MAGYAR TELEKOM

INTERIM FINANCIAL REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2016

Budapest – February 22, 2017 – 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 2016, in accordance with International Financial Reporting Standards (IFRS).

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EGYÜTT. VELED

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2016 REVENUE AND EBITDA GUIDANCE OVER-PERFORMED

1. HIGHLIGHTS

Financial highlights:

MAGYAR TELEKOM Group Financial Results - IFRS (HUF million, except ratios)	Q4 2015 (Unaudited)	Q4 2016 (Unaudited)	Change (%)	1-12 months 2015 (Audited)	1-12 months 2016 (Unaudited)	Change (%)
Total revenues	**182,884**	**158,828**	**(13.2%)**	**656,342**	**602,651**	**(8.2%)**
Operating profit	**11,984**	**11,228**	**(6.3%)**	**73,517**	**79,563**	**8.2%**
Profit attributable to:						
Owners of the parent	3,353	19,754	489.1%	27,715	54,279	95.8%
Non-controlling interests	750	767	2.3%	3,832	2,944	(23.2%)
	4,103	**20,521**	**400.1%**	**31,547**	**57,223**	**81.4%**
Gross profit	101,127	99,581	(1.5%)	406,965	405,782	(0.3%)
EBITDA	43,730	43,831	0.2%	187,301	197,039	5.2%
EBITDA margin	23.9%	27.6%	n.a.	28.5%	32.7%	n.a.
Free cash flow				26,725	50,010	87.1%
Basic earnings per share (HUF)	**3.22**	**18.97**	**489.1%**	**26.59**	**52.10**	**95.9%**
CAPEX to Sales				**16.7%**	**18.8%**	**n.a.**
Net debt				**409,393**	**376,557**	**(8.0%)**
Net debt / total capital				**42.9%**	**39.3%**	**n.a.**
Number of employees (closing full equivalent)				**10,357**	**9,432**	**(8.9%)**

Strategic highlights:

- **Group revenue decline driven by the transfer of the B2B energy business into the joint venture with MET Holding AG and lower System Integration/Information Technology (SI/IT) revenues**
- **Growth in mobile revenues by 1.4% year-on-year driven by higher equipment revenues and increased mobile data, which more than offset shrinking voice retail and SMS revenues**
- **SI/IT revenues in Hungary declined due to lower EU fund inflows and a very strong Q4 2015 serving as a basis for comparison, but gross profit improved due to a strategic focus on higher margin projects**
- **Reduction in employee related expenses driven by the lower amount of severance expenses and actual savings from the 2014/2015 headcount reduction program**
- **Q4 2016 EBITDA remained unchanged year-on-year as gross profit remained broadly stable, while savings in employee related expenses and lower severance payment offset the increase in other operating expenses**
- **FY 2016 EBITDA up by 5.2% year-on-year also boosted by the one-off gains of HUF 5.1 billion realized on the Infopark (building G) real estate deal and the Origo sale**
- **Free cash flow increase to HUF 50.0 billion (+87.1% compared to 2015) reflects higher EBITDA, lower interest payments and one-off profits despite the incremental severance payout and a higher Capex spending, as well as increase in the amount of Capex creditor paid**
- **Performance in Hungary driven by increased customer base in fixed and mobile broadband, pay TV and postpaid mobile telephony**
- **Strong EBITDA performance in Macedonia (excluding severance), while mobile market share continued to increase**
- **Sustained regulatory and competitive pressures in the Montenegrin market**
- **Net debt ratio decreased to 39.3% by the end of 2016**

Christopher Mattheisen, CEO commented:

"In 2016, with regards to revenue and EBITDA, we have outperformed on our previously announced guidance, whilst managing to reach our 50 billion forint free cash flow target a year earlier than expected. Our total revenues came to 602.7 billion forint for the full year with EBITDA at 197.0 billion forint. This outperformance was driven by a favorable fourth quarter in Hungary, where our increased marketing activities and higher level of subsidies led to a better than anticipated uplift to sales of both mobile handsets and data packages. Growth in EBITDA was also supported by rise in profitability at our SI/IT services in Hungary due to a strategic focus on higher margin projects.
Looking ahead to 2017, we are facing several competitive and regulatory risks to growth, such as the expected entry of Digi into the mobile market, further cuts in the EU roaming rates and the ongoing obligation to register prepaid SIMs; while both the prepaid and business mobile segments are likely to remain very tight. At the same time the fixed line market is experiencing increasingly competitive regional 3Play offers, a situation undoubtedly intensified by the rollout of optical networks by Digi and UPC, with the latter having only recently started to do so. However, as an integrated operator, we believe that we are well positioned to address these challenges in Hungary in terms of maximizing the telecommunication share of the household spending wallet by further expansion of our 4Play Magenta 1 subscriber base, a bundled offering that largely differentiates us from our competitors.

At the same time however, we do not assume that our results will remain immune to these headwinds. Stripping out any contribution from our Montenegrin business, whose sale was finalised in January this year, we now expect revenues to decrease to around 560 billion forints to reflect the negative competitive and regulatory impacts. Our aim is to offset these revenue pressures however, along with the non-recurrence of one-off profits from the sale of Infopark (building G) and Origo, through seeking additional operational efficiencies, such that excluding these one-off gains we expect EBITDA to remain largely stable at around 182 billion forints. Despite Capex (excluding spectrum acquisitions and annual frequency fee capitalizations) for 2016 being higher than originally planned, we still expect it to decline to around 85 billion forint in 2017. Although we still expect to continue with our fixed network investments in Hungary in terms of providing high speed internet access, coupled with further investments in our mobile network, both these programs will be less capital intensive than in the preceding two years. Furthermore, as we are nearing the completion of a number of efficiency enhancing projects, Capex related to the IP migration and other IT projects will accordingly be lower.

Based on the current operating and regulatory environment and outlook, we expect the Company to pay HUF 25 dividend per share in relation to 2017 earnings, keeping a stable dividend level compared to 2016 earnings. This is subject to the Board of Directors' future proposal to the General Meeting which will be submitted in due course, once all necessary information is available and all prerequisites to making such a proposal are met."

Public guidance:

	Public guidance for 2016	Actual 2016		Public guidance for 2017	
		with CT	without CT[1]	Previous targets	New targets
Revenue	around HUF 595 billion	HUF 603 billion	HUF 574 billion	HUF 560-570 billion	around HUF 560 billion
EBITDA	around HUF 193 billion	HUF 197 billion	HUF 188 billion	HUF 181-185 billion	around HUF 182 billion
Capex[2]	ca. 10% y-o-y decline	HUF 105 billion	HUF 98 billion	ca. 15% y-o-y decline	around HUF 85 billion
FCF	-	HUF 50 billion	HUF 57 billion	surpassing HUF 50 billion[3]	around HUF 55 billion[4]
Dividend	HUF 25 per share	HUF 25 per share		-	HUF 25 per share

[1] *excluding Crnogorski Telekom financials*

[2] *excluding spectrum acquisitions and annual frequency fee capitalization*

[3] *after minority dividend payments*

[4] *excluding the transaction price of the disposal of the majority ownership in Crnogorski Telekom*

2. MANAGEMENT REPORT

2.1. Consolidated IFRS Group Results

2.1.1 Group Profit or Loss

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million)	Q4 2015 (Unaudited)	Q4 2016 (Unaudited)	Change	Change (%)	1-12 months 2015 (Audited)	1-12 months 2016 (Unaudited)	Change	Change (%)
Revenues								
Mobile revenues	81,117	82,215	1,098	1.4%	314,033	319,929	5,896	1.9%
Fixed line revenues	56,036	51,981	(4,055)	(7.2%)	212,032	207,209	(4,823)	(2.3%)
System Integration/Information Technology revenues	33,101	23,116	(9,985)	(30.2%)	80,997	68,735	(12,262)	(15.1%)
Energy service revenues	12,630	1,516	(11,114)	(88.0%)	49,280	6,778	(42,502)	(86.2%)
Total revenues	**182,884**	**158,828**	**(24,056)**	**(13.2%)**	**656,342**	**602,651**	**(53,691)**	**(8.2%)**
Direct costs	**(81,757)**	**(59,247)**	**22,510**	**27.5%**	**(249,377)**	**(196,869)**	**52,508**	**21.1%**
Gross profit	**101,127**	**99,581**	**(1,546)**	**(1.5%)**	**406,965**	**405,782**	**(1,183)**	**(0.3%)**
Employee-related expenses	(25,635)	(21,555)	4,080	15.9%	(95,160)	(83,327)	11,833	12.4%
Hungarian sector specific special taxes	(6,113)	(5,984)	129	2.1%	(32,872)	(31,525)	1,347	4.1%
Other operating expenses	(28,669)	(30,757)	(2,088)	(7.3%)	(98,503)	(104,881)	(6,378)	(6.5%)
Other operating income	3,020	2,546	(474)	(15.7%)	6,871	10,990	4,119	59.9%
EBITDA	**43,730**	**43,831**	**101**	**0.2%**	**187,301**	**197,039**	**9,738**	**5.2%**
Depreciation and amortization	(31,746)	(32,603)	(857)	(2.7%)	(113,784)	(117,476)	(3,692)	(3.2%)
Operating profit	**11,984**	**11,228**	**(756)**	**(6.3%)**	**73,517**	**79,563**	**6,046**	**8.2%**
Net financial result	(5,601)	(7,529)	(1,928)	(34.4%)	(28,176)	(26,815)	1,361	4.8%
Share of associates and joint ventures' results	0	32	32	n.a.	0	78	78	n.a.
Profit before income tax	**6,383**	**3,731**	**(2,652)**	**(41.5%)**	**45,341**	**52,826**	**7,485**	**16.5%**
Income tax	(2,280)	16,790	19,070	n.m.	(13,794)	4,397	18,191	n.m.
Profit for the period	**4,103**	**20,521**	**16,418**	**400.1%**	**31,547**	**57,223**	**25,676**	**81.4%**

Total revenue for Q4 2016 declined by 13.2% year-on-year to HUF 158.8 billion, mostly as a result of the partial exit from the energy business along with lower SI/IT and fixed line revenues. Similar factors were behind the 8.2% fall in total revenue to HUF 602.7 billion for the full year 2016, alongside the sharp cut in the Mobile Termination Rate (MTR) that came into effect in Hungary on April 1, 2015 and negatively impacted like-for-like Q1 2016 results. In terms of breakdown by geography for the full year, revenues remained roughly stable in Macedonia whilst both the Hungarian and Montenegrin operations witnessed declines.

