EGYÜTT. VELED

MAGYAR TELEKOM

HALF YEARLY REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED JUNE 30, 2016

Budapest – Aug 4, 2016 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the second quarter and first half of 2016, in accordance with International Financial Reporting Standards (IFRS).

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HUNGARIAN SEGMENT CONTINUES TO DRIVE GROUP PERFORMANCE

1. HIGHLIGHTS

Financial highlights:

MAGYAR TELEKOM **Group Financial Results - IFRS** (HUF million, except ratios)	**Q2** **2015** (Unaudited)	**Q2** **2016** (Unaudited)	**Change (%)**	**1-6 months** **2015** (Unaudited)	**1-6 months** **2016** (Unaudited)	**Change (%)**
Total revenues	**158,495**	**148,166**	**(6.5%)**	**315,452**	**293,217**	**(7.0%)**
Operating profit	**25,474**	**22,873**	**(10.2%)**	**40,272**	**44,425**	**10.3%**
Profit attributable to:						
Owners of the parent	12,520	11,370	(9.2%)	15,026	22,085	47.0%
Non-controlling interests	1,009	226	(77.6%)	1,825	976	(46.5%)
	13,529	**11,596**	**(14.3%)**	**16,851**	**23,061**	**36.9%**
Gross margin	102,413	103,224	0.8%	201,593	202,848	0.6%
EBITDA	52,177	51,154	(2.0%)	94,643	99,402	5.0%
EBITDA margin	32.9%	34.5%	n.a.	30.0%	33.9%	n.a.
Free cash flow				(1,403)	20,180	n.m.
Basic and diluted earnings per share (HUF)	**12.01**	**10.91**	**(9.2%)**	**14.42**	**21.19**	**46.9%**
CAPEX to Sales				**11.1%**	**12.0%**	**n.a.**
Net debt				**447,213**	**404,106**	**(9.6%)**
Net debt / total capital				**45.6%**	**42.4%**	**n.a.**
Number of employees (closing full equivalent)				**10,694**	**9,590**	**(10.3%)**

Strategic highlights:

- **Group revenue decline driven by the exit from the retail gas business, transfer of B2B energy business into the joint venture and lower System Integration/Information Technology (SI/IT) revenues**
- **Core telco revenues (excluding energy and SI/IT) up by 2.2% year-on-year in Q2 2016**
- **Mobile revenues up by 3.8% vs. Q2 2015 as comparability of data no longer affected by the sharp Mobile Termination Rate (MTR) cut in Hungary introduced on 1 April 2015**
- **SI/IT revenues in Hungary declined due to a slowdown in EU fund inflows**
- **EBITDA down by 2.0% year-on-year in Q2 2016 as higher gross profit and lower employee related expenses were offset by higher other operating expenses**
- **H1 2016 EBITDA up by 5.0% year-on-year due to one-off gains of HUF 5.1 billion realized on the Infopark real estate deal and the Origo sale**
- **Free cash flow increase to HUF 20.2 billion reflects higher EBITDA, improved working capital, lower interest payments and one-off profits despite the incremental severance payout and a higher settlement of capex creditor balances**
- **Net debt ratio slightly up to 42.4% vs. Q1 2016 due to the dividend payment, but expected to decline during H2 2016**
- **Underlying performance in Hungary driven by increased customer base in fixed line and mobile broadband, pay TV and post-paid mobile telephony**
- **Group-wide success of 4Play Magenta 1 proposition based on integrated Telekom brand**
- **Sustained revenue turnaround in Macedonia driven by mobile and SI/IT revenues**
- **Continuous competitive and regulatory pressures in Montenegro**

Christopher Mattheisen, CEO commented:

"I am pleased to report that the positive trends in our operations seen during the past few quarters have continued into the second quarter of this year. Although our headline revenue witnessed a 6.5% decline compared to the second quarter of 2015, this was primarily due to our decisions with respect to the energy business and lower Systems Integration and IT revenues resulting from a temporary slowdown in EU fund inflows. Excluding these, our core telco revenues continued to grow by 2.2% driven by growth in mobile data and equipment coupled with fixed broadband and TV revenue uplift. On the other hand, Group EBITDA for the quarter declined by 2.0% year-on-year as higher other operating expenses offset gross profit growth and lower employee related expenses.

Our Group revenues decreased by 7.0% compared to the first half of last year primarily driven by the decline in energy and SI/IT revenues which was partly mitigated by increasing telco revenues. Thanks to investments in 4G networks across our footprints, our Group mobile broadband and equipment revenues increased significantly whilst voice revenues declined. Following the fixed access network upgrades, we were also able to further grow our fixed broadband and TV customer bases at higher ARPUs in Hungary. Group-wide rollout of Magenta 1, our 4Play proposition based on the integrated Telekom brand, has helped too in promoting our brand and services.

