5.6% respectively year on year due to ongoing competitive and regulatory pressures.
- **Total direct costs increased by 20.5% to HUF 81.8 billion in Q4 2015**, driven by significantly higher SI/IT service related costs in line with the robust increase in revenues. Interconnection costs fell by 27.7% following the cut in MTRs in Hungary, while bad debt expenses also slightly improved. Looking at the **direct costs for full year 2015, we experienced a 10.2% increase** compared to 2014 due to higher SI/IT and energy related costs associated with extended sales in both business lines, partly offset by a fall in interconnection costs and an improvement in bad debts relating to mobile **equipment** sales in Hungary. On a quarterly comparative basis, **the gross margin increased by 3.8%, and by 1.7%** for the full year.
- **EBITDA in Q4 2015 increased by 4.5% quarter on quarter to HUF 43.7 billion,** despite the higher employee-related expenses deriving from the rise in severance costs booked in relation to the two-year headcount reduction program in 2014/2015, as well as effect of the GTS acquisition on the headcount. **Year on year EBITDA improved by 3.4%, far exceeding our original guidance of** roughly stable EBITDA compared to 2014; this was driven principally by higher gross profit contributions, not only from the energy and SI/IT businesses, but also from core fixed line and mobile.

Details of special taxes (HUF billion)	Q4 2014	Q4 2015	1-12 months 2014	1-12 months 2015
Telecom tax	6.5	6.1	25.8	25.2
Utility tax	0.2	0.0	7.6	7.6
Total	**6.7**	**6.1**	**33.5**	**32.9**

- **Hungarian sector specific special taxes** decreased by 8.3% from HUF 6.7 billion to HUF 6.1 billion quarter on quarter and went down by 1.8% on annual basis.
- **Depreciation and amortization (D&A) expenses went up by 18.9% to HUF 31.7 billion in Q4 2015,** driven by higher amortization of telecom licenses linked to the new frequency rights acquired in October, 2014. Software activation related to the new billing and new SAP system also caused additional expenses. D&A for the full year increased by 13.0% in 2015 compared to 2014.
- **Net financial results improved by 29.5% to HUF 5.6 billion in Q4 2015,** primarily due to the higher gains generated through foreign exchange translations and hedges caused by a weakening Hungarian forint, as well as lower interest rates quarter on quarter. Year on year, net financial results remained roughly stable.
- **Income tax expense decreased significantly, by 50.2% to HUF 2.3 billion quarter on quarter**. The difference is mainly due to the one-time release of a deferred tax asset of HUF 2.5 billion in Q4 2014 relating to our Macedonian subsidiaries, driven by the impairment in Stonebridge's investment (Stonebridge is our holding company in Macedonia) in Makedonski Telekom, following the poor share price performance of Makedonski Telekom in 2014, and a capital reduction in Stonebridge. Looking at **2015 as a whole, income tax expenses decreased by 31.5%, for much the** same factors that caused the decline for the fourth quarter; meanwhile, the underlying effective tax rate for 2015 remained in-line with previous years, at the average rate of ca. 30%.
- **Profit attributable to the owners of the parent company (net income) more than doubled from HUF 1.5 billion to HUF 3.4 billion in the fourth quarter of 2015,** primarily driven by this significant drop in income tax expenses and to a lesser degree, lower profits attributable to non-controlling interests on account of a fall in profits at both Makedonski Telekom and Crnogorski Telekom. However, **over the full year, despite lower income taxes, profit attributable to the owners of the parent company decreased by 3.1% reflecting the 8.8% fall in operating profit** and a higher share of profits attributable to non-controlling interests.
- **Investments in tangible and intangible assets (CAPEX) decreased by 40.4% to HUF 109.8 billion for the full year**, although it should be recalled that HUF 97.6 billion was spent in Q4 2014 for the Hungarian frequency licenses. Excluding this investment in frequency licenses in 2014 and the additional Capex spent on fixed line network development in Hungary amounting to approx. HUF 20.5 billion in 2015, Capex increased only by approx. HUF 2.5 billion compared to the previous year. In 2015, Telekom Hungary accounted for HUF 88.4 billion of the total CAPEX, while HUF 5.4 billion was allocated to T-Systems Hungary. The Macedonian and Montenegrin operations accounted for HUF 10.6 billion and HUF 5.2 billion of the CAPEX respectively.
- **Free cash flow** (FCF defined as operating cash flow and investing cash flow adjusted for proceeds from / payments for other financial assets and repayment of other financial liabilities) **increased from an outflow of HUF 13.8 billion in full year 2014 to an inflow of HUF 26.7 billion in 2015.** Operating cash flow improved by HUF 10.8 billion mostly due to higher EBITDA and lower tax payments in 2015 deriving from the tax law amendments in Macedonia in 2014, but also reflecting a higher severance provision in 2015 versus 2014. Total investing cash flow (excluding Proceeds from other financial assets – net) in 2015 amounted to HUF 110.7 billion, down by HUF 30.1billion compared to 2014, due to the positive effect of the HUF 58.5 billion frequency acquisition in 2014 that more than compensated for the GTS acquisition (paid for in cash), and the capital intensive HSI roll-out project.
- **Net debt decreased by 7.4% from HUF 442.2 billion** at the end of the fourth quarter of 2014 to **HUF 409.4 billion by the end of December 2015**, while the **net debt ratio** (net debt to total capital) **improved from 45.7% to 42.9%** driven by a reduction in both short- and long-term borrowings. Magyar Telekom's dividend policy seeks to maintain its net debt within the 30%-40% range and the net debt ratio is on a downward trajectory. Thus, we expect that the net debt ratio will approach the targeted range between 30-40% in the upcoming years.

Christopher Mattheisen, CEO commented:

"It fills me with great pride to report the highest Group revenue since 2008 at 656 billion forint for full year 2015 and a significantly improved EBITDA at 187 billion forint. Following the turn-around in our revenue, margins and most latterly EBITDA, we have also managed to return to positive Free Cash Flow generation in 2015. This will serve as the cornerstone for the resumption of dividend payments relating to last year's earnings, with a dividend payment of 15 forint per share proposed to our Annual General Meeting in April 2016.

By providing integrated fixed and mobile services, we continued next generation IP network development across all segments which will strengthen our technology leadership positions further. We launched our MagentaOne Quad-Play offer in both Hungary and Macedonia to maximize the telecommunication share of the household spending wallet, with Montenegro following in January of this year. Meanwhile, our focus on costs has allowed us to become a leaner and more efficient company. Following the conclusion of our headcount reduction program in Hungary, our focus will be on product and process simplification and digitalization, including moving more of our customer servicing online.

In Hungary, we have reached over 97% 4G population coverage with almost a million customers on our 4G network. Moreover, we have rolled out High Speed Internet access to almost half a million households. Consequently, it was the growth in mobile and fixed line broadband, as well as in TV that drove the outstanding revenues in Hungary, along with a significant increase in System integration/IT and energy sales. I am also delighted to announce that after five years of decline, T-Systems has also managed to turn around its EBITDA and return to growth.

Looking to 2016, we remain focused on the continued execution of our turnaround strategy which involves growing our profitability in line with our targets. The ongoing shift in our revenue mix, achieved by migrating customers to bundled packages across Magyar Telekom's operations, is expected to mitigate the decline in voice revenue. Following our exit from the residential gas business and a move away from full consolidation of the B2B energy business, we expect revenues of 580 to 590 billion forint in 2016, and have upgraded our 2017 revenue guidance to a range of between 585 and 595 billion forint.

Overall, our reported EBITDA is expected to range between 187 and 191 billion forint in 2016, whilst our updated EBITDA guidance for 2017 is between 189 and 193 billion forint. The growing contribution from System integration and IT activities across our geographies will play a key role in achieving our target of growing Group EBITDA from one year to the next. In terms of Capex, despite continued network development, we expect an annual decline of approximately 10% in both 2016 and 2017."

Public guidance:

	Actual	Public guidance	
	2015	2016	2017
Revenue	**HUF 656.3 billion**	**between HUF 580-590**	**between HUF 585-595**
EBITDA	**HUF 187.3 billion**	**between HUF 187-191**	**between HUF 189-193**
Capex*	**HUF 109.8 billion**	**ca. 10% yoy decline**	**ca. 10% yoy decline**
FCF**	**HUF 26.7 billion**		**surpassing HUF 50bn**
Dividend	**HUF 15 per share**	**target HUF 25 per share**	

**excluding spectrum acquisitions and annual frequency fee capitalization*
*** after minority dividend payments*

2. CONSOLIDATED IFRS FINANCIAL STATEMENTS

2.1. Consolidated Statements of Financial Position

MAGYAR TELEKOM

Consolidated Statements of Financial Position (HUF million)	Dec 31, 2014 (Audited)	Dec 31, 2015 (Unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	14,625	17,558	2,933	20.1%
Trade and other receivables	144,266	162,762	18,496	12.8%
Other current financial assets	23,690	11,052	(12,638)	(53.3%)
Current income tax receivable	899	1,356	457	50.8%
Inventories	13,749	12,665	(1,084)	(7.9%)
	197,229	205,393	8,164	4.1%
Assets held for sale	668	4,785	4,117	n.m.
Total current assets	**197,897**	**210,178**	**12,281**	**6.2%**
Non current assets				
Property, plant and equipment	487,778	493,204	5,426	1.1%
Intangible assets	259,984	260,909	925	0.4%
Goodwill	218,502	217,935	(567)	(0.3%)
Investments in associates and joint ventures	0	1,000	1,000	n.a.
Deferred tax assets	155	47	(108)	(69.7%)
Other non current financial assets	25,243	22,950	(2,293)	(9.1%)
Other non current assets	1,217	801	(416)	(34.2%)
Total non current assets	**992,879**	**996,846**	**3,967**	**0.4%**
Total assets	**1,190,776**	**1,207,024**	**16,248**	**1.4%**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	110,858	136,906	26,048	23.5%
Other financial liabilities	65,131	26,152	(38,979)	(59.8%)
Trade payables	110,361	140,182	29,821	27.0%
Current income tax payable	1,778	1,399	(379)	(21.3%)
Provisions	5,579	7,185	1,606	28.8%
Other current liabilities	36,129	39,142	3,013	8.3%
	329,836	350,966	21,130	6.4%
Liabilities held for sale	0	1,217	1,217	n.a.
Total current liabilities	**329,836**	**352,183**	**22,347**	**6.8%**
Non current liabilities				
Financial liabilities to related parties	245,071	220,088	(24,983)	(10.2%)
Other financial liabilities	59,422	54,857	(4,565)	(7.7%)
Deferred tax liabilities	22,064	23,813	1,749	7.9%
Provisions	8,816	9,907	1,091	12.4%
Other non current liabilities	1,169	1,245	76	6.5%
Total non current liabilities	**336,542**	**309,910**	**(26,632)**	**(7.9%)**
Total liabilities	**666,378**	**662,093**	**(4,285)**	**(0.6%)**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,396	27,412	16	0.1%
Treasury stock	(307)	(307)	0	0.0%
Retained earnings	310,406	337,014	26,608	8.6%
Accumulated other comprehensive income	32,184	31,824	(360)	(1.1%)
Total Equity of the owners of the parent	**473,954**	**500,218**	**26,264**	**5.5%**
Non-controlling interests	50,444	44,713	(5,731)	(11.4%)
Total equity	**524,398**	**544,931**	**20,533**	**3.9%**
Total liabilities and equity	**1,190,776**	**1,207,024**	**16,248**	**1.4%**