- **Mobile revenues in Q4 2016 increased by 1.4% year-on-year to HUF 82.2 billion** as higher mobile data and equipment revenues offset shrinking voice, SMS and other revenues. With regards to the full year 2016 results, mobile revenues increased by 1.9% to HUF 319.9 billion for similar reasons except that other mobile revenues were largely stable over the 12 month period
  - **Voice revenues** were lower across the Group in Q4 2016, down by 4.9% year-on-year to HUF 40.7 billion in total. In Hungary, the positive effects of the improving postpaid ratio (59.2% vs. 56.4%, end-2016 vs. end-2015) and increasing penetration driven by the flat rate Next tariff were more than offset by a decline in the overall subscriber base and a lower ARPU (average revenue per user) in the business segment along with lower roaming revenues as a result of EU regulation. In Macedonia, growth in the postpaid segment was offset by a combination of a smaller prepaid customer base in absolute terms, lower ARPU levels, decreased wholesale revenues due to a fall in international incoming traffic and lower roaming revenues driven by the Balkan roaming agreement. Within Montenegro, declines in both ARPU levels and the prepaid customer base coupled with lower roaming and international mobile wholesale revenues led to a 11.4% drop in voice revenues for Q4 2016
  - **Data revenues in Q4 2016** grew by 10.9% year-on-year to HUF 16.7 billion due to higher mobile internet revenues across the Group's footprint, driven by higher subscriber numbers and usage
  - **SMS revenues** remained roughly unchanged at HUF 4.6 billion for Q4 2016. The growth in Hungarian mass messaging revenues was approximately matched by the decline in SMSs sent in our Hungarian consumer segment and Montenegro, due to the increasing popularity of OTT (over-the-top) services
  - **Mobile equipment revenues** increased by 12.6% year-on-year to HUF 16.8 billion in Q4 2016, thanks to improvement across all the operations. Equipment sales grew significantly due to higher smartphone and third party export sales in Hungary, a higher average selling price in Macedonia, and the greater number of handsets sold in Montenegro
- **Fixed line revenues decreased by 7.2% year-on-year to HUF 52.0 billion in Q4 2016** as the sustained positive momentum in TV was offset by declines elsewhere (voice, broadband, equipment, wholesale and other revenues). The fall in fixed line revenues was most pronounced in Montenegro, with declines less marked in Hungary and Macedonia. With regards to the full year 2016, fixed line revenues were lower by

2.3% at HUF 207.2 billion (FY 2015: HUF 212.0 billion), with higher broadband and TV revenues unable to match the declines in revenues from voice retail, equipment (lower TV and laptop sales), data and wholesale along with the effects from the deconsolidation of Origo

- **Voice-retail revenues** maintained their decline, down by 10.6% year-on-year to HUF 13.2 billion in Q4 2016, mainly driven by the continuing decline in the customer base and usage, as well as average tariff levels across all segments
- **Broadband retail revenues** decreased by 4.1% year-on-year to HUF 13.1 billion in Q4 2016. Within Hungary, the effect of an enlarged customer base was offset by slightly lower ARPU levels; whereas in Macedonia, excluding the one-off negative adjustments relating to the revenue break-down of Fixed Mobile Convergent (FMC) products in Q4 2015, underlying fixed broadband revenues were marginally lower due to pricing pressures. In Montenegro, increasing cable-based competition and regulatory headwinds resulted in a 15.7% year-on-year decline in Q4 2016. In contrast to this decline witnessed in Q4 2016, Group broadband revenues for the full year 2016 actually increased, by 1.2% to HUF 52.6 billion, due to Hungary having a larger customer base coupled with flat ARPU levels which along with flat revenues in Macedonia more than offset the decline in Montenegro
- **TV revenues** increased by 5.2% year-on-year to HUF 11.1 billion in Q4 2016, mainly driven by the growth in the IPTV subscriber base in both Hungary and Macedonia. IPTV subscribers generated as much as 63% of the Group's TV revenues in the quarter
- **Fixed equipment revenues** declined by 15.4% year-on-year to HUF 2.4 billion in Q4 2016, mainly owing to a decline in sales of TV sets, tablets and laptops to retail customers in Hungary and Macedonia
- **Data retail revenues** amounted to HUF 2.6 billion in Q4 2016, down by 4.0% compared to the same period of the previous year, reflecting ongoing pricing pressures and lower access numbers in the Hungarian enterprise segment, along with a smaller contribution from leased line services in Macedonia and Montenegro
- **Wholesale revenues** decreased by 14.1% year-on-year to HUF 5.1 billion in Q4 2016 as a result of lower fixed incoming domestic and international traffic at both our Macedonian and Montenegrin operations, along with the termination of wholesale activity at our Romanian subsidiary, Combridge
- **Other fixed line revenues** decreased by 19.8% year-on-year to HUF 4.5 billion in Q4 2016, a reflection of the deconsolidation of Origo and lower revenues derived from other network building. Over the full year 2016, these revenues, however were stable, supported by higher value added services as well as increased usage of Video on Demand

- **SI/IT revenues declined by 30.2% and 15.1%** to HUF 23.1 and HUF 68.7 billion for Q4 2016 and full year 2016, respectively. The principal factor behind the decline was a significant decrease in the number and size of public contracts awarded to Magyar Telekom, following the conclusion of a seven-year EU funding cycle in 2015 and the consequent temporary stemming of EU fund inflows into Hungary, which was only in part compensated for by new contracts (mainly related to the public sector). Furthermore, 2015 SI/IT revenues were also boosted by large one-off projects in both Macedonia and Montenegro that were not repeated in 2016

- **Energy Service revenues decreased by 88.0% year-on-year to HUF 1.5 billion in Q4 2016**, due to transfer of the B2B energy business into the joint venture (E2) with MET Holding AG with effect from January 1, 2016. Full year 2016 energy service declined by 86.2% to HUF 6.8 billion (FY 2015: 49.3 billion) because of the same reason and also affected by the planned exit from the residential gas market as of August 1, 2015. It is still our intention to exit the residential electricity business, and we expect this will happen sometime in Q3 2017.

Direct costs decreased by 27.5% year-on-year to HUF 59.2 billion in Q4 2016, mainly due to a sharp decline in energy service related costs and lower SI/IT related costs, which compensated for the increase in other direct costs. The same drivers led to the 21.1% decline to HUF 196.9 billion for full year 2016 (FY 2015: HUF 249.4 billion)

- **Interconnection costs** decreased by 12.2% year-on-year to HUF 5.4 billion in Q4 2016 mainly driven by lower volumes of fixed line voice traffic in Hungary, and decreasing payments to domestic and international operators on account of lower voice and SMS traffic levels in both Macedonia and Montenegro. These same drivers were behind the 12.6% decline for the full year 2016 to HUF 21.9 billion, along with the sharp Hungarian MTR cut in Q1 2016

- **SI/IT service related costs** declined by 43.9% year-on-year in Q4 2016, outpacing the lower SI/IT revenues in Hungary and Macedonia, such that there was a significant improvement for the SI/IT gross margin to 39.0% (Q4 2015: 24.0%)

- **Energy service related costs** declined by 86.8% in Q4 2016 compared to Q4 2015 in line with the transfer of the B2B energy business into the joint venture (E2) with MET Holding AG

- **Bad debt expenses** were lower by HUF 1.5 billion year-on-year to HUF 2.0 billion in Q4 2016, primarily due to a significant impairment loss taken in Q4 2015 that related to a receivable due from a major Hungarian enterprise customer. There have been further improvements in the recovery of debts attributed to liquidity checks, factoring in the residential mobile business and a more efficient collection process, as well as an annual review of impairment rates in Macedonia

- **Other direct costs** increased by 4.6% year-on-year to HUF 36.1 billion in Q4 2016 due to higher TV and other content related costs (mainly attributable to the new content fee introduced in July 2016) and the increased costs of mobile equipment, accessories and other equipment sales in line with higher sales volumes

Gross profit decreased slightly versus Q4 2015 to HUF 99.6 billion in Q4 2016. Within Hungary, the improvement in SI/IT margins and bad debt expenses was more than matched by the decline in voice and fixed wholesale revenues, as well as higher other direct costs. In Macedonia, gross profit improved by 1.7% year-on-year to HUF 9.4 billion in Q4 2016 due mainly to significant direct cost savings; whilst in Montenegro, we witnessed a 10.5% decline, driven by the decreases in both voice and fixed broadband revenues coupled with higher cost of mobile equipment sale in line with increased equipment revenues, as well as higher commission costs. In terms of full year 2016, gross profit remained largely flat at HUF 405.8 billion (FY 2015: HUF 407.0 billion) as a result of the lower direct costs offsetting the 8.2% fall in overall revenues.

Indirect costs improved by 2.9% year-on-year to HUF 55.8 billion in Q4 2016, mainly due to a decline in employee-related expenses partly offset by higher other operating expenses at our Hungarian operations. At the same time, indirect costs for full year 2016 declined by 5.0% to HUF 208.7 billion (FY 2015: HUF 219.7 billion) thanks to the same reasons, also supported by the one-off gains related to the Origo sale and the real estate transaction (Infopark Building G).