Our EBITDA performance improved by 5.0% year-on-year in the first half of this year. It was achieved not only through gross margin growth, but also thanks to significant savings in employee related expenses and one-off gains in the first quarter. Group Capex for the first half of 2016 was practically unchanged compared to last year, resulting in a steadily increasing Free Cash Flow. Group FCF for the half year exceeded HUF 20 billion, despite the incremental severance payout, loan repayment and a higher settlement of capex creditors. The net debt to total capital ratio improved from 42.9% at the end of 2015 to 42.4% driven by a reduction in both short- and long-term borrowings. There is a slight increase in our leverage compared to the previous quarter due to the dividend payout in May 2016, but we expect our net debt ratio to further decline in the second half of this year.

Our performance so far this year has been in-line with our expectations and I am pleased to reiterate our guidance targets; for the avoidance of doubt, the one-off gains recorded in the first quarter were as expected and have been incorporated into our outlook."

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% y-o-y decline	ca. 10% y-o-y decline
FCF	HUF 26.7 billion		surpassing HUF 50bn***
Dividend	HUF 15 per share	target HUF 25 per share	

** includes HUF 49.3 billion relating to the energy business*
***excluding spectrum acquisitions and annual frequency fee capitalization*
**** after minority dividend payments*

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, except per share amounts)	Q2 2015 (Unaudited)	Q2 2016 (Unaudited)	Change	Change (%)	1-6 months 2015 (Unaudited)	1-6 months 2016 (Unaudited)	Change	Change (%)
Revenues								
Mobile revenues	76,873	79,761	2,888	3.8%	153,811	155,055	1,244	0.8%
Fixed line revenues	52,645	52,660	15	0.0%	103,294	104,476	1,182	1.1%
System Integration/Information Technology revenues	18,534	14,255	(4,279)	(23.1%)	31,115	29,883	(1,232)	(4.0%)
Energy service revenues	10,443	1,490	(8,953)	(85.7%)	27,232	3,803	(23,429)	(86.0%)
Total revenues	**158,495**	**148,166**	**(10,329)**	**(6.5%)**	**315,452**	**293,217**	**(22,235)**	**(7.0%)**
Direct costs	**(56,082)**	**(44,942)**	**11,140**	**19.9%**	**(113,859)**	**(90,369)**	**23,490**	**20.6%**
Gross margin	**102,413**	**103,224**	**811**	**0.8%**	**201,593**	**202,848**	**1,255**	**0.6%**
Employee-related expenses	(22,334)	(21,234)	1,100	4.9%	(44,232)	(42,077)	2,155	4.9%
Hungarian sector specific special taxes	(6,486)	(6,112)	374	5.8%	(20,361)	(19,565)	796	3.9%
Other operating expenses	(23,123)	(26,006)	(2,883)	(12.5%)	(44,834)	(49,634)	(4,800)	(10.7%)
Other operating income	1,707	1,282	(425)	(24.9%)	2,477	7,830	5,353	216.1%
EBITDA	**52,177**	**51,154**	**(1,023)**	**(2.0%)**	**94,643**	**99,402**	**4,759**	**5.0%**
Depreciation and amortization	(26,703)	(28,281)	(1,578)	(5.9%)	(54,371)	(54,977)	(606)	(1.1%)
Operating profit	**25,474**	**22,873**	**(2,601)**	**(10.2%)**	**40,272**	**44,425**	**4,153**	**10.3%**
Net financial results	(6,816)	(5,911)	905	13.3%	(15,429)	(12,469)	2,960	19.2%
Share of associates' and joint ventures' profits	0	102	102	0.0%	0	78	78	0.0%
Profit before income tax	**18,658**	**17,064**	**(1,594)**	**(8.5%)**	**24,843**	**32,034**	**7,191**	**28.9%**
Income tax	(5,129)	(5,468)	(339)	(6.6%)	(7,992)	(8,973)	(981)	(12.3%)
Profit for the period	**13,529**	**11,596**	**(1,933)**	**(14.3%)**	**16,851**	**23,061**	**6,210**	**36.9%**

Total revenues amounted to HUF 148.2 billion in Q2 2016 compared to HUF 158.5 billion in Q2 2015, representing a decline of 6.5% year-on-year, mostly as a result of lower SI/IT revenues, as well as a partial exit from the energy business. Stripping out contributions from SI/IT and energy, core like-for-like revenues increased by 2.2% in Q2 2016 due to improvement in mobile revenues. Total revenues decreased by 7.0% to HUF 293.2 billion in the first half of 2016 compared to H1 2015 driven by the same influencing factors as the ones affecting the quarterly results. However, year-to-date fixed line revenues slightly improved, where revenue surplus from GTS acquisition compensated for the Origo deconsolidation.