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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)	Q4 2014 (Unaudited)	Q4 2015 (Unaudited)	Change	Change (%)
Revenues				
Voice retail	39,774	39,672	(102)	(0.3%)
Voice wholesale	7,127	3,085	(4,042)	(56.7%)
Data	13,861	15,023	1,162	8.4%
SMS	4,851	4,675	(176)	(3.6%)
Equipment	15,130	14,938	(192)	(1.3%)
Other mobile revenues	3,879	3,724	(155)	(4.0%)
Mobile revenues	**84,622**	**81,117**	**(3,505)**	**(4.1%)**
Voice retail	15,650	14,777	(873)	(5.6%)
Broadband retail	12,167	13,607	1,440	11.8%
TV	10,031	10,581	550	5.5%
Equipment	1,630	2,860	1,230	75.5%
Data retail	2,867	2,678	(189)	(6.6%)
Wholesale	4,889	5,916	1,027	21.0%
Other fixed line revenues	4,612	5,617	1,005	21.8%
Fixed line revenues	**51,846**	**56,036**	**4,190**	**8.1%**
System Integration/Information Technology revenues	16,828	33,101	16,273	96.7%
Energy service revenues	11,968	12,630	662	5.5%
Total revenues	**165,264**	**182,884**	**17,620**	**10.7%**
Direct costs				
Interconnect costs	(8,535)	(6,175)	2,360	27.7%
SI/IT service related costs	(10,008)	(25,154)	(15,146)	(151.3%)
Energy service related costs	(12,437)	(12,446)	(9)	(0.1%)
Bad debt expense	(3,527)	(3,442)	85	2.4%
Other direct costs	(33,334)	(34,540)	(1,206)	(3.6%)
Direct costs	**(67,841)**	**(81,757)**	**(13,916)**	**(20.5%)**
Gross margin	**97,423**	**101,127**	**3,704**	**3.8%**
Employee-related expenses	(23,186)	(25,635)	(2,449)	(10.6%)
Hungarian sector specific special taxes	(6,664)	(6,113)	551	8.3%
Other operating expenses	(26,861)	(28,669)	(1,808)	(6.7%)
Other operating income	1,150	3,020	1,870	162.6%
EBITDA	**41,862**	**43,730**	**1,868**	**4.5%**
Depreciation and amortization	(26,694)	(31,746)	(5,052)	(18.9%)
Operating profit	**15,168**	**11,984**	**(3,184)**	**(21.0%)**
Net financial result	(7,944)	(5,601)	2,343	29.5%
Profit before income tax	**7,224**	**6,383**	**(841)**	**(11.6%)**
Income tax	(4,574)	(2,280)	2,294	50.2%
Profit for the period	**2,650**	**4,103**	**1,453**	**54.8%**
Change in exchange differences on translating foreign operations	2,805	48	(2,757)	(98.3%)
Revaluation of available-for-sale financial assets	2	69	67	n.m.
Other comprehensive income for the period	2,807	117	(2,690)	(95.8%)
Total comprehensive income for the period	**5,457**	**4,220**	**(1,237)**	**(22.7%)**
Profit attributable to:				
Owners of the parent	1,540	3,353	1,813	117.7%
Non-controlling interests	1,110	750	(360)	(32.4%)
	2,650	**4,103**	**1,453**	**54.8%**
Total comprehensive income attributable to:				
Owners of the parent	3,494	3,476	(18)	(0.5%)
Non-controlling interests	1,963	744	(1,219)	(62.1%)
	5,457	**4,220**	**(1,237)**	**(22.7%)**
Basic and diluted earnings per share (HUF)	**1.48**	**3.22**	**1.74**	**117.6%**

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)	1-12 months 2014 (Audited)	1-12 months 2015 (Unaudited)	Change	Change (%)
Revenues				
Voice retail	159,963	158,399	(1,564)	(1.0%)
Voice wholesale	28,301	15,978	(12,323)	(43.5%)
Data	52,565	59,266	6,701	12.7%
SMS	19,227	18,564	(663)	(3.4%)
Equipment	43,139	46,922	3,783	8.8%
Other mobile revenues	15,456	14,904	(552)	(3.6%)
Mobile revenues	**318,651**	**314,033**	**(4,618)**	**(1.4%)**
Voice - retail	64,467	59,748	(4,719)	(7.3%)
Broadband retail	47,554	52,013	4,459	9.4%
TV	38,754	42,140	3,386	8.7%
Equipment	5,562	8,200	2,638	47.4%
Data retail	11,828	10,744	(1,084)	(9.2%)
Wholesale	20,321	21,636	1,315	6.5%
Other fixed line revenues	17,805	17,551	(254)	(1.4%)
Fixed line revenues	**206,291**	**212,032**	**5,741**	**2.8%**
System Integration/Information Technology revenues	59,206	80,997	21,791	36.8%
Energy service revenues	42,299	49,280	6,981	16.5%
Total revenues	**626,447**	**656,342**	**29,895**	**4.8%**
Direct costs				
Interconnect costs	(33,418)	(25,097)	8,321	24.9%
SI/IT service related costs	(34,763)	(54,524)	(19,761)	(56.8%)
Energy service related costs	(41,883)	(47,919)	(6,036)	(14.4%)
Bad debt expense	(11,717)	(9,537)	2,180	18.6%
Other direct costs	(104,576)	(112,300)	(7,724)	(7.4%)
Direct costs	**(226,357)**	**(249,377)**	**(23,020)**	**(10.2%)**
Gross margin	**400,090**	**406,965**	**6,875**	**1.7%**
Employee-related expenses	(94,750)	(95,160)	(410)	(0.4%)
Hungarian sector specific special taxes	(33,466)	(32,872)	594	1.8%
Other operating expenses	(93,724)	(98,503)	(4,779)	(5.1%)
Other operating income	3,074	6,871	3,797	123.5%
EBITDA	**181,224**	**187,301**	**6,077**	**3.4%**
Depreciation and amortization	(100,650)	(113,784)	(13,134)	(13.0%)
Operating profit	**80,574**	**73,517**	**(7,057)**	**(8.8%)**
Net financial result	(28,397)	(28,176)	221	0.8%
Share of associates' and joint ventures' profits	(5)	0	5	100.0%
Profit before income tax	**52,172**	**45,341**	**(6,831)**	**(13.1%)**
Income tax	(20,148)	(13,794)	6,354	31.5%
Profit for the period	**32,024**	**31,547**	**(477)**	**(1.5%)**
Change in exchange differences on translating foreign operations	10,842	(845)	(11,687)	n.m.
Revaluation of available-for-sale financial assets	26	44	18	69.2%
Other comprehensive income for the period	10,868	(801)	(11,669)	n.m.
Total comprehensive income for the period	**42,892**	**30,746**	**(12,146)**	**(28.3%)**
Profit attributable to:				
Owners of the parent	28,611	27,715	(896)	(3.1%)
Non-controlling interests	3,413	3,832	419	12.3%
	32,024	**31,547**	**(477)**	**(1.5%)**
Total comprehensive income attributable to:				
Owners of the parent	36,477	27,355	(9,122)	(25.0%)
Non-controlling interests	6,415	3,391	(3,024)	(47.1%)
	42,892	**30,746**	**(12,146)**	**(28.3%)**
Basic and diluted earnings per share (HUF)	**27.45**	**26.59**	**(0.86)**	**(3.1%)**

2.4. Consolidated Statements of Cash Flows

MAGYAR TELEKOM

Consolidated Statements of Cash Flows (HUF million)	1-12 months 2014 (Audited)	1-12 months 2015 (Unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	32,024	31,547	(477)	(1.5%)
Depreciation and amortization	100,650	113,784	13,134	13.0%
Income tax expense	20,148	13,794	(6,354)	(31.5%)
Net financial result	28,397	28,176	(221)	(0.8%)
Share of associates' and joint ventures' loss	5	0	(5)	(100.0%)
Change in assets carried as working capital	(11,244)	(15,541)	(4,297)	(38.2%)
Change in provisions	889	2,442	1,553	174.7%
Change in liabilities carried as working capital	3,321	24,204	20,883	n.m.
Income tax paid	(16,133)	(12,787)	3,346	20.7%
Dividend received	1	0	(1)	(100.0%)
Interest and other financial charges paid	(24,847)	(28,743)	(3,896)	(15.7%)
Interest received	1,135	967	(168)	(14.8%)
Other non-cash items	11,149	(1,545)	(12,694)	n.m.
Net cash generated from operating activities	**145,495**	**156,298**	**10,803**	**7.4%**
Cash flows from investing activities				
Investments in tangible and intangible assets	(184,364)	(109,847)	74,517	40.4%
Adjustments to cash purchases	42,211	12,992	(29,219)	(69.2%)
Purchase of subsidiaries and business units	(1,237)	(16,737)	(15,500)	n.m.
Cash acquired through business combinations	27	1,815	1,788	n.m.
Proceeds from other financial assets - net	10,227	13,137	2,910	28.5%
Payments for interests in associates and joint ventures	0	(1,000)	(1,000)	n.a.
Proceeds from disposal of property, plant and equipment (PPE) and intangible assets	2,635	2,127	(508)	(19.3%)
Net cash used in investing activities	**(130,501)**	**(97,513)**	**32,988**	**25.3%**
Cash flows from financing activities				
Dividends paid to shareholders and Non-controlling interests	(8,008)	(6,691)	1,317	16.4%
Proceeds from/Repayment of loans and other borrowings -net	10,998	(30,160)	(41,158)	n.m.
Repayment of other financial liabilities	(18,541)	(18,923)	(382)	(2.1%)
Net cash used in financing activities	**(15,551)**	**(55,774)**	**(40,223)**	**(258.7%)**
Exchange differences on cash and cash equivalents	549	(78)	(627)	n.m.
Change in cash and cash equivalents	**(8)**	**2,933**	**2,941**	**n.m.**
Cash and cash equivalents, beginning of period	14,633	14,625	(8)	(0.1%)
Cash and cash equivalents, end of period	14,625	17,558	2,933	20.1%
Change in cash and cash equivalents	**(8)**	**2,933**	**2,941**	**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, 2013	**1,042,742,543**	**104,275**	**27,379**	**8**	**(307)**	**281,795**	**24,425**	**(107)**	**437,468**	**52,108**	**489,576**
Dividend declared to Non-controlling interests									**0**	(6,822)	**(6,822)**
Equity settled share-based transactions				9					**9**		**9**
Capital reduction									**0**	(1,247)	**(1,247)**
Deconsolidation effect									**0**	(10)	**(10)**
Total comprehensive income						28,611	7,851	15	**36,477**	6,415	**42,892**
Balance at December 31, 2014	**1,042,742,543**	**104,275**	**27,379**	**17**	**(307)**	**310,406**	**32,276**	**(92)**	**473,954**	**50,444**	**524,398**
Dividend declared to Non-controlling interests									**0**	(9,122)	**(9,122)**
Equity settled share-based transactions				16					**16**		**16**
Acquisition of GTS Hungary						(1,107)			**(1,107)**		**(1,107)**
Total comprehensive income						27,715	(384)	24	**27,355**	3,391	**30,746**
Balance at December 31, 2015	**1,042,742,543**	**104,275**	**27,379**	**33**	**(307)**	**337,014**	**31,892**	**(68)**	**500,218**	**44,713**	**544,931**

2.6. About Magyar Telekom

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

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

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

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

2.7. 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, 2014, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

This consolidated interim financial information has not been audited. The statutory accounts for December 31, 2014 have been filed with the Budapest Stock Exchange and the Hungarian National Bank. The statutory accounts for December 31, 2014 were audited and the audit report was unqualified.

2.8. 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, 2014.