- **Employee-related expenses** declined by 15.9% year-on-year to HUF 21.6 billion, driven by ca. HUF 1.1 billion lower severance expenses booked in Q4 2016 compared to the same period of 2015, as well as savings resulting from the 2014/2015 headcount reduction program in Hungary. Furthermore, employee-related expenses significantly improved in Montenegro on both a quarterly and a full year basis, thanks to the outsourcing of network planning and maintenance to Ericsson, as well as lower bonus levels booked in 2016. Meanwhile, in Macedonia, employee-related expenses increased due to higher levels of severance costs
- **Hungarian sector specific taxes** decreased by 2.1% year-on-year to HUF 6.0 billion in Q4 2016 due to a lower telecommunication tax expense as a result of changing customer behaviour. On a full year 2016 basis, such special tax expenses decreased by 4.1% to HUF 31.5 billion. In addition to lower telecommunication tax, the utility tax expense of HUF 7.3 billion recognized for the full year 2016 is HUF 0.4 billion lower than for full year 2015, primarily due to the five-year utility tax credit that was granted to Magyar Telekom Group on 25 June 2015 and which relates to the new network investments and upgrades aimed at providing internet access at the speed of at least 100 MB/s. Secondly, the utility tax for the full year that is booked in the first quarter witnessed a decrease due to a refinement in our records regarding the length of the taxable network
- **Other operating expenses** deteriorated by 7.3% year-on-year to HUF 30.8 billion in Q4 2016, driven by higher marketing expenses, enhanced sponsorship activity, increased maintenance, repairs, and remedial work expenses, as well as the parallel running of legacy and next generation IT platforms in Hungary. Furthermore, rental fees also increased related to the sale and subsequent leaseback of Infopark (Building G) and the rental of some local state-of-the-art cable networks, while maintenance costs also went up in Macedonia due to outsourcing to Ericsson
- **Other operating income** declined by 15.7% year-on-year to HUF 2.5 billion in Q4 2016 due to lower income from network construction works in Hungary, and a real estate sale in Macedonia that resulted in a one-off capital gain in the same period of 2015. On the other hand, other operating income for full year 2016 grew by HUF 4.1 billion due to the one-off profits realized on the Infopark (Building G) and the Origo sale in Q1 2016

EBITDA remained unchanged year-on-year at HUF 43.8 billion in Q4 2016, as lower direct costs compensated for lower revenues, leading to broadly stable gross profit; whilst savings in employee-related expenses and lower severance payment more than offset the increase in other operating expenses. The improved level of EBITDA in Hungary was largely matched by declines in both Macedonia and Montenegro. On a full year 2016 basis, Group EBITDA improved significantly by 5.2% to HUF 197.0 billion (FY 2015: 187.3 billion) boosted by the one-off profits in other operating income.

Depreciation and amortization expenses increased by 2.7% year-on-year in Q4 2016 to HUF 32.6 billion, and by 3.2% for the full year 2016 to HUF 117.5 billion (FY 2015: HUF 113.8 billion). Software activation related to the new billing and CRM (customer relationship management) systems contributed to this rise in depreciation costs in both Hungary and Montenegro on both a quarterly and a full year basis. Furthermore, capitalization of the recently acquired mobile frequencies and content rights at Crnogorski Telekom (Montenegro) was also a factor behind these higher costs. Helping to offset these rises was an extension of the useful economic lives of the optical cable assets in Macedonia which led to a 16.6% and 6.2% fall in deprecation at this unit in Q4 and FY 2016, respectively.

Net profit for the period improved by HUF 16.4 billion vs. Q4 2015 to HUF 20.5 billion in Q4 2016, as lower operating profits and a higher net financial loss were more than offset by the one-time income tax gain. For full year 2016, net profit improved by 81.4% to HUF 57.2 billion (FY 2015: HUF 31.5 billion), besides the one-off income tax item also driven by higher operating profit and a lower net financial loss due to a decline in interest expenses.

- **Net financial loss deteriorated** to HUF 7.5 billion in Q4 2016 (vs. Q4 2015: HUF 5.6 billion). The result was due to unfavourable change of HUF/EUR exchange rates (unchanged rates in Q4 2015 vs. 0.6% weakening in Q4 2016) and higher financial transactional losses more than offsetting improvement in other interest expenses. On a full year 2016 basis, the net financial loss narrowed HUF 26.8 billion (vs. FY 2015: 28.2 billion), primarily due to lower average interest rates, driven by favourable changes in the market conditions, and lower average levels of net debt
- **Income tax expense** decreased by HUF 19.1 billion and HUF 18.2 billion on quarterly and full year basis to HUF 16.8 billion and HUF 4.4 billion gain, respectively. The main reason for this change was the reduction in the corporate income tax rate from 19% to a flat rate of 9% as

of 1 January, 2017, which was reflected in the Q4 2016 deferred tax position. As a result, the amount of deferred tax liabilities declined by HUF 16.8 billion year-on-year

- **Profit attributable to non-controlling interests** remained unchanged (at HUF 0.8 billion) on a quarterly and declined on a full year basis to HUF 2.9 billion (FY 2015: HUF 3.8 billion). The latter was due to the lower profits for the period generated by the international subsidiaries

Net debt stood at HUF 376.6 billion as at 31 December 2016, a decrease of 8.0% compared to 12 months previously. Meanwhile, the **net debt ratio** (net debt to total capital) **improved to 39.3% at end-2016 (end-2015: 42.9%),** driven by this reduction in the net debt (short-term loans and other borrowings) coupled with a higher equity component driven by the improvement in this year's profit.

2.1.2 Group Cash Flow

HUF millions	1-12 months 2015	1-12 months 2016	Change
Operating cash flow	156 298	154 825	(1 473)
Investing cash flow	(97 513)	(89 199)	8 314
Less: Proceeds from other financial assets - net	(13 137)	(6 940)	6 197
Investing cash flow excluding Proceeds from other financial assets – net	(110 650)	(96 139)	14 511
Repayment of other financial liabilities	(18 923)	(8 676)	10 247
Free cash flow	**26 725**	**50 010**	**23 285**
Proceeds from other financial assets - net	13 137	6 940	(6 197)
Proceeds from/Repayment of loans and other borrowings - net	(30 160)	(40 423)	(10 263)
Dividend paid to shareholders and Non-controlling interests	(6 691)	(22 686)	(15 995)
Repurchase of treasury shares	0	(550)	(550)
Exchange differences on cash and cash equivalents	(78)	(44)	34
Change in cash and cash equivalents	**2 933**	**(6 753)**	**(9 686)**

Free cash flow

Operating cash flow

Net cash generated from operating activities amounted to HUF 154.8 billion in 2016, compared to HUF 156.3 billion in 2015. Main reasons for the decrease of HUF 1.5 billion were the following:

- HUF 9.7 billion positive change due to the higher EBITDA in 2016 than in 2015
- HUF 21 billion positive change in active working capital due to the transfer of the energy services for business customers to E2 and also due to the offsetting effect of the advance given to E2 in 2015. Furthermore the changed terms of the installment receivables in 2016 also contributed to this positive change through the decrease in installment receivables as the length of the installment period has been shortened
- HUF 5.0 billion negative change in active working capital due to higher level of inventory in 2016 than in 2015 as a result of business decision which was also triggered by volume discount
- HUF 6.1 billion negative change due to lower net addition to severance provision in 2016 than in 2015
- HUF 0.6 billion positive change due to higher net addition of litigation provision in 2016 than in 2015
- HUF 0.5 billion positive change in tax payments due to lower CIT tax payments in Macedonia in 2016 as a result of additional tax payment in 2015 related to the changes of the tax law, no such payment in 2016 which was partly offset by the higher local tax paid in 2016 than in 2015
- HUF 20.9 billion negative change in passive working capital due to the higher payment of the SI/IT services and also the higher payment of handset suppliers which was partly mitigated by the net lower payment of certain opex and group creditors and was also alleviated by lesser continuous decrease in the volume of energy suppliers in 2016 than in 2015 as a result of the launch of E2's operation in the energy market
- HUF 1.3 billion negative change in passive working capital due MTR debtor overpayments (invoiced and collected using old rate, accounted at new rate as revenue)
- HUF 4.4 billion positive change due to the lower interest paid mainly caused by the refinance of certain loans which resulted in more favorable credit terms
- HUF 4.4 billion negative change mainly due to the accounting net result of the sale of Origo Zrt and Infopark building

Investing cash flow excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF -96.1 billion in 2016, compared to HUF -110.6 billion in 2015. Main reasons for the HUF 14.5 billion lower cash outflow were the following:

- HUF 14.8 billion positive change mainly due to the net cost of the acquisition of GTS Hungary in Q2 2015
- HUF 3.4 billion negative effect due to more Capex spending in 2016 than in 2015 mainly caused by the purchase of the new spectrum in Montenegro, as opposed to the Capex spending in MT-Hungary segment which showed a decrease compared to the same period of 2015
- HUF 9.6 billion negative change due to higher amount of Capex creditors paid in 2016 than in 2015 which was partly offset by the EU government grant advance received in 2016
- HUF 3.4 billion positive change due to the sale of Origo Zrt.
- HUF 8.3 billion positive change due to the sale of buildings mainly due to the sale of Infopark building
- HUF 1.0 billion positive change due to the establishment of E2 Hungary Zrt. in 2015, there was no such payment in 2016

Repayment of other financial liabilities

Repayment of other financial liabilities decreased from HUF -18.9 billion in 2015 to HUF -8.7 billion in 2016. Main reason for the lower payment was the combined effect of the following:

- HUF 10.9 billion positive 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 2016.
- HUF 0.7 billion negative change due to higher payment of content right liability in 2016 than in 2015

Free cash flow (FCF) overall increased from HUF 26.7 billion in 2015 to HUF 50.0 billion in 2016 due to the reasons described above.