- **Mobile revenues amounted to HUF 79.8 billion in Q2 2016**, compared to HUF 76.9 billion in the same period of the previous year representing a 3.8% improvement. Higher mobile data, equipment and other revenues offset the shrinking voice retail and SMS revenues. On a year-to-date basis, mobile revenues remained roughly stable in H1 2016 as a result of the similar trends witnessed in the second quarter, as well as the MTR cut in Hungary negatively effecting Q1 2016
  - **Voice revenues** decreased by 1.6% to HUF 41.6 billion in Q2 2016, due to lower revenues in Hungary and Macedonia. The effect of prepaid to postpaid migration and increasing flat penetration was counterbalanced by the decline in the business segment, as well as lower roaming revenues in Hungary. Shrinking prepaid customer base and roaming revenues driven by the Balkan roaming agreement lead to lower revenues in Macedonia, while expansion of both residential and business customer base resulted in higher mobile voice revenues in Montenegro. On a year-to-date basis, mobile voice revenues declined by 5.6% due to MTR cut driven lower voice wholesale revenues in Hungary in the first quarter this year
  - **Data revenues** grew by 8.4% to HUF 16.0 billion due to higher mobile internet revenues in Hungary and Macedonia, where both subscriber numbers and usage increased. At the same time, mobile data revenues declined due to increasing sales reductions deriving from fierce competition in the Montenegrin market. In the first half of 2016 data revenues grew by 9.7% compared to the same period of 2015 driven by the same trends effecting Q2
  - **SMS revenues** decreased by 3.0% on both quarterly and year-to-date basis, to HUF 4.5 billion and HUF 8.9 billion, respectively. Revenues from mass messaging in Hungary partly counterbalanced the decline in SMS revenues in Macedonia and Montenegro driven by shrinking volume due to OTT push
  - **Mobile equipment revenues** increased by 18.1% to HUF 13.9 billion in Q2 2016, thanks to improvement all across the Group's footprint. Other equipment and accessories sales in Hungary grew significantly due to one-time third party export sales, while in Macedonia and Montenegro average selling price of handsets and mobile accessories sales increased. On a year-to-date basis, mobile equipment revenues grew by 15.2% to HUF 25.1 billion, mainly driven by the same factors

- **Fixed line revenues remained stable at HUF 52.7 billion in Q2 2016** as improvement in broadband retail, TV and other revenues were offset by the decline in voice retail and equipment revenues. We witnessed a positive performance in Hungary but a decline at both foreign subsidiaries. Year-to-date fixed line revenues increased by 1.1% in the first half of this year partly thanks to the GTS acquisition effect in the first quarter
  - **Voice-retail revenues** continued to decrease to HUF 14.0 billion (down by 6.8% in Q2 2016), mainly driven by the continuous decline in the customer base and average tariff levels in all the segments
  - **Broadband retail revenue** growth slowed down to 2.3% resulting in HUF 13.5 billion in Q2 2016. The revenue increase was driven by the enlarged customer base and higher ARPUs in Hungary and Macedonia, while the increased cable based competition in Montenegro mitigated the growth
  - **TV revenues** increased by 6.2% to HUF 11.3 billion, mainly driven by the growing IPTV subscriber base and ARPUs in Hungary. Already 62% of the Group's TV revenues are coming from IPTV subscribers. In the first half of 2016 TV revenues grew by 5.4% compared to the same period of 2015 driven by the same trends effecting Q2
  - **Fixed equipment revenues** further declined to HUF 1.3 billion, mainly owing to lower sales of TV sets and laptops in Hungary
  - **Data retail revenues** remained roughly unchanged at HUF 2.7 billion as it was witnessed in the first quarter as well
  - **Wholesale revenues** declined by 1.7% to HUF 5.3 billion as GTS revenues are incorporated in the base of Q2 2015. General price pressure in Hungary was compensated by higher wholesale revenues at the Romanian and Bulgarian subsidiaries. On the other hand, year-to-date wholesale revenues grew by 8.8% thanks to additional GTS revenues in the first quarter
  - **Other fixed line revenues** increased by 12.9% to HUF 4.5 billion in Q2 2016, mainly driven by higher dunning fees and value added services in Hungary. The growth of the IPTV customer base demonstrates the increasing popularity of interactive television resulting in higher Video on Demand (VoD) revenues thanks to the EURO2016
- **System Integration and IT (SI/IT) revenues dropped by 23.1%** (down by HUF 4.3 billion) to HUF 14.3 billion due to the slowdown of EU fund inflows to Hungary partly mitigated by revenue growth in Macedonia. On the other hand, SI/IT gross profit increased by 2.1% resulting in a 46.4% margin in Q2 2016 (up from 35.0% in Q2 2015). Year-to-date SI/IT revenues declined only by 4.0% thanks to the strong first quarter results principally reflecting the carry forward of projects started in 2015
- **Energy Service revenues decreased to HUF 1.5 billion** compared to HUF 10.4 billion in the same period of 2015, due to the exit from the residential gas business as of August 1, 2015 and the transfer of the B2B energy business into the joint venture (E2) with MET Holding AG as of January 1, 2016. Our energy revenues were down by HUF 23.4 billion in the first half of 2016 due to the same reasons