3. CONSOLIDATED MANAGEMENT REPORT

3.1. Operating and financial review – Group

3.1.1 Exchange rate information

Exchange rate	Q4 2014	Q4 2015	Change (%)	1-12 months 2014	1-12 months 2015	Change (%)
HUF/EUR beginning of period	310.36	313.32	**1.0%**	296.91	314.89	**6.1%**
HUF/EUR period-end	314.89	313.12	**(0.6%)**	314.89	313.12	**(0.6%)**
HUF/EUR cumulative monthly average	308.95	309.40	**0.1%**	308.95	309.40	**0.1%**
HUF/MKD beginning of period	5.03	5.08	**1.0%**	4.83	5.12	**6.0%**
HUF/MKD period-end	5.12	5.08	**(0.8%)**	5.12	5.08	**(0.8%)**
HUF/MKD cumulative monthly average	5.01	5.02	**0.2%**	5.01	5.02	**0.2%**

Compared to Q4 2014, the changes in foreign exchange rates had no significant effect on the Q4 2015 revenue and expense lines of our foreign subsidiaries expressed in HUF as these are translated at the cumulative average rates.

3.1.2 Revenues

Total revenues amounted to HUF 182.9 billion in Q4 2015 compared to HUF 165.3 billion in Q4 2014. Revenues increased at both Hungarian segments partly offset by the decline at our foreign subsidiaries. Total group revenue increased by HUF 17.6 million quarter over quarter driven by the following factors:

Mobile revenues amounted to HUF 81.1 billion in Q4 2015, compared to HUF 84.6 billion in the same period of the previous year representing a 4.1% decrease. Lower mobile voice, equipment and SMS revenues were only partly offset by the higher mobile data revenues.

Voice-retail revenues decreased by 0.3% to HUF 39.7 billion in Q4 2015. This was due to lower revenues in Macedonia despite the increased volume of outgoing minutes quarter over quarter, as the average price per minute decreased, due to promotions and offers because of the strong competition on the market. This was partially offset by the increase in revenues in Montenegro due to the change in the composition of subscribers, as the increase in revenues as a result of the increased postpaid customer base could not be fully offset by the decrease in revenues due to the lower number of prepaid customers quarter over quarter. Year over year mobile voice retails revenues decreased in Montenegro, driven by the decrease in the number of customers especially in the prepaid segment. In Hungary, revenues increased, as the growth in the postpaid segment due to the combined effect of higher minutes of use (MOU), higher customer base and lower average price per minutes, was only partly offset by the decrease in prepaid segment. In the prepaid segment both MOU and the number of customers decreased, partly offset by higher prepaid outgoing tariff. Lower average tariff caused lower roaming revenues despite the increased volume of roaming traffic.

Voice-wholesale revenues dropped by 56.7% and amounted to HUF 3.1 billion in Q4 2015, mainly due to the 76% lower regulated mobile termination rate in Hungary, as of April 1, 2015, slightly offset by higher minutes of use. In Macedonia, decrease in international incoming traffic caused lower voice-wholesale revenues in Q4 2015 compared to Q4 2014. In Montenegro, lower voice-wholesale revenues were due to the decrease in termination tariffs and lower incoming international traffic.

Data revenues amounted to HUF 15.0 billion in Q4 2015, compared to HUF 13.9 billion in Q4 2014, representing a 8.4% increase. Higher revenues primarily came from higher mobile Internet revenues in Hungary, as both subscriber numbers and usage increased in Q4 2015.

SMS revenues amounted to HUF 4.7 billion in Q4 2015, compared to HUF 4.9 billion in Q4 2014, representing a 3.6% decrease, primarily due to the lower number of SMSs sent mostly at our foreign subsidiaries, while SMS revenues slightly increased in Hungary.

Mobile equipment revenues decreased by 1.3% to HUF 14.9 billion in Q4 2015 compared to HUF 15.1 billion in Q4 2014, mostly attributable to our Hungarian operation, as the sales volume of handsets decreased in Q4 2015. In Macedonia, equipment revenues increased quarter over quarter, due to the higher number of handsets sold at higher average price. In Montenegro, equipment revenues decreased as a result of lower sales volume of mobile phones and accessories. On a year-to-date basis, mobile equipment revenues increased due to higher equipment sales at higher average unit prices caused by the increased portion of smartphone sales in 2015.

Fixed line revenues amounted to HUF 56.0 billion in Q4 2015, compared to HUF 51.8 billion in the same period of the previous year, representing a 8.1% growth. The increase was driven by higher broadband, TV, equipment, wholesale and other fixed line revenues partly offset by falling voice retail and data retail revenues.

Voice-retail revenues decreased by 5.6% to HUF 14.8 billion in Q4 2015 compared to HUF 15.7 billion in Q4 2014, mainly driven by the continuous decline in the number of fixed voice lines, lower usage and decreased average tariff levels. Customer migration from PSTN to IP platforms has been continued.

Broadband retail revenues increased from HUF 12.2 billion in Q4 2014 to HUF 13.6 billion in Q4 2015, representing a 11.8% growth. In Hungary, higher revenues were due to the increase in DSL connections together with cablenet and fiber optic connections. Consolidation of GTS Hungary Kft. (GTS) revenues from April 1, 2015 also had positive effect on Broadband retail revenues.

TV revenues amounted to HUF 10.6 billion in Q4 2015 compared to HUF 10.0 billion in Q4 2014, representing an increase of 5.5%. This increase is mainly attributable to higher IPTV revenues driven by the growing IPTV subscriber base in Hungary (including the positive effect of acquisitions as well). The fast growth of the IPTV customer base demonstrates the increasing popularity of interactive television. Blended TV ARPU increased by 7.0% in Hungary mainly due to IPTV migration and price increases. Growth in satellite TV revenues was due to the higher subscription fees in Hungary in Q4 2015 compared to Q4 2014. Cable TV revenues decreased in Q4 2015 compared to Q4 2014 due to the decrease in customer base.

Fixed equipment revenues amounted to HUF 2.9 billion in Q4 2015 compared to HUF 1.6 billion in Q4 2014. The increase was due to the combined effect of the higher sale of TV sets, slightly offset by lower prices and to the increase in tablet prices, partially offset by lower sales in Hungary.

Data retail revenues amounted to HUF 2.7 billion in Q4 2015 as compared to HUF 2.9 billion in Q4 2014. The decrease was mainly due to the transition of regular data customers to ICT in Montenegro, where data services are bundled with managed services.

Wholesale revenues increased by 21.0% to HUF 5.9 billion in Q4 2015. Higher network and infrastructure services revenues were primarily due to the consolidation effect of GTS Hungary in Q2 2015. The increase was slightly offset by the decrease of data and broadband wholesale revenues in Hungary due to price erosion, and the decline in the number of wholesale DSL connections partly due to GTS Hungary acquisition, which became a consolidated entity in Q2 2015.

Other fixed line revenues increased in Q4 2015 compared to Q4 2014 due to higher dunning and collection revenues recognized. Year over year, other fixed line revenues decreased that was mainly due to lower revenues derived from fixed voice related value added services and lower revenues from satellite capacity rental.

System Integration (SI) and IT revenues increased by 96.7% from HUF 16.8 billion in Q4 2014 to HUF 33.1 billion in the same period of 2015. Higher revenues were owing to new major projects in Hungary and in Macedonia in Q4 2015. In Montenegro, revenues from systems solutions services decreased due to the different dynamic of ICT deals execution between the two quarters.

Energy Services revenues increased to HUF 12.6 billion in Q4 2015 compared to HUF 12.0 billion in Q4 2014. The 5.5% growth in energy sales was due to the increase in the revenue from electricity services, partially offset by the decrease in revenues from gas services. As at December 31, 2015 the number of electricity points of delivery increased to 106,564 while gas points of delivery dropped to 7,427 due to the exit from the residential segment of the gas market with effect from July 31, 2015. The electricity sales were higher quarter over quarter, offset by lower average sales price. Gas consumption and prices were both lower quarter over quarter.

3.1.3 Direct costs

Direct costs increased by 10.2% year over year from HUF 226.4 billion in 2014 to HUF 249.4 billion in 2015. Reasons of movements usually correspond with the explanations relating to the fourth 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 increased by 20.5%, and amounted to HUF 81.8 billion in Q4 2015.

Interconnect costs decreased by 27.7% in Q4 2015 quarter over quarter, and amounted to HUF 6.2 billion. There was a significant decrease in the voice network access charges in Hungary due to lower regulated mobile termination rates (from HUF 7.06 to 1.71) from April 1, 2015.

More infrastructure projects at T-Systems Hungary caused SI/IT service related costs to increase by 151.3% from HUF 10.0 billion in Q4 2014 to HUF 25.2 billion in Q4 2015.

Energy service related costs in Hungary remained stable at HUF 12.4 billion quarter over quarter. Energy service related costs in Hungary increased from HUF 41.9 billion in 2014 to HUF 47.9 billion in 2015 primarily driven by higher volume of electricity and gas consumption in 2015. This was partly counterbalanced by decreased purchase prices in 2015.

Bad debt expenses remained stable at HUF 3.4 billion quarter over quarter. Bad debt expenses decreased by 18.6% from HUF 11.7 billion in 2014 to HUF 9.5 billion in 2015, primarily due to the higher amount of impairment loss on receivables from equipment sales on installments in Hungary in 2014.

3.1.4 Gross margin

Gross margin increased slightly from HUF 97.4 billion in Q4 2014 to HUF 101.1 billion in Q4 2015 as a result of higher revenues, partially counterbalanced by higher direct costs quarter over quarter.

3.1.5 Employee-related expenses

Employee-related expenses increased by10.6% from HUF 23.2 billion in Q4 2014 to HUF 25.6 billion in Q4 2015, however the average employee number decreased by 3.9% quarter over quarter primarily driven by the Telekom Hungary segment. Employee-related expenses also contain severance-related expenses relating to the downsizing measures of 2015 and its effect was higher in Q4 2015 compared to Q4 2014. The effect of the acquisition of GTS Hungary in Q2 2015 also contributed to the increase.

3.1.6 Hungarian sector specific special taxes

Hungarian sector specific special taxes decreased by 8.3% from HUF 6.7 billion to HUF 6.1 billion quarter over quarter, representing only telecom tax as there was no utility tax expense in the fourth quarter.

3.1.7 Other operating expenses

Other operating expenses increased from HUF 26.9 billion to HUF 28.7 billion quarter over quarter primarily due to increased cost of outsourcing services, higher marketing expenses and maintenance costs. Marketing costs increased mostly relating to Magenta1 campaign in Hungary and Macedonia.

3.1.8 Other operating income

Other operating income increased from HUF 1.1 billion to HUF 3.0 billion quarter over quarter. The increase is primarily due to higher income from compensation for own network construction works in Q4 2015.

3.1.9 EBITDA

EBITDA increased by 4.5% from HUF 41.9 billion in Q4 2014 to HUF 43.7 billion in Q4 2015, primarily due to higher gross margin, partially counterbalanced by higher employee related expenses in Q4 2015.

3.1.10 Depreciation and amortization

Depreciation and amortization expenses increased by 18.9% from HUF 26.7 billion in Q4 2014 to HUF 31.7 billion in Q4 2015. The growth was caused by the increase of amortization of telecom licenses and rights in Q4 2015 due to frequencies capitalized in Q4 2015. Software activation related to the new billing and new SAP systems also caused higher depreciation costs in 2015.

3.1.11 Operating profit

Operating profit decreased from HUF 15.2 billion in Q4 2014 to HUF 12.0 billion in Q4 2015 for the reasons described above.

3.1.12 Net financial result

The net financial result improved by 29.5% from HUF 7.9 billion loss in Q4 2014 to HUF 5.6 billion loss in Q4 2015. This was mainly due to the decrease in interest expense from Q4 2014 to Q4 2015, mainly due to lower interest rates quarter over quarter. This was strengthened by the higher gain generated on foreign exchange translation and hedges, driven by the exchange rate fluctuation in 2015.