Proceeds from other financial assets - net

Proceeds from other financial assets - net decreased by HUF 6.2 billion, the reason for the decrease are the followings:

- HUF 5.7 billion lower cash inflows from derivatives in 2016 compared to 2015
- HUF 8.0 billion higher amount of Maktel's cash was invested as bank deposits over 3 months in 2016 in net terms
- HUF 7.5 billion lower amount of CT's cash was invested as bank deposits over 3 months in 2016 in net terms

Repayment of loans and other borrowings - net

The negative change was due to the higher loan repayment in 2016 to DTAG than in 2015.

Dividend paid to Owners of the parent and Non-controlling interest

Dividend paid to Owners of the parent and Non-controlling interest increased by HUF 16.0 billion mainly as a result of Magyar Telekom's dividend payment to its Owner and Non-controlling interest in 2016, there was no dividend payment in 2015

Repurchase of treasury shares

The change is due to the repurchase of treasury shares for ESOP (Employee Stock Ownership Plan) in 2016, there was no such payment in 2015

Exchange differences on cash and cash equivalents

The change in exchange differences on cash and cash equivalents had no significant effect in 2016 compared to 2015

The financial and operating statistics are available on the following website: http://www.telekom.hu/about_us/investor_relations/financial

2.1.3 Statements of Financial Position

The most significant change in the balances of the Statements of Financial Position from December 31 2015 to December 31 2016 can be observed in the following lines:

- Cash and cash equivalents and Other current financial assets
- Trade and other receivables
- Property plant and equipment and Intangible assets
- Financial liabilities to related parties (current and non-current parts)
- Retained earnings

Cash and cash equivalents decreased by HUF 6.8 billion and the Other current financial assets decreased by HUF 5.9 billion from December 31, 2015 to December 31, 2016. The decrease is partially due to the dividend payment to the non-controlling interest of the Montenegrin and Macedonian subsidiaries and on the other hand due to the payment for the right of use of the new frequency blocks by the Montenegrin subsidiary. Further details of changes of Cash and cash equivalents are covered by the Consolidated Statement of Cash flows.

Trade and other receivables decreased by HUF 5.1 billion from December 31, 2015 to December 31, 2016. The decrease is mainly due to the decrease of the energy related receivables due to the exit from the energy business. E2 Hungary Zrt. launched its operation from January 1, 2016 and started to provide energy services for business customers.

Property plant and equipment (PPE) and intangible assets (including Goodwill) together decreased by HUF 10.6 billion from December 31, 2015 to December 31, 2016. The main reason for the decrease is that the depreciation and scrapping of assets exceeded the capital expenditure of assets.

The current and non-current parts of Financial liabilities to related parties together decreased by HUF 37.2 billion from December 31, 2015 to December 31, 2016. The change is mainly caused by the repayment of DT group loans.

Deferred tax liabilities decreased by HUF 15.1 billion from December 31 2015 to December 31 2016. The main reason for the decrease is due to the decrease of Hungarian corporate income tax rate from 10%/19% to 9% flat rate as of 1 January 2017.

Retained earnings increased by HUF 38.6 billion from December 31, 2015 to December 31, 2016. The change is due to the HUF 54.3 billion increase of the profit attributable to owners of the parent generated in 2016 year-to-date opposed to the HUF 15.6 billion decrease as a result of the dividend declaration for 2015.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2015 to December 31, 2016. 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 2016 and the related explanations provided above in section 13.14 Cash flows.

2.1.4 Related party transactions

There have not been any significant changes in related party transactions during 2016 since the most recent annual financial reports.

2.1.5 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

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

Guarantees

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 10.2 billion as at December 31, 2016 (2015: HUF 11.3 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 2016 or 2015, 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 2016.

2.1.6 Significant events

2.1.6.1 Sale of Crnogorski Telekom A.D.

On January 10, 2017, the Company signed a share purchase agreement with Hrvatski Telekom d.d. for the disposal of the total of its 76.53% stake in Crnogorski Telekom A.D. for a total consideration of EUR 123.5 million (approximately HUF 38.1 billion). The closing of the transaction took place on January 31 2017.

2.1.6.2 Acquisition of ServerInfo-Ingatlan Kft.

In October 2016 T-Systems Magyarország Zrt. signed an agreement with WING Group to buy 100% of ServerInfo-Ingatlan Kft. As a result of the transaction Magyar Telekom Group gained ownership of the property where its highly secure data center with state of the art technical infrastructure is located. The value of the transaction was EUR 14.4 million (approximately HUF 4.4 billion). ServerInfo-Ingatlan Kft. manages the rentals and the maintenance of the property where the data center of T-Systems Magyarország Zrt. is located. The majority of the consideration relates to the fair value of the property. The closing of the transaction took place in January, 2017.

2.2. Segment reports

Magyar Telekom introduced a new reporting structure from the beginning of 2016 aimed at providing further simplification to the Company's operations from a managerial perspective. The Group's new operating segments are MT-Hungary, Macedonia and Montenegro. MT-Hungary includes the former T-Hungary segment (residential and small and medium business (SMB) customers) and former T-Systems (enterprise segment). The Macedonia and Montenegro segments have not changed.

The MT-Hungary segment operates in Hungary providing mobile and fixed line telecommunications, TV distribution, information communication and system integration services to millions of residential and business customers under the Telekom and T-Systems brands. Residential along with SMB customers are served by the Telekom brand and key business customers (large corporate and public sector customers) are served by the T-Systems brand. The MT-Hungary segment is also responsible for the wholesale of mobile and fixed line services within 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. The Group also has full-scale mobile and fixed line telecommunications operations in Macedonia and Montenegro (up to end-January 2017), which represent two additional operating segments of the Group.

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 key indicators of profitability that are considered for the purposes of assessing performance and allocating resources. It is the Management's belief that Revenue, EBITDA and Capex are the most appropriate indicators for monitoring each segment's performance and most consistent with how the Group's results are reported in the statutory financial statements.

2.2.1 MT-Hungary

Growth in mobile equipment and broadband, managed fixed line decline, slow-down in SI/IT

HUF million	Q4 2015	Q4 2016	Change	Change (%)	1-12 months 2015	1-12 months 2016	Change	Change (%)
Voice	35,951	34,289	(1,662)	(4.6%)	146,861	139,050	(7,811)	(5.3%)
Non-voice	17,845	18,700	855	4.8%	69,219	73,126	3,907	5.6%
Other	16,742	17,882	1,140	6.8%	54,963	63,420	8,457	15.4%
Total mobile revenues	**70,538**	**70,871**	**333**	**0.5%**	**271,043**	**275,596**	**4,553**	**1.7%**
Voice retail	11,623	10,768	(855)	(7.4%)	47,949	44,488	(3,461)	(7.2%)
Broadband - retail	11,009	10,879	(130)	(1.2%)	42,740	43,675	935	2.2%
TV	9,669	9,779	110	1.1%	37,227	38,833	1,606	4.3%
Other	14,301	12,188	(2,113)	(14.8%)	47,001	46,133	(868)	(1.8%)
Fixed line revenues	**46,602**	**43,614**	**(2,988)**	**(6.4%)**	**174,917**	**173,129**	**(1,788)**	**(1.0%)**
SI/IT revenues	32,299	22,486	(9,813)	(30.4%)	77,376	65,491	(11,885)	(15.4%)
Revenue from Energy services	12,630	1,516	(11,114)	(88.0%)	49,280	6,778	(42,502)	(86.2%)
Total revenues	**162,069**	**138,487**	**(23,582)**	**(14.6%)**	**572,616**	**520,994**	**(51,622)**	**(9.0%)**
Direct cost	**(75,222)**	**(52,795)**	**22,427**	**29.8%**	**(224,087)**	**(171,784)**	**52,303**	**23.3%**
Gross profit	**86,847**	**85,692**	**(1,155)**	**(1.3%)**	**348,529**	**349,210**	**681**	**0.2%**
Telecom tax	(6,113)	(5,984)	129	2.1%	(25,223)	(24,260)	963	3.8%
Utility tax	0	0	0	n.a.	(7,649)	(7,265)	384	5.0%
Other operating expenses (net)	(44,411)	(42,119)	2,292	5.2%	(159,926)	(148,765)	11,161	7.0%
EBITDA	**36,323**	**37,589**	**1,266**	**3.5%**	**155,731**	**168,920**	**13,189**	**8.5%**
Segment Capex	**41,226**	**36,500**	**(4,726)**	**(11.5%)**	**94,298**	**87,572**	**(6,726)**	**(7.1%)**
o/w Mobile frequency licenses	502	0	(502)	(100.0%)	502	0	(502)	(100.0%)

Operational statistics – access numbers	Dec 31, 2015	Dec 31, 2016	Change (%)
Number of mobile customers (RPC)	5,503,966	5,331,986	(3.1%)
Postpaid share in the RPC base	56.4%	59.2%	n.a.
Total fixed voice access	1,460,762	1,422,589	(2.6%)
Total retail fixed broadband customers	996,471	1,015,516	1.9%
Total TV customers	961,775	969,013	0.8%

Operational statistics – ARPU (HUF)	Q4 2015	Q4 2016	Change (%)	1-12 months 2015	1-12 monts 2016	Change (%)
Mobile ARPU	3,278	3,326	1.5%	3,291	3,302	0.3%
Postpaid ARPU	4,927	4,882	(0.9%)	4,981	4,873	(2.2%)
Prepaid ARPU	1,154	1,085	(6.0%)	1,172	1,119	(4.5%)
Blended fixed voice ARPU	2,691	2,502	(7.0%)	2,714	2,569	(5.3%)
Blended retail fixed broadband ARPU	3,641	3,557	(2.3%)	3,609	3,612	0.1%
Blended TV ARPU	3,373	3,325	(1.4%)	3,287	3,332	1.3%

Total revenues decreased by 14.6% vs. Q4 2015, primarily due to the transfer of the B2B energy business into the E2 joint venture with MET Holding AG with effect from January 1, 2016 coupled with lower SI/IT and fixed line revenues. At the same time, mobile revenues increased slightly, driven by higher equipment revenues related to increased smartphone sales and third party export sales, coupled with mobile broadband revenue growth. For the full year 2016, total revenues declined by 9.0% versus 2015 for similar reasons.

- **Mobile revenues** increased slightly (+0.5% vs. Q4 2015) as growth in equipment and mobile broadband revenues were partly offset by a contraction in mobile voice revenues. We witnessed Vodafone starting to become more aggressive in terms of going after increased market share in both the retail and the business mobile markets. The retail market was affected by the introduction of lowly priced prepaid offers, while the business mobile market continued to face very strong price competition. Despite these headwinds, we managed to increase our postpaid ratio by 2.8 percentage points to 59.2%, this improvement in the customer mix leading to a higher blended ARPU (+1.5%). The performance of Magenta 1, our flagship product, was also very successful, almost 114,000 subscribers have chosen this high-value 4Play package as at the end of December 2016 vs. 28,000 at the end of 2015.
  - **Mobile voice revenues** decreased by 4.6% as the decline in total customers (mainly in the business segment) coupled with lower roaming revenues in line with EU regulation could not be offset by the higher blended ARPU and the increasing popularity of our flat rate Next tariff base, in turn driven by the continuing success of our 4Play Magenta 1 offer
  - **Mobile non-voice revenues** rose by 4.8% driven by growth in mobile broadband, comprised of a continuing increase in smartphone penetration rates and to a lesser extent, a steady rise in average usage levels by subscriber
  - **Other revenues** increased by 6.8% due to higher equipment and accessories sales (in line with the increase in smartphone sales) and a rise in third party export sales
  - **For the full year 2016, total mobile revenues** grew by 1.7% compared to 2015 for the same reasons described above i.e. that improved mobile broadband and equipment revenues were partly offset by a contraction in mobile voice revenues, compounded by the MTR cut that came into effect in Hungary on April 1, 2015, thereby negatively impacting like-for-like Q1 2016 results
- **Fixed line revenues** declined by 6.4% as the structural decline in voice retail continued which along with falls in broadband retail and other revenues more than offset the sustained momentum of TV. During Q4 2016, as part of a portfolio cleaning exercise, long-standing non-paying customers for fixed line voice, broadband and TV services were forced to disconnect. This negatively impacted our fixed line subscriber base by 16k in fixed line voice, 19k in fixed broadband and 22k in TV. Stripping out the exceptional negative revenue impact of these customers would lower the decline in overall fixed revenues to 5.4% for Q4 2016 year-on-year.
  - **Voice retail revenues** declined by 7.4% due to falls in the customer base, tariff levels and usage levels
  - **Broadband retail revenues** declined slightly, by 1.2%, as the enlarged customer base (despite the disconnections) could not offset the effect of a marginally lower ARPU (-2.3%), the result of intense competition driven by our two biggest local competitors, Digi and UPC
  - **TV revenues,** driven by our continued focus on IPTV, **rose** by 1.1%, with the small rise in the customer base held back by a slightly lower ARPU on account of increasingly competitive regional 3Play offers
  - **Other fixed line revenues** decreased by 14.8% due to the deconsolidation of Origo, lower fixed equipment sales (TV sets, tablets and laptops) and less revenues from network building for third parties
  - **For the full year 2016, fixed line revenues** declined by 1.0% compared to 2015 for the same reasons described above but boosted by the positive impact of having a full 12 months' contribution from the acquisition of GTS (completed in Q2 2015); also, thanks to our successful upgrade to higher bandwidth packages, we managed to keep ARPU stable over the full year, which coupled with the higher subscriber base led to an overall 2.2% increase in broadband retail revenues compared to the previous year

- **SI/IT revenues declined by 30.4%** due to a significant fall in the number and size of EU funded public contracts awarded and a very strong Q4 2015 comparative
  - Conclusion of a seven-year EU funding cycle in 2015 led to a temporary stemming of EU fund inflows into Hungary (winning of new contracts, mainly in the public sector was insufficient to make up the shortfall)
  - **Gross profit improved** to 42.0% (Q4 2015: 32.5%) as a result of continued focus on the higher margin system integration projects
  - **For the full year 2016, revenues** declined by 15.4% vs. 2015 for the same reasons described above

Energy services	**Dec 31, 2015**	**Dec 31, 2016**	**Change (%)**
Electricity points of delivery	106,564	92,486	(13.2%)
Gas points of delivery	7,427	0	n.a.

- **Energy services revenues decreased by** 88.0% due to the transfer of the B2B energy business into the E2 joint venture with MET Holding AG with effect from January 1, 2016
  - **For the full year 2016, energy revenues declined by 86.2%** for the same reason described above, coupled with the exit from the residential business on August 1, 2015
- **EBITDA increased by 3.5%** due to lower severance payments, coupled with savings from the 2014/2015 headcount reduction, more than offsetting the marginal decline in gross profit and a rise in other operating expenses
  - **Gross profit** declined by 1.3% as improved SI/IT margins and lower bad debt expenses were more than offset by higher other direct costs (driven by increased low margin mobile equipment sales and the new TV content fee introduced in July 2016)
  - **Other operating expenses** increased by 4.9%, due to higher maintenance, repairs, and remedial work expenses, higher network rental fees in relation to local cable and fiber network rentals, increased marketing expenses and sponsorship activities and increased office rental fees following the sale of Infopark (building G)
  - **For the full year 2016, EBITDA increased by 8.5%** vs. 2015 for the same reasons described above, coupled with the one-off profits realized on the sale Infopark (building G) and the Origo sale, both recognized in Q1 2016
- **Capex for the full year 2016 decreased by 7.1% vs. 2015** as the higher spending on our 4G network and transformation and simplicity projects in 2016 was more than offset by lower investment in the consolidation of our TV platform, CRM and billing systems and PSTN migration. Capex incurred in 2015 relating to the reshuffling of frequencies amongst within the three telecommunication service providers was not repeated during 2016

Outlook: Magyar Telekom is facing several competitive and regulatory risks to growth in 2017 including the expected entry of Digi into the mobile market and the ongoing obligation to register prepaid SIMs, whilst both the prepaid and business mobile segments remain very competitive as is the case within fixed line with increasingly competitive regional 3Play offers. However, as an integrated operator, we believe that we are well positioned to address these challenges in terms of maximizing the telecommunication share of the household spending wallet by further expansion of our 4Play Magenta 1 subscriber base, a bundled offering that largely differentiates us from our competitors.
During the last two years, we have rolled-out high speed internet access to over one million households in Hungary, and by the end of December 2016, in excess of 2.8 million households were covered by these networks. We plan to continue the fixed network investments, although on a lower scale than in the last two years, and a proportion of these investments will be supported by EU funds. We expect to monetize these network investments with penetration figures continuing on their upwards trajectory and further expansion of the share of higher bandwidth package subscribers within the overall customer mix. Moreover, we anticipate the SI/IT market will continue to grow, underpinned by higher EU fund inflows and it is our intention to increase our share of that growing market through a greater focus on high margin system integration projects.

2.2.2 Macedonia

Strong EBITDA (excluding severance), mobile market share continued to increase

HUF million	Q4 2015	Q4 2016	Change	Change (%)	1-12 months 2015	1-12 months 2016	Change	Change (%)
Voice	4,649	4,477	(172)	(3.7%)	19,141	18,261	(880)	(4.6%)
Non-voice	2,419	2,917	498	20.6%	8,775	10,643	1,868	21.3%
Other	318	393	75	23.6%	1,456	1,713	257	17.7%
Total mobile revenues	**7,386**	**7,787**	**401**	**5.4%**	**29,372**	**30,617**	**1,245**	**4.2%**
Voice retail	1,842	1,534	(308)	(16.7%)	6,410	5,687	(723)	(11.3%)
Broadband - retail	1,671	1,392	(279)	(16.7%)	5,626	5,617	(9)	(0.2%)
TV	315	789	474	150.5%	2,608	3,026	418	16.0%
Other	1,971	1,659	(312)	(15.8%)	7,666	6,647	(1,019)	(13.3%)
Fixed line revenues	**5,799**	**5,374**	**(425)**	**(7.3%)**	**22,310**	**20,977**	**(1,333)**	**(6.0%)**
SI/IT revenues	576	333	(243)	(42.2%)	1,926	1,820	(106)	(5.5%)
Total revenues	**13,761**	**13,494**	**(267)**	**(1.9%)**	**53,608**	**53,414**	**(194)**	**(0.4%)**
Direct cost	**(4,518)**	**(4,095)**	**423**	**9.4%**	**(16,573)**	**(16,578)**	**(5)**	**(0.0%)**
Gross profit	**9,243**	**9,399**	**156**	**1.7%**	**37,035**	**36,836**	**(199)**	**(0.5%)**
Other operating expenses (net)	(4,292)	(4,720)	(428)	(10.0%)	(16,224)	(17,674)	(1,450)	(8.9%)
EBITDA	**4,951**	**4,679**	**(272)**	**(5.5%)**	**20,811**	**19,162**	**(1,649)**	**(7.9%)**
Segment Capex	**5,677**	**5,678**	**1**	**0.0%**	**10,556**	**10,306**	**(250)**	**(2.4%)**

Operational statistics – access numbers	**Dec 31, 2015**	**Dec 31, 2016**	**Change (%)**
Number of mobile customers	1,229,655	1,257,887	2.3%
Postpaid share in the customer base	37.3%	41.9%	n.a.
Total fixed voice access	224,802	216,832	(3.5%)
Total retail fixed broadband customers	165,497	165,770	0.2%
Total TV customers	103,422	107,672	4.1%

In Q4 2016, we witnessed a strong mobile performance which somewhat compensated for lower fixed line and SI/IT revenues, resulting in a 1.9% decline in total revenues year-on-year. Similar trends were behind the broadly unchanged revenues for the full year 2016 results. However, we are now starting to see signs of competition intensifying in both the fixed line and mobile businesses, with VIP having largely completed the integration of the ONE acquisition that occupied much of its attention for the past year.