3.1.13 Income tax

Income tax expense decreased from HUF 4.6 billion in Q4 2014 to HUF 2.3 billion in Q4 2015. The primary reason for the decrease is a one-time release of a deferred tax asset of HUF 2.5 billion in Q4 2014. Due to the poor Makedonski Telekom share price performance in 2014, Stonebridge (our holding company in Macedonia) had to charge a HUF 31 billion impairment in its statutory accounts on its single asset, our investment in Makedonski Telekom. As a result of the impairment, we had to release our deferred tax asset on our investment in Stonebridge/ Makedonski Telekom, which resulted in a one-time tax expense of HUF 2.5 billion. This decrease was slightly offset by an increase in income taxes due to the acquisition of GTS Hungary in April 2015.

3.1.14 Profit attributable to non-controlling interests

Profit attributable to non-controlling interests decreased from HUF 1.1 billion in Q4 2014 to HUF 0.8 billion in Q4 2015. Quarter over quarter the decrease is due to lower operating profits of Makedonski Telekom and Crnogorski Telekom in 2015. Year over year, the profit attributable to non-controlling interests increased from HUF 3.4 billion in 2014 to HUF 3.8 billion in 2015. The lower amounts year over year in 2014 were the result of the additional tax expenses of our Macedonian subsidiaries as a result of the changes made to the Macedonian tax law several times in 2014, which decreased the profits attributable to non-controlling interests. The increase in 2015, as a result of the additional tax recognized in 2014, is counterbalanced by the decrease, due to lower operating profits of Makedonski Telekom and Crnogorski Telekom in 2015 compared to 2014.

3.1.15 Cash flows

HUF millions	1-12 months 2014	1-12 months 2015	Change
Operating cash flow	145,495	156,298	10,803
Investing cash flow	(130,501)	(97,513)	32,988
Less: Proceeds from other financial assets - net	(10,227)	(13,137)	(2,910)
Investing cash flow excluding Proceeds from other financial assets – net	(140,728)	(110,650)	30,078
Repayment of other financial liabilities	(18,541)	(18,923)	(382)
Free cash flow	**(13,774)**	**26,725**	**40,499**
Proceeds from other financial assets - net	10,227	13,137	2,910
Proceeds from/Repayment of loans and other borrowings - net	10,998	(30,160)	(41,158)
Dividend paid to shareholders and Non-controlling interests	(8,008)	(6,691)	1,317
Exchange differences on cash and cash equivalents	549	(78)	(627)
Change in cash and cash equivalents	**(8)**	**2,933**	**2,941**

Free cash flow

Operating cash flow

Net cash generated from operating activities amounted to HUF 156.3 billion in 2015, compared to HUF 145.5 billion in 2014. Main reasons for the increase of HUF 10.8 billion were the following:

- HUF 6 billion positive change due to the higher EBITDA in 2015 than in 2014
- HUF -3 billion negative change in active working capital due to advance payment to E2 Hungary Zrt. (E2) in 2015
- HUF 5 billion positive change due to higher net addition to severance provision in 2015 than in 2014
- HUF -1 billion negative change due to lower net addition to legal provisions in 2015 than in 2014
- HUF 3 billion positive change due to lower tax payments in Macedonia in 2015 due to the changes of the tax law in 2014, which brought the payment of the dividend related taxes earlier
- HUF 2 billion positive change due to lower tax payment in Macedonia in 2015 due to no dividend payment from Macedonia to Hungary
- HUF 1 billion positive change in passive working capital due MTR debtor overpayments (invoiced and collected using old rate, accounted at new rate as revenue)
- HUF -2 billion negative change due to higher payments of severance provisions in 2015 than in 2014

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF -110.7 billion in 2015, compared to HUF -140.7 billion in 2014. Main reasons for the HUF 30 billion lower cash outflow were the following:

- HUF -13 billion negative change due to the net cost of the acquisition of GTS Hungary in Q2 2015
- HUF -20 billion negative effect in Capex investments due to higher investments in fixed line Network Capacity projects in 2015
- HUF 5 billion positive effect due to the successful completion of the mobile Network Modernization project in 2014
- HUF 59 billion positive change due to higher spending on frequencies acquired in 2014
- HUF -1 billion negative change due to the establishment of E2

Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF -18.5 billion in 2014 to HUF -18.9 billion in 2015. Main reason for the slightly higher payment of was the combined effect of the following:

- HUF 11billion positive change due to Q1 2014 payments on vendor invoices reverse factored in Q4 2013
- HUF -11 billion negative change due to trade creditors with extended payment term were paid as financial liability in 2015 (recognized as financial liability in 2014). There were no such payments in 2014.
- HUF -1 billion negative change due to higher payment of annual frequency fees in 2015 than in 2014

Free cash flow (FCF) overall increased from HUF -13.8 billion in 2014 to HUF 26.7 billion in 2015 due to the reasons described above.

Proceeds from other financial assets - net

Proceeds from other financial assets - net increased by HUF 2.9 billion.

In 2015 more gains were cashed in on the realization of the derivatives in Hungary than in 2014, slightly offset by the decrease in the bank deposits cashed in by our foreign subsidiaries in 2015 compared to 2014.

Repayment of loans and other borrowings - net

The negative change was due to lower loan drawdown in 2015 from DTAG than in 2014. This was slightly offset by the positive effect of lower repayment of bank loans in 2015 compared to 2014.

Dividend paid to shareholders and Non-controlling interest

Dividend paid to shareholders and Non-controlling interest decreased by HUF 1.3 billion. The decrease was driven by the following:

- HUF 1.1 billion positive change - CT's minority owners received additonal dividends in 2014 by way of a share capital decrease, while the amount of the ordinary dividend payment was substantially the same in 2015 as in 2014
- HUF 0.2 billion positive change - Maktel dividend paid to minority owners was lower in 2015

Exchange differences on cash and cash equivalents

The change in exchange differences on cash and cash equivalent is due to depreciating HUF in 2014 as opposed to unchanged HUF in 2015.

3.1.16 Statements of Financial Position

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

- Trade and other receivables
- Other current financial assets
- Assets held for sale
- Property, plant and equipment
- Other financial liabilities
- Trade payables
- Retained earnings

Trade and other receivables increased by HUF 18.5 billion from December 31, 2014 to December 31, 2015. The increase is mainly due to an advance payment of HUF 3 billion to E2, the Company's joint venture, and the increase of the 24-month installment receivables of HUF 7 billion. Energy service related receivables increased in 2015 compared to 2014 as a result of higher energy consumption, which also contributed to the increase of Trade and other receivables.

Other current financial assets decreased by HUF 13 billion from December 31, 2014 to December 31, 2015. The main reason for the decrease is that the Group's Macedonian and Montenegrin subsidiaries cashed in bank deposits to pay dividends to their minority owners and Magyar Telekom Plc., which used the proceeds to repay external loans and other borrowings and that Magyar Telekom cashed in the gains on its foreign currency swaps in 2015.

Assets held for sale increased by HUF 4 billion from December 31, 2014 to December 31, 2015. The increase was mainly due to the reclassification of the carrying amounts of Origo Zrt. (Origo) of HUF 3 billion as held for sale in 2015, as the Company signed an agreement for the sale of the total of its 100% shareholding in Origo in 2015. The closing of the transaction took place in February 2016. Further increase was caused by the identification of more assets, primarily land and building, for sale at December 31, 2015 than at December 31, 2014, as a result of the continuing improvement of utilization of properties.

Property, plant and equipment (PPE) increased by HUF 5 billion from December 31, 2014 to December 31, 2015. The main reason for the increase is that the capital expenditure exceeded the depreciation of assets in 2015, primarily due to higher construction in progress balance at December 31, 2015 than at previous year end.

Other financial liabilities decreased by HUF 44 billion from December 31, 2014 to December 31, 2015. The reason for the decrease is that certain short term bank loans were refinanced by DT group loans, while others were repaid from the free cash flows. In addition, the balance of Other financial liabilities as at December 31, 2014 included certain vendor liabilities with extended payment terms (reclassified from Trade payables in 2014), of which HUF 11 billion was repaid in 2015.

Trade payables increased by HUF 30 billion from December 31, 2014 to December 31, 2015. The balance of Trade payables as at December 31, 2014 excluded vendor liabilities in an amount of HUF 11 billion with extended payment terms (reclassified to Other financial liabilities in 2014). No contracts with such terms were made in 2015, therefore no further reclassifications were made in 2015, which resulted in higher Trade payables. Trade payables increased in 2015 compared to 2014 as a result of more successful vendor management. Further increase was caused by the remainder of liabilities recognized to compensate the overcharge of mobile termination charges (invoiced and paid at the rate prevailing before April 1, 2015, while revenues recognized at new rates effective from April 1, 2015) of HUF 1 billion.

Retained earnings increased by HUF 27 billion from December 31, 2014 to December 31, 2015. The reason for the increase is the profit generated in 2015 with no dividend declared.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2014 to December 31, 2015. The less significant changes in balances of the Consolidated Statements of Financial Position are largely explained by the items of the Consolidated Statement of Cash Flows for 2015 and the related explanations provided above in section 3.1.15 Cash flows.

3.1.17 Key Performance Indicators / Key operating statistics

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

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

3.2. Segment information

3.2.1 Description of segments

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

The Telekom Hungary segment operates in Hungary providing mobile and fixed line telecommunications and TV distribution and energy retail services to millions of residential and small and medium business customers mainly under the Telekom brand. The Telekom Hungary segment is also responsible for the wholesale mobile and fixed line services in Hungary, and performs strategic and cross-divisional management and support functions including Procurement, Treasury, Real Estate, Accounting, Tax, Legal, Internal Audit and similar shared services and other central functions of the Group's management. This segment is also responsible for the Group's points of presence in Bulgaria and Romania providing mainly wholesale services to local companies and operators.

T-Systems Hungary operates in Hungary providing mobile and fixed line telecommunications, infocommunications and system integration services under the T-Systems brand to key business customers (large corporate and public sector customers).

The Group also has full-scale mobile and fixed line telecommunications operations in Macedonia and Montenegro, which represent two additional operating segments of the Group.

Information regularly provided to the Management Committee

The following tables present the information by reportable segment regularly provided to the Management Committee (MC) of the Company, reconciled to the corresponding Group numbers. The information regularly provided to the MC includes several measures of profit which are considered for the purposes of assessing performance and allocating resources. These items vary year-over-year in nature and magnitude. Management believes that Revenue, EBITDA and Capex are the segment measures that are most consistent with the measurement principles used in measuring the corresponding amounts in these financial statements.