- **Mobile revenues** have increased for the fourth consecutive quarter. The growth in Q4 2016 (+5.4% vs. Q4 2015) reflects the success of our Christmas sale and the continuing popularity of our Magenta 1 offer, which has been further tailored to meet the demands of the younger demographic
  - Principal components of this growth were the larger overall mobile customer base coupled with an increased postpaid share thanks to our focus on this segment and on integrated fixed-mobile services. Our mobile market share continued to increase, exceeding 50% by the end of December 2016, with 41.9% of our customers subscribed to a postpaid package vs. 37.3% a year ago
  - Voice revenues decreased by 3.7%, driven by a decline in the size of the prepaid customer base and associated usage levels, a contraction in roaming revenues resulting from the Balkan roaming agreement and less international traffic due to the increased take-up of OTT services. Despite an improvement in postpaid ARPU and an enlarged postpaid subscriber base (both in absolute terms and relative share), the rate of decline in ARPU for the prepaid segment was such that the blended overall ARPU was slightly lower
  - Non-voice revenues increased by 20.6% due to growth in excess of 20% in the mobile broadband customer base, along with higher levels of usage that contributed to higher ARPUs
  - Other mobile revenues rose significantly by 23.6% due to higher equipment sales stemming from the higher average price of handsets, as well as growing sales of accessories. Increased visitor revenues and late payment fees lent further support to this revenue growth
  - Full year 2016 mobile revenues improved by 4.2% compared to 2015 for the same reasons described above

- **Fixed line revenues** continued their decline, down by 7.3% vs. Q4 2015, mainly driven by lower voice-retail and wholesale revenues
  - Voice retail revenues declined by 16.7%, reflecting lower traffic levels and a smaller customer base
  - Broadband retail revenues declined by 16.7% with underlying revenues, excluding the one-off negative adjustments relating to the break-down of FMC products, broadband retail revenues were only marginally down
  - TV revenues were up by 150.5%, boosted by reclassification of FMC products; eliminating this effect, underlying TV revenues improved by 13.8% driven by growth in the IPTV subscriber base as well as higher ARPUs
  - Other fixed revenues declined by 15.8% due to lower sales of equipment (such as TV sets, tablets and laptops), a smaller contribution from leased line services and lower incoming domestic and international traffic volumes and prices negatively impacting wholesale revenues
  - Full year 2016 fixed line revenues declined by 6.0% compared to 2015 for the same reasons described above
- **System Integration/IT revenues** fell significantly, by 42.2% vs. Q4 2015, due to exceptionally high revenues recorded 12 months previously that were not repeated and which related to a governmental SI/IT project
  - Despite the sharp year-on-year decline in Q4 2016, SI/IT revenues for full year 2016 have contracted at a far slower pace (down by 5.5% vs. FY 2015) thanks to increased revenues from customised solution projects in the first half of the year
- **EBITDA declined by 5.5%** vs. Q4 2015 due to higher employee-related expenses and lower other operating income more than offsetting the 1.7% improvement in the gross profit
  - Bad debt expenses improved thanks to a recent collection campaign and annual review of impairment rates in December 2016, while other direct costs declined in line with lower sales of fixed equipment
  - Employee related costs increased by 10.8% driven by higher severance expenses related to a voluntary headcount reduction program in December 2016, offset to a degree by a lower headcount
  - Maintenance costs increased driven by outsourcing to Ericsson, partly mitigated by savings due to the lower headcount
  - Full year 2016 EBITDA decreased by 7.9% compared to 2015 as a result of higher employee-related costs and lower other operating income, which was boosted by a one-time real estate sale in the same period of 2015
- **Capex for the full year 2016 decreased slightly, by 2.4%** vs. 2015, mainly due to lower investments in IT, in customer-premises equipment related to Fibre To The Home (FTTH), in facility and shop projects, as well as lower Capex for TV content

Outlook: Despite the risks presented by the current political environment in Macedonia and competition intensifying, we believe that a stabilization in revenues, as well as cost efficiency improvements, will soon lead to EBITDA returning to sustainable growth.

2.2.3 Montenegro

Sustained regulatory and competitive pressures in the Montenegrin market

HUF million	Q4 2015	Q4 2016	Change	Change (%)	1-12 months 2015	1-12 months 2016	Change	Change (%)
Voice	2,157	1,912	(245)	(11.4%)	8,375	8,204	(171)	(2.0%)
Non-voice	909	1,477	568	62.5%	4,602	4,911	309	6.7%
Other	127	150	23	18.1%	664	604	(60)	(9.0%)
Total mobile revenues	**3,193**	**3,539**	**346**	**10.8%**	**13,641**	**13,719**	**78**	**0.6%**
Voice retail	1,312	915	(397)	(30.3%)	5,389	4,353	(1,036)	(19.2%)
Broadband - retail	927	781	(146)	(15.7%)	3,647	3,335	(312)	(8.6%)
TV	597	565	(32)	(5.4%)	2,305	2,315	10	0.4%
Other	869	840	(29)	(3.3%)	3,817	3,479	(338)	(8.9%)
Fixed line revenues	**3,705**	**3,101**	**(604)**	**(16.3%)**	**15,158**	**13,482**	**(1,676)**	**(11.1%)**
SI/IT revenues	232	320	88	37.9%	1,701	1,447	(254)	(14.9%)
Total revenues	**7,130**	**6,960**	**(170)**	**(2.4%)**	**30,500**	**28,648**	**(1,852)**	**(6.1%)**
Direct cost	**(2,105)**	**(2,464)**	**(359)**	**(17.1%)**	**(9,041)**	**(8,821)**	**220**	**2.4%**
Gross profit	**5,025**	**4,496**	**(529)**	**(10.5%)**	**21,459**	**19,827**	**(1,632)**	**(7.6%)**
Other operating expenses (net)	(2,740)	(2,447)	293	10.7%	(10,760)	(10,388)	372	3.5%
EBITDA	**2,285**	**2,049**	**(236)**	**(10.3%)**	**10,699**	**9,439**	**(1,260)**	**(11.8%)**
Segment Capex	**3,259**	**3,428**	**169**	**5.2%**	**5,249**	**15,532**	**10,283**	**195.9%**
o/w Mobile frequency licenses	0	0	0	n.a.	0	8,481	8,481	n.a.

Operational statistics – access numbers	Dec 31, 2015	Dec 31, 2016	Change (%)
Number of mobile customers	329,844	361,149	9.5%
Postpaid share in the customer base	47.0%	51.3%	n.a.
Total fixed voice access	144,466	132,887	(8.0%)
Total retail fixed broadband customers	90,371	84,842	(6.1%)
Total TV customers	60,812	59,489	(2.2%)

In Q4 2016, competitive and regulatory pressures continued to be felt across all major revenue lines, resulting in a 2.4% decline in **total revenues** year-on-year. This decline was smaller than it has been in previous quarters, principally driven by exceptionally high mobile equipment revenues.

- **Mobile revenues** increased 10.8% vs. Q4 2015 due to higher equipment sales and data revenues, both of which were driven by one-off events. Equipment revenues increased thanks to a one-time wholesale deal, where we resold a high amount of mobile handsets, while the year-on-year increase in non-voice revenues was driven by a negative technical billing correction taken in the fourth quarter of 2015
  - In terms of the primary business drivers, we continued to enlarge our 4Play Magenta 1 subscriber base which had a positive impact on mobile ARPUs and subscriber growth, resulting in a 19% increase in our postpaid customer base whose share now exceeds 50% of the overall customer base
  - Full year 2016 mobile revenues slightly increased by 0.6% compared to 2015 as the higher equipment revenues were able to offset the lower voice wholesale revenues, the lower Balkan roaming rates and a decline in SMSs sent due to the increasing popularity of OTT services
- **Fixed line revenues** declined further, down by 16.3% vs. Q4 2015, mainly due to lower fixed line voice and broadband revenues
  - Voice retail revenues declined by 30.3%, due to regulatory price caps and ongoing mobile substitution
  - Broadband retail revenues dropped by 15.7%, along with a 5.4% decline in revenues from TV, due to the intensification of competition from cable companies offering 3Play packages
  - Other fixed line revenues declined by 3.3% as lower fixed wholesale revenues, due to lower levels of incoming domestic and international traffic, more than offset the slightly higher revenues from fixed equipment sales
  - Full year 2016 fixed line revenues declined by 11.1% compared to 2015 for the same reasons described above factors
- **SI/IT revenues** increased by 37.9% compared to the same period of last year, as following a very strong performance during the first nine months in 2015, the number of projects delivered was exceptionally low in Q4 2015, serving as basis for the year-on-year comparison
  - Full year 2016 SI/IT revenues were down by 14.9% compared to 2015 due to large one-off projects that were not repeated in 2016

- **EBITDA declined by 10.3% vs. Q4 2015** as the decline in gross profit could not be offset by the savings in employee-related expenses. The 10.5% decline in gross profit principally reflects the fall in total revenues, due to ongoing competitive pressures across all business lines, coupled with higher direct costs (principally costs of mobile equipment sales and commission costs)
  - Employee-related expenses declined by 35.4%, driven by the outsourcing of network planning and maintenance activities since August 2015
  - At the same time other operating expenses increased by 19.4% due to higher municipality taxes (reversal of accruals in Q4 2015) and rental costs driven by increased rental costs for base stations
  - Full year 2016 EBITDA declined by 11.8% compared to 2015 driven principally by the 7.6% decline in the gross profit and higher other operating expenses mainly driven by the outsourcing deal with Ericsson (overall there is significant profit deriving from the project)
- **Capex for the full year 2016 increased** by HUF 10.3 billion to HUF 15.5 billion vs. 2015, due to the frequency usage rights renewal and the one-off license fee for the new spectrum licenses (together coming to HUF 8.5 billion) and further investment into the fixed line network

Outlook: As announced on January 10, 2017, Magyar Telekom has disposed of its majority stake in Crnogorski Telekom for a transaction price of EUR 123.5 million (approximately HUF 38.1 billion at the January 9, 2017 HUF/EUR exchange rate of 308.7). The disposal of this stake is in line with Magyar Telekom's renewed focus on its Hungarian operations where efforts are underway to further strengthen the Company's position in the mobile market and its ICT capabilities, alongside maintaining investment in our fixed networks and raising penetration levels in those areas already served by high speed internet access. In addition, following this transaction, there has been an acceleration in the recent downward trend in the net debt ratio (net debt/total capital) to 39.3% as at end-2016 (end-2015: 42.9%). The transaction closed at the end of January 2017; following this date, the Montenegrin operations will no longer be consolidated into Magyar Telekom Group's financials.

3. APPENDIX

3.1. Basis of preparation

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, 2015, 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, 2015 have been filed with the Budapest Stock Exchange and the Central Bank of Hungary. The statutory accounts for December 31, 2015 were audited and the audit report was unqualified.

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, 2015 with the following exception.

As of January 1, 2016 the Group adopted the following IFRS amendment: **IFRS 11 (amended)**

The amendment to IFRS 11 explicitly requires the acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the principles on business combinations accounting in IFRS 3. The application of the amended standard did not result in significant changes in the financial statements of the Group, therefore no restatement of the previously reported balances is necessary.

3.2. Consolidated Statements of Profit or loss and other comprehensive income – quarterly year-on-year comparison

MAGYAR TELEKOM Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q4 2015 (Unaudited)	Q4 2016 (Unaudited)	Change	Change (%)
Revenues				
Voice retail (mobile)	39,672	37,849	(1,823)	(4.6%)
Voice wholesale (mobile) MTC, incoming	3,085	2,829	(256)	(8.3%)
Data (mobile)	15,023	16,667	1,644	10.9%
SMS	4,675	4,631	(44)	(0.9%)
Equipment (mobile)	14,938	16,827	1,889	12.6%
Other mobile revenues	3,724	3,412	(312)	(8.4%)
Mobile revenues	**81,117**	**82,215**	**1,098**	**1.4%**
Voice retail (fix)	14,777	13,217	(1,560)	(10.6%)
Broadband retail (fix)	13,607	13,052	(555)	(4.1%)
TV (fix)	10,581	11,133	552	5.2%
Equipment (fix) (Sale of devices and accessories)	2,860	2,420	(440)	(15.4%)
Data retail (fix)	2,678	2,570	(108)	(4.0%)
Wholesale (fix)	5,916	5,084	(832)	(14.1%)
Other fixed line revenues	5,617	4,505	(1,112)	(19.8%)
Fixed line revenues	**56,036**	**51,981**	**(4,055)**	**(7.2%)**
System Integration/Information Technology revenues	33,101	23,116	(9,985)	(30.2%)
Energy service revenues	12,630	1,516	(11,114)	(88.0%)
Total revenues	**182,884**	**158,828**	**(24,056)**	**(13.2%)**
Direct costs				
Interconnect costs	(6,175)	(5,420)	755	12.2%
SI/IT service related costs	(25,154)	(14,102)	11,052	43.9%
Energy service related costs	(12,446)	(1,648)	10,798	86.8%
Bad debt expense	(3,442)	(1,957)	1,485	43.1%
Other direct costs	(34,540)	(36,120)	(1,580)	(4.6%)
Direct costs	**(81,757)**	**(59,247)**	**22,510**	**27.5%**
Gross margin	**101,127**	**99,581**	**(1,546)**	**(1.5%)**
Employee related expenses	(25,635)	(21,555)	4,080	15.9%
Hungarian sector specific special taxes	(6,113)	(5,984)	129	2.1%
Other operating expenses	(28,669)	(30,757)	(2,088)	(7.3%)
Other operating income	3,020	2,546	(474)	(15.7%)
EBITDA	**43,730**	**43,831**	**101**	**0.2%**
Depreciation and amortization	(31,746)	(32,603)	(857)	(2.7%)
Operating profit	**11,984**	**11,228**	**(756)**	**(6.3%)**
Net financial result	(5,601)	(7,529)	(1,928)	(34.4%)
Share of associates' and joint ventures' results	0	32	32	n.a.
Profit before income tax	**6,383**	**3,731**	**(2,652)**	**(41.5%)**
Income tax	(2,280)	16,790	19,070	n.m.
Profit for the period	**4,103**	**20,521**	**16,418**	**400.1%**
Change in exchange differences on translating foreign operations	48	685	637	n.m.
Revaluation of available-for-sale financial assets	69	37	(32)	(46.4%)
Other comprehensive income for the period	117	722	605	n.m.
Total comprehensive income for the period	**4,220**	**21,243**	**17,023**	**403.4%**
Profit attributable to:				
Owners of the parent	3,353	19,754	16,401	489.1%
Non-controlling interests	750	767	17	2.3%
	4,103	**20,521**	**16,418**	**400.1%**
Total comprehensive income attributable to:				
Owners of the parent	3,476	20,224	16,748	481.8%
Non-controlling interests	744	1,019	275	37.0%
	4,220	**21,243**	**17,023**	**403.4%**
Basic earnings per share (HUF)	**3.22**	**18.97**	**15.75**	**489.1%**
Diluted earnings per share (HUF)	**3.22**	**18.93**	**15.71**	**487.9%**

3.3. Consolidated Statements of Profit or loss and other comprehensive income – year-to-date comparison

MAGYAR TELEKOM Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	1-12 months 2015 (Audited)	1-12 months 2016 (Unaudited)	Change	Change (%)
Revenues				
Voice retail (mobile)	158,399	153,824	(4,575)	(2.9%)
Voice wholesale (mobile) MTC, incoming	15,978	11,691	(4,287)	(26.8%)
Data (mobile)	59,266	64,768	5,502	9.3%
SMS	18,564	18,077	(487)	(2.6%)
Equipment (mobile)	46,922	56,713	9,791	20.9%
Other mobile revenues	14,904	14,856	(48)	(0.3%)
Mobile revenues	**314,033**	**319,929**	**5,896**	**1.9%**
Voice retail (fix)	59,748	54,528	(5,220)	(8.7%)
Broadband retail (fix)	52,013	52,627	614	1.2%
TV (fix)	42,140	44,174	2,034	4.8%
Equipment (fix) (Sale of devices and accessories)	8,200	6,524	(1,676)	(20.4%)
Data retail (fix)	10,744	10,399	(345)	(3.2%)
Wholesale (fix)	21,636	21,301	(335)	(1.5%)
Other fixed line revenues	17,551	17,656	105	0.6%
Fixed line revenues	**212,032**	**207,209**	**(4,823)**	**(2.3%)**
System Integration/Information Technology revenues	80,997	68,735	(12,262)	(15.1%)
Energy service revenues	49,280	6,778	(42,502)	(86.2%)
Total revenues	**656,342**	**602,651**	**(53,691)**	**(8.2%)**
Direct costs				
Interconnect costs	(25,097)	(21,930)	3,167	12.6%
SI/IT service related costs	(54,524)	(40,098)	14,426	26.5%
Energy service related costs	(47,919)	(6,779)	41,140	85.9%
Bad debt expense	(9,537)	(8,508)	1,029	10.8%
Other direct costs	(112,300)	(119,554)	(7,254)	(6.5%)
Direct costs	**(249,377)**	**(196,869)**	**52,508**	**21.1%**
Gross margin	**406,965**	**405,782**	**(1,183)**	**(0.3%)**
Employee related expenses	(95,160)	(83,327)	11,833	12.4%
Hungarian sector specific special taxes	(32,872)	(31,525)	1,347	4.1%
Other operating expenses	(98,503)	(104,881)	(6,378)	(6.5%)
Other operating income	6,871	10,990	4,119	59.9%
EBITDA	**187,301**	**197,039**	**9,738**	**5.2%**
Depreciation and amortization	(113,784)	(117,476)	(3,692)	(3.2%)
Operating profit	**73,517**	**79,563**	**6,046**	**8.2%**
Net financial result	(28,176)	(26,815)	1,361	4.8%
Share of associates' and joint ventures' results	0	78	78	n.a.
Profit before income tax	**45,341**	**52,826**	**7,485**	**16.5%**
Income tax	(13,794)	4,397	18,191	n.m.
Profit for the period	**31,547**	**57,223**	**25,676**	**81.4%**
Change in exchange differences on translating foreign operations	(845)	(562)	283	33.5%
Revaluation of available-for-sale financial assets	44	64	20	45.5%
Other comprehensive income for the period	(801)	(498)	303	37.8%
Total comprehensive income for the period	**30,746**	**56,725**	**25,979**	**84.5%**
Profit attributable to:				
Owners of the parent	27,715	54,279	26,564	95.8%
Non-controlling interests	3,832	2,944	(888)	(23.2%)
	31,547	**57,223**	**25,676**	**81.4%**
Total comprehensive income attributable to:				
Owners of the parent	27,355	53,945	26,590	97.2%
Non-controlling interests	3,391	2,780	(611)	(18.0%)
	30,746	**56,725**	**25,979**	**84.5%**
Basic earnings per share (HUF)	**26.59**	**52.10**	**25.51**	**95.9%**
Diluted earnings per share (HUF)	**26.59**	**52.06**	**25.47**	**95.8%**