HUF millions	Q4 2014	Q4 2015	1-12 months 2014	1-12 months 2015
Total Telekom Hungary revenues	121,705	124,755	461,666	477,512
Less: Telekom Hungary revenues from other segments	(5,275)	(5,037)	(24,174)	(21,962)
Telekom Hungary revenues from external customers	**116,430**	**119,718**	**437,492**	**455,550**
Total T-Systems Hungary revenues	29,846	46,876	111,697	126,332
Less: T-Systems Hungary revenues from other segments	(2,969)	(4,568)	(10,744)	(9,514)
T-Systems Hungary revenues from external customers	**26,877**	**42,308**	**100,953**	**116,818**
Total Macedonia revenues	14,181	13,761	55,791	53,608
Less: Macedonia revenues from other segments	(22)	(30)	(58)	(91)
Macedonia revenues from external customers	**14,159**	**13,731**	**55,733**	**53,517**
Total Montenegro revenues	7,810	7,130	32,305	30,500
Less: Montenegro revenues from other segments	(12)	(3)	(49)	(41)
Montenegro revenues from external customers	**7,798**	**7,127**	**32,256**	**30,459**
Total consolidated revenue of the segments	165,264	182,884	626,434	656,344
Measurement/rounding differences to Group revenue	0	0	13	(2)
Total revenue of the Group	**165,264**	**182,884**	**626,447**	**656,342**
Segment results (EBITDA)				
Telekom Hungary	30,239	33,272	133,202	143,557
T-Systems Hungary	2,986	3,051	11,966	12,174
Macedonia	5,807	4,951	23,371	20,811
Montenegro	2,672	2,285	12,436	10,699
Total EBITDA of the segments	**41,704**	**43,559**	**180,975**	**187,241**
Measurement/rounding differences to Group EBITDA	158	171	249	60
Total EBITDA of the Group	**41,862**	**43,730**	**181,224**	**187,301**

3.2.2 Telekom Hungary

HUF million	Q4 2014	Q4 2015	Change	Change (%)	1-12 months, 2014	1-12 months, 2015	Change	Change (%)
Voice	36,739	32,877	(3,862)	(10.5%)	144,760	134,947	(9,813)	(6.8%)
Non-voice	13,970	15,216	1,246	8.9%	53,550	59,448	5,898	11.0%
Other	17,163	16,578	(585)	(3.4%)	52,737	54,806	2,069	3.9%
Mobile revenues	**67,872**	**64,671**	**(3,201)**	**(4.7%)**	**251,047**	**249,201**	**(1,846)**	**(0.7%)**
Voice - retail	10,755	10,197	(558)	(5.2%)	44,340	42,013	(2,327)	(5.2%)
Broadband - retail	9,341	10,509	1,168	12.5%	36,101	40,960	4,859	13.5%
TV	8,675	9,658	983	11.3%	33,780	37,183	3,403	10.1%
Other	12,419	16,331	3,912	31.5%	52,065	55,991	3,926	7.5%
Fixed line revenues	**41,190**	**46,695**	**5,505**	**13.4%**	**166,286**	**176,147**	**9,861**	**5.9%**
SI/IT revenues	675	758	83	12.3%	2,034	2,879	845	41.5%
Energy service revenues	11,968	12,631	663	5.5%	42,299	49,285	6,986	16.5%
Total revenues	**121,705**	**124,755**	**3,050**	**2.5%**	**461,666**	**477,512**	**15,846**	**3.4%**
Direct costs	**(49,837)**	**(49,084)**	**753**	**1.5%**	**(163,744)**	**(169,117)**	**(5,373)**	**(3.3%)**
Gross margin	**71,868**	**75,671**	**3,803**	**5.3%**	**297,922**	**308,395**	**10,473**	**3.5%**
Telephone tax	(5,257)	(5,020)	237	4.5%	(20,734)	(20,583)	151	0.7%
Utility tax	(160)	0	160	n.a.	(7,110)	(7,107)	3	0.0%
Other operating expenses (net)	(36,212)	(37,379)	(1,167)	(3.2%)	(136,876)	(137,148)	(272)	(0.2%)
EBITDA	**30,239**	**33,272**	**3,033**	**10.0%**	**133,202**	**143,557**	**10,355**	**7.8%**
Segment Capex	**24,138**	**38,790**	**14,652**	**60.7%**	**68,483**	**88,418**	**19,935**	**29.1%**
Hungarian frequency licences	97,593	502	(97,091)	(99.5%)	97,593	502	(97,091)	(99.5%)

Revenues

Total revenues in the Telekom Hungary segment increased by 2.5% in Q4 2015 compared to the same quarter in the previous year. The overall revenue increase was mitigated by lower mobile voice, fixed voice and other mobile revenues. On a year-to-date basis, other mobile revenues also increased as equipment revenues in 2015 grew contrary to the revenue fall in Q4 2015.

Mobile services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Number of customers (RPC)	**4,964,255**	**4,949,874**	**(0.3%)**	**4,964,255**	**4,949,874**	**(0.3%)**
Postpaid share in the RPC base	50.00%	51.49%	n.a.	50.00%	51.50%	n.a.
MOU	**177**	**189**	**6.8%**	**171**	**186**	**8.8%**
ARPU (HUF)	**3,546**	**3,383**	**(4.6%)**	**3,489**	**3,405**	**(2.4%)**
Postpaid	5,824	5,529	(5.1%)	5,760	5,575	(3.2%)
Prepaid	1,295	1,111	(14.2%)	1,292	1,160	(10.2%)
Churn rate	19.20%	15.40%	n.a.	18.30%	18.10%	n.a.
Postpaid	10.20%	10.60%	n.a.	11.20%	11.10%	n.a.
Prepaid	28.20%	20.50%	n.a.	25.20%	25.30%	n.a.
Ratio of non-voice revenues in ARPU	27.30%	31.60%	n.a.	26.80%	30.60%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	7,224	7,841	8.5%	5,722	6,129	7.1%
Average retention cost (SRC) per retained customer (HUF)	16,551	20,162	21.8%	14,248	16,672	17.0%
Number of mobile broadband subscriptions	**2,016,230**	**2,211,204**	**9.7%**	**2,016,230**	**2,211,204**	**9.7%**
Population-based outdoor 3G coverage	83.00%	83.00%	n.a.	83.00%	83.00%	n.a.
Population-based outdoor LTE coverage	78.30%	97.30%	n.a.	78.30%	97.30%	n.a.

Mobile revenues decreased by 4.7% in Q4 2015 versus Q4 2014. Voice-wholesale revenues decreased significantly in Q4 2015, mainly due to the 76% lower regulated mobile termination rate in Hungary, applicable from April 1, 2015. Roaming voice revenues decreased mainly due to lower average roaming tariff, while roaming traffic increased. Voice retail revenues increased owing to higher postpaid revenues mainly due to higher outgoing traffic and higher customer base, partly offset by lower prepaid revenues. Increase in non-voice revenues were driven by wider usage of mobile Broadband. Lower other revenues were mainly driven by the decrease in sales volume of handsets and in average selling prices in Q4 2015 versus Q4 2014.

On a year-to-date basis, other revenues increased due to higher number of handsets and accessories sold and to the increase in average selling prices in 2015 versus 2014.

Fixed line services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Voice services						
Total voice access	1,418,207	1,398,220	(1.4%)	1,418,207	1,398,220	(1.4%)
Total outgoing traffic (thousand minutes)	691,485	654,815	(5.3%)	2,781,810	2,624,461	(5.7%)
Blended MOU (outgoing) (1)	163	156	(4.0%)	164	156	(4.8%)
Blended ARPU (HUF) (1)	2,521	2,434	(3.5%)	2,587	2,495	(3.6%)

(1) Including PSTN, VoIP and VoCable.

Fixed line voice retail revenues declined by 5.2% in Q4 2015 compared to Q4 2014 due to lower subscription fee revenues resulting from the decrease in the average number of fixed lines. The decrease was also driven by lower outgoing traffic revenues due to decreased traffic and prices.

Internet services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Blended retail broadband market share [(1)]	**38.4%**	**38.8%**	**n.a.**	**38.4%**	**38.8%**	**n.a.**
Number of retail DSL customers	548,656	575,006	4.8%	548,656	575,006	4.8%
Number of cable broadband customers	314,592	340,883	8.4%	314,592	340,883	8.4%
Number of fiber optic connections	58,561	70,063	19.6%	58,561	70,063	19.6%
Total retail broadband customers	**921,809**	**985,952**	**7.0%**	**921,809**	**985,952**	**7.0%**
Blended broadband ARPU (HUF)	3,478	3,503	0.7%	3,429	3,503	2.2%

Broadband retail revenues increased by 12.5% and amounted to HUF 10.5 billion in Q4 2015 driven by the higher number of retail broadband customers and the higher ARPU caused by successful upgrade campaigns.

TV services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Blended TV market share [(1)]	**27.2%**	**27.6%**	**n.a.**	**27.2%**	**27.6%**	**n.a.**
Number of IPTV customers	445,044	497,662	11.8%	445,044	497,662	11.8%
Number of satellite TV customers	306,627	306,312	(0.1%)	306,627	306,312	(0.1%)
Number of cable TV customers	172,957	156,118	(9.7%)	172,957	156,118	(9.7%)
Total TV customers	**924,628**	**960,092**	**3.8%**	**924,628**	**960,092**	**3.8%**
Blended TV ARPU (HUF)	3,155	3,376	7.0%	3,111	3,290	5.8%

TV revenues increased in Q4 2015 compared to the same quarter last year due to higher ARPU and customer number. The growth is mainly attributable to the growth in IPTV revenues driven by the growing subscriber base as a result of the IPTV migration. Growth in satellite TV revenues was due to higher subscription fees in Q4 2015 compared to Q4 2014. Cable TV revenues decreased due to the decrease in the number of cable TV customers.

Other fixed line revenues increased in Q4 2015 compared to Q4 2014 due to the higher sale of TV sets and the increase in tablet prices. Further increase was caused by the consolidation effect of GTS Hungary from Q2 2015.

Energy services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Electricity points of delivery	104,831	106,564	1.7%	104,831	106,564	1.7%
Gas points of delivery	67,087	7,427	(88.9%)	67,087	7,427	(88.9%)

Energy services revenues increased by HUF 663 million in Q4 2015 versus Q4 2014 owing to the higher number of electricity points of delivery and the increased average consumption quarter over quarter due to the shift towards business customers with higher consumption. The drop in Gas points of delivery is due to the exit from the residential segment of the gas market with effect from July 31, 2015, resulting in lower revenues in Q4 2015 compared to the same quarter in the previous year.

EBITDA

EBITDA of the Telekom Hungary segment increased by 10.0% in Q4 2015 versus Q4 2014, mainly due to the higher gross margin, which was partly mitigated by the increase in employee expenses and by the higher cost of outsourcing services, marketing expenses and maintenance costs in Q4 2015. Marketing costs increased mostly relating to the introductory campaign of Magenta1 launch in Hungary.

Segment Capex

Segment Capex increased by HUF 14.7 billion quarter over quarter primarily due to higher investments in fixed line Network Capacity in Q4 2015. PSTN replacement and TV platform investments also contributed to the higher investments in tangible and intangible assets in Q4 2015.

Hungarian frequency licences were acquired in Q4 2014. Frequency Capex in 2015 was related to the reshuffling of frequencies within the three telecommunication service providers.

3.2.3 T-Systems Hungary

HUF million	Q4 2014	Q4 2015	Change	Change (%)	1-12 months, 2014	1-12 months, 2015	Change	Change (%)
Voice	3,353	3,195	(158)	(4.7%)	14,245	12,662	(1,583)	(11.1%)
Non-voice	2,554	2,742	188	7.4%	9,684	10,257	573	5.9%
Other	1,030	843	(187)	(18.2%)	3,515	3,118	(397)	(11.3%)
Mobile revenues	**6,937**	**6,780**	**(157)**	**(2.3%)**	**27,444**	**26,037**	**(1,407)**	**(5.1%)**
Voice - retail	1,633	1,428	(205)	(12.6%)	6,810	5,939	(871)	(12.8%)
Broadband - retail	566	510	(56)	(9.9%)	2,185	1,820	(365)	(16.7%)
Data	2,085	1,653	(432)	(20.7%)	8,607	6,954	(1,653)	(19.2%)
Other	752	643	(109)	(14.5%)	2,833	2,853	20	0.7%
Fixed line revenues	**5,036**	**4,234**	**(802)**	**(15.9%)**	**20,435**	**17,566**	**(2,869)**	**(14.0%)**
SI/IT revenues	17,873	35,862	17,989	100.6%	63,818	82,729	18,911	29.6%
Total revenues	**29,846**	**46,876**	**17,030**	**57.1%**	**111,697**	**126,332**	**14,635**	**13.1%**
Direct costs	**(17,868)**	**(33,656)**	**(15,788)**	**(88.4%)**	**(64,882)**	**(78,828)**	**(13,946)**	**(21.5%)**
Gross margin	**11,978**	**13,220**	**1,242**	**10.4%**	**46,815**	**47,504**	**689**	**1.5%**
Telephone tax	(1,247)	(1,093)	154	12.3%	(5,096)	(4,640)	456	8.9%
Utility tax	0	0	0	n.a.	(526)	(542)	(16)	(3.0%)
Other operating expenses (net)	(7,745)	(9,076)	(1,331)	(17.2%)	(29,227)	(30,148)	(921)	(3.2%)
EBITDA	**2,986**	**3,051**	**65**	**2.2%**	**11,966**	**12,174**	**208**	**1.7%**
Segment Capex	**2,083**	**1,934**	**(149)**	**(7.2%)**	**4,660**	**5,378**	**718**	**15.4%**

Revenues

Total revenues of T-Systems Hungary increased by 57.1% in Q4 2015 compared to Q4 2014 due to significant growth in SI/IT revenues exceeding the decrease in mobile and fixed line revenues.

Mobile services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Number of customers (number of SIM cards)	514,085	554,090	7.8%	514,085	554,090	7.8%
Churn rate	7.4%	7.6%	n.a.	12.4%	8.1%	n.a.
MOU	239	202	(15.3%)	250	214	(14.2%)
ARPU (HUF)	3,821	3,585	(6.2%)	3,891	3,578	(8.1%)
Ratio of non-voice revenues in ARPU	43.0%	46.4%	n.a.	40.4%	44.8%	n.a.
Average acquisition cost (SAC) per gross add (HUF)	2,956	5,299	79.3%	3,883	2,358	(39.3%)
Number of mobile broadband subscriptions	134,812	148,595	10.2%	134,812	148,595	10.2%

Mobile voice revenues decreased by 4.7% in Q4 2015 versus Q4 2014 mainly due to lower MOU and average tariff erosion. The 7.4% increase in non-voice revenues was driven by higher mobile broadband revenues, reflecting the increased number of mobile broadband subscriptions and higher usage. Other mobile revenues decreased quarter over quarter due to lower equipment sales.

Fixed line services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Voice services						
Total voice access	65,098	62,542	(3.9%)	65,098	62,542	(3.9%)
Total outgoing traffic (thousand minutes)	61,615	45,140	(26.7%)	259,821	217,354	(16.3%)
MOU (outgoing)	313	240	(23.3%)	322	284	(11.8%)
ARPU (HUF)	8,299	7,591	(8.5%)	8,434	7,761	(8.0%)
Internet services						
Number of retail broadband access	11,887	8,676	(27.0%)	11,887	8,676	(27.0%)
Blended broadband ARPU (HUF)	16,240	18,406	13.3%	15,162	16,200	6.8%

Fixed line voice retail revenues decreased by 12.6% caused by the erosion both in the customer base and traffic quarter over quarter. Fixed line Broadband retail revenues were down by 9.9% as a result of the lower number of retail broadband access, which could not be compensated by the limited broadband ARPU increase. Fixed line data revenues also declined as a result of the lower number of leased lines in Q4 2015.

SI/IT services

SI/IT revenues increased significantly quarter over quarter due to new major projects in Q4 2015 that the Company did not have in 2014. The composition of the projects in 2014 generated lower revenues than the projects in 2015.

EBITDA

EBITDA increased by 2.2% in Q4 2015 compared to Q4 2014, primarily due to higher gross margin that was mostly offset by higher employee related expenses and material costs.

Segment Capex

Segment Capex decreased by HUF 149 million in Q4 2015 compared to Q4 2014, as a result of lower spending on the new projects on tangible and intangible assets quarter over quarter. Year over year segment Capex increased as a result of higher spending on the new projects on a yearly basis.

3.2.4 Macedonia

HUF million	Q4 2014	Q4 2015	Change	Change (%)	1-12 months, 2014	1-12 months, 2015	Change	Change (%)
Voice	5,085	4,649	(436)	(8.6%)	21,511	19,141	(2,370)	(11.0%)
Non-voice	1,251	1,329	78	6.2%	5,041	5,425	384	7.6%
Other	1,287	1,408	121	9.4%	4,418	4,806	388	8.8%
Mobile revenues	**7,623**	**7,386**	**(237)**	**(3.1%)**	**30,970**	**29,372**	**(1,598)**	**(5.2%)**
Voice - retail	1,828	1,676	(152)	(8.3%)	7,276	6,244	(1,032)	(14.2%)
Broadband - retail	1,329	1,352	23	1.7%	5,463	5,307	(156)	(2.9%)
TV	776	800	24	3.1%	2,699	3,093	394	14.6%
Other	2,163	1,971	(192)	(8.9%)	8,598	7,666	(932)	(10.8%)
Fixed line revenues	**6,096**	**5,799**	**(297)**	**(4.9%)**	**24,036**	**22,310**	**(1,726)**	**(7.2%)**
SI/IT revenues	462	576	114	24.7%	785	1,926	1,141	145.4%
Total revenues	**14,181**	**13,761**	**(420)**	**(3.0%)**	**55,791**	**53,608**	**(2,183)**	**(3.9%)**
Direct costs	**(4,226)**	**(4,518)**	**(292)**	**(6.9%)**	**(15,586)**	**(16,573)**	**(987)**	**(6.3%)**
Gross margin	**9,955**	**9,243**	**(712)**	**(7.2%)**	**40,205**	**37,035**	**(3,170)**	**(7.9%)**
Other operating expenses (net)	(4,148)	(4,292)	(144)	(3.5%)	(16,834)	(16,224)	610	3.6%
EBITDA	**5,807**	**4,951**	**(856)**	**(14.7%)**	**23,371**	**20,811**	**(2,560)**	**(11.0%)**
Segment Capex	**5,018**	**5,677**	**659**	**13.1%**	**8,993**	**10,556**	**1,563**	**17.4%**

In Q4 2015, there was no significant change in the HUF/MKD average foreign exchange rates compared with the same quarter last year, which had a neutral impact on the results of the Macedonian segment in HUF terms.

Revenues

Total revenues of the Macedonian segment decreased by 3.0% in HUF terms quarter over quarter, mainly driven by the decrease in TV and mobile voice revenues, partly counterbalanced by higher retail broadband and SI/IT revenues.

Mobile services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Mobile penetration[1]	106.7%	103.7%	n.a.	106.7%	103.7%	n.a.
Market share of T-Mobile Macedonia[1][2]	46.8%	47.3%	n.a.	46.8%	47.3%	n.a.
Number of customers	1,197,242	1,229,655	2.7%	1,197,242	1,229,655	2.7%
Postpaid share in the customer base	35.4%	37.3%	n.a.	35.4%	37.3%	n.a.
MOU	214	215	0.5%	205	213	3.9%
ARPU (HUF)	1,775	1,627	(8.3%)	1,855	1,697	(8.5%)

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

Mobile voice revenues decreased by 8.6% quarter over quarter, mainly due to lower voice-retail revenues, driven by lower subscription fees, in spite of the slight increase in average outgoing minutes. Voice wholesale revenues decreased as well, due to lower international incoming traffic volume terminated in mobile in Q4 2015 compared to Q4 2014.

Non-voice revenues increased by 6.2% quarter over quarter. Mobile internet revenues increased in Q4 2015 mainly due to higher GPRS traffic and increased usage of tariff models with voice-data bundle. Decreased SMS retail revenues owing to lower number of SMS sent in Q4 2015 partly counterbalanced the increased mobile internet revenue.

As part of other mobile revenues, mobile equipment revenues increased due to the higher average selling price in Q4 2015 compared to the same period in 2014.

Fixed line services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Voice services						
Fixed line penetration	12.1%	11.3%	n.a.	12.1%	11.3%	n.a.
Total voice access	236,912	224,802	(5.1%)	236,912	224,802	(5.1%)
Total outgoing traffic (thousand minutes)	66,288	51,088	(22.9%)	293,487	218,379	(25.6%)
Internet and TV services						
Retail DSL market share (estimated)	82.4%	82.4%	n.a.	82.4%	82.4%	n.a.
Number of retail DSL customers	165,052	165,497	0.3%	165,052	165,497	0.3%
Number of IPTV customers	98,216	103,422	5.3%	98,216	103,422	5.3%

Fixed line revenues decreased by 4.9% quarter over quarter, driven by lower voice-retail and lower other fixed line revenues. Voice-retail revenues declined reflecting lower traffic and customer number. Other revenues decreased mainly due to lower international incoming revenues as a result of lower volume of traffic in Q4 2015.

These decreases were partly counterbalanced by the increase in TV revenues, owing to the growing IPTV subscriber base and the increase in broadband retail was driven by higher customer base.

System integration revenues increased significantly quarter over quarter due to increased revenues from a customized ICT project.

EBITDA

EBITDA of our Macedonian operations decreased by 14.7% in Q4 2014 versus Q4 2015 in HUF terms due to the 7.2% lower gross margin and the 3.5% higher other operating expenses.

Segment Capex

Segment Capex increased by 13.1% in Q4 2015, mainly due to the higher volume of broadband and IPTV spending.

3.2.5 Montenegro

HUF million	Q4 2014	Q4 2015	Change	Change (%)	1-12 months, 2014	1-12 months, 2015	Change	Change (%)
Voice	2,018	2,157	139	6.9%	8,949	8,375	(574)	(6.4%)
Non-voice	990	525	(465)	(47.0%)	3,882	3,188	(694)	(17.9%)
Other	551	511	(40)	(7.3%)	2,032	2,078	46	2.3%
Mobile revenues	**3,559**	**3,193**	**(366)**	**(10.3%)**	**14,863**	**13,641**	**(1,222)**	**(8.2%)**
Voice - retail	1,439	1,312	(127)	(8.8%)	6,059	5,389	(670)	(11.1%)
Broadband - retail	954	927	(27)	(2.8%)	3,879	3,647	(232)	(6.0%)
TV	567	597	30	5.3%	2,235	2,305	70	3.1%
Other	1,034	869	(165)	(16.0%)	4,072	3,817	(255)	(6.3%)
Fixed line revenues	**3,994**	**3,705**	**(289)**	**(7.2%)**	**16,245**	**15,158**	**(1,087)**	**(6.7%)**
SI/IT revenues	257	232	(25)	(9.7%)	1,197	1,701	504	42.1%
Total revenues	**7,810**	**7,130**	**(680)**	**(8.7%)**	**32,305**	**30,500**	**(1,805)**	**(5.6%)**
Direct costs	**(2,269)**	**(2,105)**	**164**	**7.2%**	**(8,879)**	**(9,041)**	**(162)**	**(1.8%)**
Gross margin	**5,541**	**5,025**	**(516)**	**(9.3%)**	**23,426**	**21,459**	**(1,967)**	**(8.4%)**
Other operating expenses (net)	(2,869)	(2,740)	129	4.5%	(10,990)	(10,760)	230	2.1%
EBITDA	**2,672**	**2,285**	**(387)**	**(14.5%)**	**12,436**	**10,699**	**(1,737)**	**(14.0%)**
Segment Capex	**2,154**	**3,259**	**1,105**	**51.3%**	**5,017**	**5,249**	**232**	**4.6%**

In Q4 2015, there was no significant change in the HUF/EUR average foreign exchange rates compared with the same quarter last year which had a neutral impact on the results of the Montenegrin segment in HUF terms.

Revenues

In HUF terms, total revenues decreased by 8.7% quarter over quarter, mainly due to the decrease in mobile non-voice revenues.