3.4. Consolidated Statements of Financial Position

MAGYAR TELEKOM

Consolidated Statements of Financial Position (HUF million)	Dec 31, 2015 (Audited)	Dec 31, 2016 (Unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	17,558	10,805	(6,753)	(38.5%)
Trade and other receivables	162,762	157,645	(5,117)	(3.1%)
Other current financial assets	11,052	5,104	(5,948)	(53.8%)
Current income tax receivable	1,356	2,225	869	64.1%
Inventories	12,665	16,643	3,978	31.4%
	205,393	192,422	(12,971)	(6.3%)
Assets held for sale	4,785	1,556	(3,229)	(67.5%)
Total current assets	**210,178**	**193,978**	**(16,200)**	**(7.7%)**
Non current assets				
Property, plant and equipment	493,204	483,174	(10,030)	(2.0%)
Intangible assets	260,909	260,165	(744)	(0.3%)
Goodwill	217,935	218,098	163	0.1%
Investments in associates and joint ventures	1,000	1,078	78	7.8%
Deferred tax assets	47	73	26	55.3%
Other non current financial assets	22,950	18,254	(4,696)	(20.5%)
Other non current assets	801	709	(92)	(11.5%)
Total non current assets	**996,846**	**981,551**	**(15,295)**	**(1.5%)**
Total assets	**1,207,024**	**1,175,529**	**(31,495)**	**(2.6%)**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	136,906	72,589	(64,317)	(47.0%)
Other financial liabilities	26,152	22,600	(3,552)	(13.6%)
Trade payables	140,182	136,623	(3,559)	(2.5%)
Current income tax payable	1,399	719	(680)	(48.6%)
Provisions	7,185	4,493	(2,692)	(37.5%)
Other current liabilities	39,142	40,537	1,395	3.6%
	350,966	277,561	(73,405)	(20.9%)
Liabilities held for sale	1,217	0	(1,217)	(100.0%)
Total current liabilities	**352,183**	**277,561**	**(74,622)**	**(21.2%)**
Non current liabilities				
Financial liabilities to related parties	220,088	247,179	27,091	12.3%
Other financial liabilities	54,857	50,098	(4,759)	(8.7%)
Deferred tax liabilities	23,813	8,740	(15,073)	(63.3%)
Provisions	9,907	9,528	(379)	(3.8%)
Other non current liabilities	1,245	1,090	(155)	(12.4%)
Total non current liabilities	**309,910**	**316,635**	**6,725**	**2.2%**
Total liabilities	**662,093**	**594,196**	**(67,897)**	**(10.3%)**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,412	27,890	478	1.7%
Treasury stock	(307)	(825)	(518)	(168.7%)
Retained earnings	337,014	375,660	38,646	11.5%
Accumulated other comprehensive income	31,824	31,490	(334)	(1.0%)
Total Equity of the owners of the parent	**500,218**	**538,490**	**38,272**	**7.7%**
Non-controlling interests	44,713	42,843	(1,870)	(4.2%)
Total equity	**544,931**	**581,333**	**36,402**	**6.7%**
Total liabilities and equity	**1,207,024**	**1,175,529**	**(31,495)**	**(2.6%)**

3.5. Consolidated Statements of Cash Flows

MAGYAR TELEKOM

Consolidated Statements of Cash Flows (HUF million)	1-12 months 2015 (Audited)	1-12 months 2016 (Unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	31,547	57,223	25,676	81.4%
Depreciation and amortization	113,784	117,476	3,692	3.2%
Income tax expense	13,794	(4,397)	(18,191)	n.m.
Net financial result	28,176	26,815	(1,361)	(4.8%)
Share of associates' and joint ventures' result	0	(78)	(78)	n.a.
Change in assets carried as working capital	(15,541)	3,421	18,962	n.m.
Change in provisions	2,442	(3,218)	(5,660)	n.m.
Change in liabilities carried as working capital	24,204	(614)	(24,818)	n.m.
Income taxes paid	(12,787)	(12,254)	533	4.2%
Dividends received	0	14	14	n.a.
Interest and other financial charges paid	(28,743)	(24,332)	4,411	15.3%
Interest received	967	744	(223)	(23.1%)
Other non-cash items	(1,545)	(5,975)	(4,430)	(286.7%)
Net cash generated from operating activities	**156,298**	**154,825**	**(1,473)**	**(0.9%)**
Cash flows from investing activities				
Purchase of property plant and equipment (PPE) and intangible assets	(109,847)	(113,255)	(3,408)	(3.1%)
Adjustments to cash purchases	12,992	3,347	(9,645)	(74.2%)
Purchase of subsidiaries and business units	(16,737)	(128)	16,609	99.2%
Cash acquired through business combinations	1,815	0	(1,815)	(100.0%)
(Payments for) / Proceeds from other financial assets - net	13,137	6,940	(6,197)	(47.2%)
Proceeds from disposal of subsidiaries and associates	0	3,484	3,484	n.a.
Payments for interests in associates and joint ventures	(1,000)	0	1,000	100.0%
Proceeds from disposal of property, plant and equipment (PPE) and intangible assets	2,127	10,413	8,286	389.6%
Net cash used in investing activities	**(97,513)**	**(89,199)**	**8,314**	**8.5%**
Cash flows from financing activities				
Dividends paid to Owners of the parent and Non-controlling interests	(6,691)	(22,686)	(15,995)	(239.1%)
Proceeds from/Repayment of loans and other borrowings -net	(30,160)	(40,423)	(10,263)	(34.0%)
Repayment of other financial liabilities	(18,923)	(8,676)	10,247	54.2%
Repurchase of treasury shares	0	(550)	(550)	n.a.
Net cash used in financing activities	**(55,774)**	**(72,335)**	**(16,561)**	**(29.7%)**
Exchange differences on cash and cash equivalents	(78)	(44)	34	43.6%
Change in cash and cash equivalents	**2,933**	**(6,753)**	**(9,686)**	**n.m.**
Cash and cash equivalents, beginning of period	14,625	17,558	2,933	20.1%
Cash and cash equivalents, end of period	17,558	10,805	(6,753)	(38.5%)
Change in cash and cash equivalents	**2,933**	**(6,753)**	**(9,686)**	**n.m.**

3.6. Consolidated Statements of Changes in Equity

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

	pieces	in HUF millions									
			Capital reserves				Accumulated Other Comprehensive				
	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, 2014	1,042,742,543	104,275	27,379	17	(307)	310,406	32,276	(92)	473,954	50,444	524,398
Dividend									**0**		**0**
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
Dividend						(15,633)			**(15,633)**		**(15,633)**
Dividend declared to Non-controlling interests									**0**	(4,650)	**(4,650)**
Equity settled share-based transactions				478	32				**510**		**510**
Total comprehensive income						54,279	(371)	37	**53,945**	2,780	**56,725**
Treasury share repurchase					(550)				**(550)**		**(550)**
Balance at December 31, 2016	1,042,742,543	104,275	27,379	511	(825)	375,660	31,521	(31)	538,490	42,843	581,333

3.7. Exchange rate information[1]

Exchange rate	Q4 2015	Q4 2016	Change (%)	1-12 months 2015	1-12 months 2016	Change (%)
HUF/EUR beginning of period	313.32	309.15	**(1.3%)**	314.89	313.12	**(0.6%)**
HUF/EUR period-end	313.12	311.02	**(0.7%)**	313.12	311.02	**(0.7%)**
HUF/EUR cumulative monthly average	311.48	310.09	**(0.4%)**	309.40	311.93	**0.8%**
HUF/MKD beginning of period	5.08	5.03	**(1.0%)**	5.12	5.08	**(0.8%)**
HUF/MKD period-end	5.08	5.06	**(0.4%)**	5.08	5.06	**(0.4%)**
HUF/MKD cumulative monthly average	5.05	5.04	**(0.2%)**	5.02	5.06	**0.8%**

[1] *calculation method of exchange rates has been changed as of Q1 2016*

3.8. Segment information

HUF millions	Q4 2015	Q4 2016	1-12 months 2015	1-12 months 2016
Total MT-Hungary revenues	162,069	138,487	572,616	520,994
Less: MT-Hungary revenues from other segments	(43)	(94)	(248)	(292)
MT-Hungary revenues from external customers	**162,026**	**138,393**	**572,368**	**520,702**
Total Macedonia revenues	13,761	13,494	53,608	53,414
Less: Macedonia revenues from other segments	(30)	(30)	(91)	(81)
Macedonia revenues from external customers	**13,731**	**13,464**	**53,517**	**53,333**
Total Montenegro revenues	7,130	6,960	30,500	28,648
Less: Montenegro revenues from other segments	(3)	11	(41)	(32)
Montenegro revenues from external customers	**7,127**	**6,971**	**30,459**	**28,616**
Total consolidated revenue of the segments	182,884	158,828	656,344	602,651
Measurement/rounding differences to Group revenue	0	0	(2)	0
Total revenue of the Group	**182,884**	**158,828**	**656,342**	**602,651**
Segment results (EBITDA)				
MT-Hungary	36,323	37,589	155,731	168,920
Macedonia	4,951	4,679	20,811	19,162
Montenegro	2,285	2,049	10,699	9,439
Total EBITDA of the segments	**43,559**	**44,317**	**187,241**	**197,521**
Measurement/rounding differences to Group EBITDA[1]	171	(486)	60	(482)
Total EBITDA of the Group	**43,730**	**43,831**	**187,301**	**197,039**

[1] Relating to a Hungarian Competition Authority fine

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 22, 2017

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, 2015, 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.