Mobile services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Mobile penetration [(1)]	163.4%	162.6%	n.a.	163.4%	162.6%	n.a.
Market share of T-Mobile Crna Gora [(1)]	34.1%	32.7%	n.a.	34.1%	32.7%	n.a.
Number of customers (RPC) [(1)]	345,863	329,844	(4.6%)	345,863	329,844	(4.6%)
Postpaid share in the RPC base	42.9%	47.0%	n.a.	42.9%	47.0%	n.a.
MOU	177	176	(0.5%)	179	181	1.1%
ARPU (HUF)	2,572	2,557	(0.6%)	2,790	2,810	0.7%

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

Mobile revenues decreased by 10.3% quarter over quarter. The decrease in non-voice revenues is primarily the result of the lower data traffic in Q4 2015. Decreased tariff level of the voice-wholesale revenues also contributed to the decline. The decrease in equipment revenues also led to lower mobile revenues.

These decreases were partly offset by an increase in retail voice revenues owing to the change in the composition of subscribers in Q4 2015, as the increase in revenues as a result of the increased postpaid customer base could not be fully offset by the decrease in revenues due to the lower number of prepaid customers quarter over quarter. Year over year mobile voice retails revenues decreased in Montenegro, driven by the decrease in the number of customers especially in the prepaid segment.

Fixed line services	Q4 2014	Q4 2015	change %	1-12 months 2014	1-12 months 2015	change %
Voice services						
Fixed line penetration	23.4%	22.4%	n.a.	23.4%	22.4%	n.a.
Total voice access	148,551	144,466	(2.7%)	148,551	144,466	(2.7%)
Total outgoing traffic (thousand minutes)	54,403	45,842	(15.7%)	224,995	193,445	(14.0%)
Internet and TV services						
Retail DSL market share (estimated)	85.8%	85.1%	n.a.	85.8%	85.1%	n.a.
Number of DSL access	91,972	90,371	(1.7%)	91,972	90,371	(1.7%)
Number of IPTV customers	61,127	60,812	(0.5%)	61,127	60,812	(0.5%)

Total fixed line revenues decreased by 7.2% quarter over quarter in HUF terms due to lower voice-retail and lower other revenues. Voice-retail revenues decreased owing to lower number of accesses, lower ARPU due to regulatory pressure and less traffic. Other revenues decreased due to lower data traffic and lower incoming international minutes.

These decreases were partly offset by an increase in equipment revenues owing to more laptops and TV sets sold in 2015.

EBITDA

The EBITDA of our Montenegrin operations decreased by 14.5% in HUF terms quarter over quarter mainly as a result of the 9.3% lower gross margin coupled with the 4.5% higher other operating expenses (net) accounted for in Q4 2015.

Segment Capex

Segment Capex increased by 51.3% in Q4 2015 compared to the same quarter last year, owing to much more spending mainly on information system development projects.

3.3. Contingencies and commitments

Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not within the control of the Group. These assets are not recognized in the statement of financial position.

The Group has no contingencies where the inflow of economic benefits would be probable and material.

Contingent liabilities

The most significant contingent liabilities of the Group are described below. No provisions have been recognized for these cases as management estimates that it is unlikely that these claims originating from past events would result in any material economic outflows from the Group, or the amount of the obligation cannot be measured with sufficient reliability.

Hungary

Public lawsuits relating to transaction fee

Two similar lawsuits were launched against the Company by the Hungarian Authority for Consumer Protection and the National Federation of Associations for Consumer Protection claiming that charging customers a transaction fee for invoices to be settled by yellow postal payment orders or in person at the cash-desk was unlawful. The Company is adamant that charging the transaction fee at the time of their introduction was not in breach of any law, while it was subsequently prohibited by a modification of the Act on Electronic Communications. The Company discontinued charging the fee on the effective date of the modification, and continues to comply with the provisions of the Act. The management believes that it is not probable that a significant liability will arise from these claims.

Guarantees

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 11.3 billion as at December 31, 2015 (2014: HUF 15.6 billion). These guarantees were issued by banks on behalf of Magyar Telekom as collateral to secure the fulfillment of the Group's certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no significant drawdown of the guarantees happened in 2015 or 2014, and is not expected to happen in the future.

Commitments

There has not been any material change in the nature and amount of our commitments in 2015.

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

No such events have taken place since December 31, 2015 to the publication date of this report.

3.5. 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 a new set-up in our economic environment 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 has started to follow this trend with stagnant customer base and lower prices. The fixed market is characterized by fixed-mobile integrated bundles, with broadband becoming a core element of service offerings. We expect continued consolidation in the fixed arena and the appearance of new over-the-top (OTT) technologies. An increasing technology platform-based competition is fueled by the government's Partnership for Digital Hungary program. The extensive development program aims to cover every household in Hungary with high-speed internet (HSI > 30 Mbit/s) access until the end of 2018. The digitalization of technology, services and education are key pillars of the country's competitiveness and the quality of life of its citizens.

In parallel with the fixed network developments, 3G and LTE network expansion is accelerated by competition and an increasing availability of mobile frequencies. Meanwhile the mobile voice market is characterized by increasing ratio of flat rate packages; the appearance of new market players is expected with some impact on the market in mid-term especially on mobile data. There is a fierce competition in broadband and content services and the battle for customer contracts has shifted from prices to quality in communication, especially focusing on network coverage and speed. The mobile broadband uptake still fuels the overall mobile market. However, the increasing regulation, in particular the abolishment of

roaming fees and the decrease in mobile termination rates, is putting further pressure on market players.
The economic recovery in 2015 had a positive effect on the households. Despite the increasing household budget, prices will not reach pre-crisis levels. We expect a slowly improving economic environment for 2016. However, operators can find ways to exploit higher household spending – with cross-sell and up-sell opportunities. We expect that the new core segments, especially mobile broadband, pay TV and IT services will deliver revenue growth in the upcoming years.

Macedonia

Macedonian telco market is in consolidation and stabilization phase, affected with a relatively positive macro-environment and challenging political standstill situation with scheduling and organisation of forthcoming early parliamentary elections scheduled for 24 April 2016.

The GDP growth was 3.5% in Q3 2015, and projected at 3.5% for 2016; and 4% for 2017. Inflation was 0.3% in 2015, and is projected at 1.5% in 2016 by the National Bank of the Republic of Macedonia. Unemployment decreased by 1.3% to 25.5% in Q3 2015 compared to the previous quarter. The average net salary at November 2015 was €360. FDI was EUR 115 million (till Q3 2015), 1.7% from total GDP.

With the official merge of VIP and ONE (2nd & 3rd mobile operators on the market), they overtook the market leadership in mobile and TV service revenues market share with 53% in mobile and 34% in payTV in accordance with Q3 2015 data. In fixed voice and broadband Makedonski Telekom maintained the leading positions with 61.5% and 42.5% revenue market share.

Market consolidation is ongoing. The new company ONE.VIP DOO (from the merger of 2nd & 3rd MNOs & one major CaTV operator – "Blizoo") was entered in the companies register in Macedonia on 1 October 2015, as the result of the merger of the operators ONE DOOEL, formerly a part of the Telekom Slovenije Group, and VIP OPERATOR DOOEL Skopje, a part of the Telekom Austria Group. The effective date of the merger was 31 July 2015. ONE DOOEL was thus included in the consolidated financial statements until that date. Telekom Slovenije holds a 45% participating interest in ONE.VIP DOO, but does not hold a controlling interest. Thus, the aforementioned company is not included in the financial statements of the Telekom Slovenije Group."

ONE.VIP has announced the start of the deployment of its new integrated mobile network, region by region. The benefits of the new network (significantly expanded 3G capacity, wider territorial coverage and LTE availability all over Macedonia) will be available for most customers by the end of 2016. In parallel, ONE.VIP and sister company Blizoo will focus on developing a fully modernized and expanded the fixed network infrastructure, thus creating a fully convergent operator.

Blizoo has announced the acquisition of 4 additional small CaTV operators. The subscription agreements of customers at the above operators will continue to be valid and applied under the same conditions, without the need to sign any additional documents. From January 2016, all telecom services and bills will be provided by Blizoo.

Montenegro

The Montenegrin telco market is facing strong challenges: competition is growing and merging, while regulatory pressure is still very intensive.

The fixed line market is more competitive than ever. After two acquisitions in 2014 (Telenor bought MNNews; Telemach acquired TV only operator BBM), m:tel acquired several local cable operators (Cabling, Eltamont, Medianet and FiberNet) in 2015. Also, m:tel launched cable BB/TV services in Q3 2015, following with attractive tripleplay and FMC offers. Telemach (SBB) is developing own fiber network and started with first offers of Fixed BB, still with below the line market strategy. Telemach is also currently in the process of acquiring another cable operator.

Activities in the mobile market are focused on promoting 4G network, provided by Telekom and Telenor and acquiring more mobile data customers, both full and confined (m:tel is still lagging behind and offers only 3G).

Regulatory pressure is still very intensive and Roaming price regulation is a recent and significant example. Additionally, the new Cinematography law was adopted in July and operators are obliged to pay 0.9% of annual revenues from internet access, PayTV and Video on demand service, as of January 2016.

In December one of the main goals of the foreign policy was achieved: Montenegro was invited to join the NATO Alliance. EU accession process and regulatory framework harmonization remain in the special focus of the Government. The European Commission revised upwards its projection for Montenegro's economic growth in 2015 by one percentage point to 4% on the back of strong growth in tourism and the start of works on a key motorway and on two large tourism resorts.

3.6. Strategy

Hungary

As a result of our focused strategic efforts, Magyar Telekom maintained its leading position in its Hungarian fixed voice, broadband, pay TV, mobile and ICT businesses in 2015, we successfully improved customer retention and delivered strong volume figures. We have also gradually extended our network and offered capabilities proactively leveraging on various partnering models as well.

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

While anticipating new competencies required by the changing customer behavior, technological advances, and new business models, we aim to exploit our abilities to become a leader in all digital services around the home for both customers and third parties. We continue to identify and leverage new business opportunities in e-health, cloud, IoT, finance and insurance services, support customer retention and new revenue streams both in the residential and business segments. As a result of the changed market environment we decided to exit from the residential gas market. At the same time, we established a joint venture that provides energy services for business customers in order to improve and optimize our energy operations.

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

Macedonia

Addressing local challenges in order to fulfill strategic aspiration, local Ambition Program 2.0 fulfilled its final objective of transforming technology into superior customer experience, stabilization of Revenue/EBITDA trends, continuation of efforts for regaining number one position in Mobile (47%) and PayTV (28%) business, sustaining the strong market position and becoming new modern, lean and fully converged telco operator. Ambition Program will follow up in 2016 with Ambition 3.0 local strategy implementation program, proclaiming "GoDigital" overall corporate focus stream and message.

The main pillars planned for Ambition 3.0 are:

- Go Digital - Digitalize customer journey and business architecture
- Value Leadership - Keep stable core revenues in all segments, increase postpaid value, optimize market invest and win the households; Pre-paid-to-postpaid-to-fmc (magenta 1) migration (in both b2c & b2b)
- Customer Excellence – Superior Customer & Network Experience
- Access Everywhere – Technology Leadership - Lead in network innovation in FTTH, vdsl, LTE, hybrid (xDSL +LTE), Wireless
- Lean Telco – agile and efficient telco
- Corporate Culture – Empowerment in times of change.

Montenegro

The vision statement of Crnogorski Telekom (CT) emphasizes CT's ambition to become customers' first choice in a fully digital lifestyle by aspiring to be the best in class.

CT's Corporate Strategy document is based on three main pillars:
- Technology leadership
- Best customer experience
- New businesses

Strategy is translated into ten initiatives implementation program, named "Tesla". In 2015 significant achievements have been made:
- One Convergent Billing & CRM system implemented;
- All IP transformation has been completed;
- Intensive FTTH and mobile network rollout continued, with increasing FTTH utilization rate, and preservation of 4G leadership;
- Completion of Hybrid Access project;
- Comparative testing of all three mobile operators' networks, done by international company P3 Communications, certified CT as the operator with best results in 2015
- Managed service implemented in 7 year partnership with Ericsson in area of network and service maintenance;
- Intensive focus on improving customer experience through several initiatives as well as through further push on eSales and eService
- First integrated offers launched
- ICT business expanded
- New partnerships introduced (e.g. Pickbox)

3.7. Resources and risk factors

Our financial condition, results of operations or the trading prices of our shares could be materially adversely affected by any of the risks described below. These risks are not the only risks we face. Additional risks not currently known to us, or risks that we currently regard as immaterial, could also have a material adverse effect on our financial condition, results of operations or the trading prices of our shares.

- Our operations are subject to substantial government regulations, further restrictions related to consumer protection were published; the price setting methodology of already regulated wholesale products and new type of regulated access services are probable, which can result in adverse consequences for our business and results of operations;
- We are subject to more intense competition, the role of the Mobile Virtual Network Operators (MVNOs) is increasing in the mobile market;
- Beyond current market players in Hungary, DIGI also acquired a 10 MHz spectrum block in the 1800 MHz band in the latest frequency auction, and it can enter the mobile market as a new player;
- We may be unable to adapt to technological changes in the telecommunications market;
- The future of our current operational model is subject to currently unforeseeable changes in the future business environment;
- Developments in the technology and telecommunications sectors may result in impairment of the carrying value of certain of our assets;
- Our business may be adversely affected by actual or perceived health risks associated with mobile communications technologies;
- System failures could result in reduced user traffic and revenue and could harm our reputation;
- Loss of key personnel could weaken our business;
- The regulatory environment in Montenegro and Macedonia is getting stricter, in Montenegro the consolidation of governmental infrastructure could influence our operations unfavorably;
- In Macedonia, the main development is the merger of two competitors, ONE and VIP. We expect this transaction to reshape the competitive environment in the Macedonian telecommunications market;
- Our share price may be volatile, and the ability to sell our shares may be adversely affected due to the relatively illiquid market for our shares and ADSs;
- The value of our investments, results of operations and financial condition could be adversely affected by economic developments in Hungary and other countries;
- We are subject to unpredictable changes in the Hungarian tax regulations;
- Fluctuations in the currency exchange rate could have an adverse effect on our results of operations;
- Disputes and litigation with regulators, competitors and other parties could have an adverse effect on our results of operations.
  The number of cyber attacks have been evolving at an exponential rate recently worldwide. Although Magyar Telekom provides services with highest security-standards and constantly tests and updates its cyber security countermeasures, it cannot be fully excluded that the Company will be subject of a cyber attack.

3.8. Outlook

The telecommunications industry is undergoing significant changes globally. We have observed several long-term trends which are changing the structure of the telecommunications market. These long-term trends include changes in technology (e.g., IP-based broadband products and solutions, and cloud based solutions), customer requirements (e.g., increase in mobile usability of content services and terminal devices, 4Play solutions and the growing need for mobile applications) and competition and regulation (e.g. low entry barriers, new business models, convergence in the telecommunications and media broadcast industry).

Magyar Telekom's current plans and outlook are based on our best knowledge and expected circumstances. Nevertheless, we cannot predict the behavior of our competitors. Therefore, a stronger than assumed impact of other operators, new market entrants and new solutions in any country where we are present could result in a negative impact on our business performance.

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

Hungary

The Hungarian economy came out of recession in 2013. The GDP growth in 2015 was 3.2 percent, fueled by export performance, utilization of EU funds and lowered energy prices. The Central Bank of Hungary forecasts indicates that the GDP growth will remain high, at about 2.5 percent in 2016. The unemployment rate decreased to 6.2 percent, and the volatility of the Hungarian currency is expected to continue.

In order to balance the budget, the Hungarian government has implemented several measures to keep the deficit under 3 percent of GDP in 2014. The Parliament adopted an act imposing telecommunications tax on service providers for fixed and mobile voice and mobile SMS/MMS services, effective from July 1, 2012 for an indefinite period of time. The telecommunication tax payable by Magyar Telekom in 2015 was HUF 25.2 billion. The Parliament also adopted an act imposing a further tax levied on utility networks (e.g.: ducts, cables) from 2013. In 2015, the Parliament modified the law, that newly constructed networks and new developments on existing networks are enjoying tax holiday for 5 years. The tax expense and liability for 2015 were recognized in the first quarter of 2015 as the full annual tax liability (HUF 7.6 billion) is payable based on the taxable infrastructure in place on January 1, 2015. Our T-Systems Hungary segment is also affected by heavy spending cuts by the government, our largest business customer.

In September 2013, frequency usage rights in the 900 MHz and 1800 MHz frequency bands were extended and harmonized until 2022. Magyar Telekom paid a one-off fee of HUF 34 billion for the extension. In September 2014, Magyar Telekom won the rights of use of frequency blocks until June 2034 in the tender of the National Media and Infocommunications Authority in the 800 MHz, 900 MHz, 1800 MHz and 2600 MHz frequency bands. Magyar Telekom paid an initial price of HUF 59 billion for these frequency blocks in Q4 2014.

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

In December, 2015 Magyar Telekom has signed an agreement to sell its 100% shareholding in Origo Zrt. to New Wave Media Kft., for a total consideration of approximately EUR 13.2 million (ca. HUF 4.2 billion). The transaction closing took place in February, 2016.

Magyar Telekom is continuously seeking business opportunities beyond core service.

Macedonia

In Macedonia, competition is increasing both in the fixed line and mobile market. The mobile market consolidated in 2015, due to the merger of the second and third biggest player on mobile market (VIP & ONE, effective from 2016), while the fourth mobile operator (Albafone) disappeared as a result of bad results and inability to make significant uptake. Flat rates dominate in mobile voice – all net flat propositions are major part of new postpaid gross adds. The continuous growth of the mobile internet is mostly driven by the increase of smart-phone penetration. Mobile data services available with fast extension to mobile internet as basis for future services.

Fix market remains fragmented despite acquisition of Blizoo by VIP in 2015. Decline on fixed voice market to some extent compensated by growth in fix broadband market, TV market already saturated. Fix services are offered predominantly in bundles (combined broadband and TV services). Cloud services and the IT market has experienced a dynamic growth mainly in B2B segment.

We also expect more intensive regulatory measures in Macedonia in the future. Pure LRIC for fixed line termination rates (FTR) and IP interconnection is expected. Retail regulation with margin squeeze test is expected for retail optic and copper products including fixed access as well. We also expect obligations for all operators to put their aerial cables in urban areas underground and digital agenda obligation for the coverage of households with 30 and 100 Mbps with technical neutrality until 2020. The execution of the Balkan roaming regulation from the mid-2017 will result in the decrease of retail and wholesale prices to EU roaming III level. Broadband will be included in Universal Services.

In June, 2015, the Shareholders' Assembly of Makedonski Telekom AD – Skopje approved the accession of T-Mobile Macedonia to Makedonski Telekom. The effective date of the merger is July 1, 2015.

Montenegro

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

Regarding the regulatory measures, regional roaming regulation effective as of 1st July 2015 may heavily influence our roaming revenues. Indirectly, it may have negative influence on international MTRs as well. FTR, MTR and BSA cost based regulation is expected for the period of 2016-2019 on LRIC model. Retail price cost based (LRIC) regulation of the prices of: access to the network, fix voice and ADSL will negatively influence CT revenues. In 2016 NRA is going to perform market analysis of the markets defined in the revised EC Recommendation on relevant markets from 2014. Margin squeeze test for retail products is expected in 2016. Implementation of the new eLaw and the new bylaws will result in more strict, demanding and expensive obligations for the operators. Multi band auctions of the existing bands 900/1800/2100 MHz (expiring at the end of 2016) and the new bands 800 MHz /2.6 GHz are expected. The process is planned to be finished by the end of Q1 2016. The upcoming auction creates a possibility of a new (fourth) player entering the market.

3.8.1 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. Free or low price fixed voice tariffs are taking up fast in bundled services driven by the cable companies. In Q3 2015 under the Magenta1 name, Telekom introduced a special residential offer enabling customers to use the telecommunication and entertaining services of the operator both at home and on mobile within a single package, with favorable conditions. Fixed HSI access roll-out is speeding up as well. Fixed line inter-connection tariff reductions are expected in 2016.

In the saturated fixed line market TV remains the key driver. Building on our large variety of platforms (cable, IP, DVB-S), we are targeting to reach those customers who currently have less than three of our services. We reached market leader position in the Hungarian TV market in 2014 and we are aiming to expand further our customer numbers in 2015; however margins are under pressure due to significant competition. To strengthen our position in the TV market, we are continuously innovating our product portfolio (e.g. OTT solutions).

In the mobile market, voice penetration has reached saturation point, and we expect declining voice revenues. We expect further growth in mobile broadband and future growth potential of value-added, M2M and data services, but this positive impact will not offset the decline in voice revenues. Mobile flat uptake is significant over the upcoming years. OTT threat is significantly offset by mobile flat offers and portfolio rebalancing. UPC as MVNO together with Vodafone entered mobile market addressing mobile and FMC customers with flat packages offer. Mobile termination rates were decreased to HUF 1.71/minute from April 1, 2015 effecting the financial settlements between the operators. The market entry of the fourth mobile operator in Hungary is also expected.

Magyar Telekom has regularly reviewed its business model with respect to its energy service offering and our most recent review concluded that maintaining our presence on the residential gas service market would have an adverse financial impact on the Company's profitability. As a result, a decision was made to exit from the residential gas market with effect from July 31, 2015. In Q1 2015, Magyar Telekom signed an agreement with MET Holding AG, a leading integrated retail energy services trader in the region to establish a joint venture that will provide energy services for business customers. Due to the establishment of the joint venture, natural gas and electricity services currently provided by Magyar Telekom to business customers will be ceased in 2016 as these services will be provided by the joint venture.

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.

3.8.2 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.

Magyar Telekom executed a headcount reduction program in 2014 and 2015 with the target to make maximum 1,700 employees redundant. Approximately 35% left the Company between October 1, 2014 and March 1, 2015 while the remaining 65% left by January 1, 2016. Meanwhile, in order to keep the wages competitive, there will be a 4% wage increase for employees in lower wage categories as of January 1, 2016 effective retrospectively from July 1, 2015. The above measures are expected to result in net HUF 15 billion cost savings in 2 years, i.e. the program is expected to have a return period of 9 months.

Programming fee payment for previously free to broadcast TV channels remains a possibility in the near future.

3.8.3 Investments in tangible and intangible assets

Compared to previous years, the key priorities of Capex spending have not changed. Investments in new products and platforms (e.g., 4G, HSI) remain our key strategic goals. Broadband expansion is supported by large scale modernization of the mobile and fixed line network.

We will increase investments in the IT area to reach our goals of becoming an ICT leader in Hungary, while expansion into new market segments will also demand additional investments.

Striving for further improvement in customer orientation, the strategic priority is the successful development and implementation of new CRM systems in Hungary, Macedonia and Montenegro. We are targeting the complete overhaul of the current customer management system of the companies. The successful implementation of the new ERP system is also essential.

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

4. DECLARATION

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

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

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

Budapest, February 24, 2016

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

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our annual financial statements for the year ended December 31, 2014, available on our website at http://www.telekom.hu which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

In addition to figures prepared in accordance with IFRS, Magyar Telekom also presents non-GAAP financial performance measures, including, among others, EBITDA, EBITDA margin and net debt. These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways. For further information relevant to the interpretation of these terms, please refer to the chapter "Reconciliation of pro forma figures", which is posted on Magyar Telekom's Investor Relations webpage at www.telekom.hu/investor_relations.