Direct costs decreased by 19.9% to HUF 44.9 billion, mainly due to a sharp decline in energy service related costs following the exit from the residential gas and B2B energy business, as well as lower SI/IT related costs, compensating for the increasing in other direct costs. On a year-to-date basis, direct costs declined by 20.6% to HUF 90.4 billion as a result of the same drivers

- **Interconnect costs** increased by 9.9% to HUF 5.4 billion in Q2 2016 due to increased GTS fix voice and wholesale outpayments compared to Q2 2015. On the other hand, interconnect costs in H1 2016 decreased by 17.4% year-on-year to HUF 10.8 billion because of the MTR cut effecting the first quarter
- **SI/IT service related costs** dropped by 36.6% on quarterly and 10.3% on year-to-date basis, mainly in line with dwindling revenues of the business line
- **Other direct costs** went up by HUF 1.4 billion to HUF 28.1 billion due to higher cost of mobile accessories and other equipment sales, partly offset by savings on device related costs due to lower high-end handset, TV, tablet and notebook sales. In the first half of 2016, other direct costs increased by 4.5% compared to the first half of 2015 as a result of the above factors, partly mitigated by savings on TV and other content related costs
- **Bad debt expenses** remained roughly stable at HUF 2.3 billion in the second quarter of 2016 compared to the same period last year. On year-to-date basis bad debt expenses deteriorated by 13.0% to HUF 4.7 billion, mainly owing to significantly higher amount of impairment loss charged in Q1 2016 and lower debt collection in Macedonia and Montenegro

Gross margin slightly improved both on quarterly and year-to-date basis and amounted to HUF 103.2 billion and HUF 202.8 billion, respectively. Improvement in the MT Hungary segment (TV, fixed and mobile broadband, as well as SI/IT margins) counterbalanced the declines at our foreign subsidiaries and the margin effect of the lower energy revenues.

Indirect costs deteriorated by 3.7% in the second quarter of 2016 compared to the same period last year due to higher other operating expenses offsetting the savings in employee related costs. At the same time, indirect costs improved by 3.3% on year-to-date basis, mainly driven by one-offs related to the Origo sale and the real estate transaction (Infopark). Furthermore, employee related expenses improved, while other operating expenses deteriorated resulting in the above mentioned improvement coupled with the one-offs.

- **Employee-related expenses** improved by HUF 1.1 billion to HUF 21.2 billion due to savings in the quarter stemming from the headcount reduction program implemented in 2014 and 2015, partly offset by lower capitalization of project related employee related costs, wage and cafeteria increase, as well as severance costs in Macedonia in relation to the outsourcing of the network operation to Ericsson. In the first half of 2016 employee related expenses improved by 4.9% and amounted to HUF 42.1 billion driven by the lay-off program in Hungary mentioned previously

- **Hungarian sector specific taxes** in the second quarter of 2016 declined by 5.8% to HUF 6.1 billion as a result of lower telecommunication tax due to change in the customer behavior. In the first half of 2016, sector specific taxes decreased by 3.9% to HUF 19.6 billion compared to H1 2015. Besides improvement in the telecommunication tax, utility tax expense also went down by HUF 0.4 billion to HUF 7.3 billion compared to the same period of 2015. The primary reason for this is, that a five-year utility tax credit was granted for Magyar Telekom Group relating to those network investments and/or upgrades, which are executed following 25 June 2015 and which enable an internet access of at least 100 Mbps. Secondly, in the first quarter of 2016 there was a utility tax expense decrease due to the refinement of the taxable network records compared to the first quarter of 2015

- **Other operating expenses** continued to increase by HUF 2.9 billion in Q2 2016, driven by the Hungarian segment: higher advisory fee due to HSI development for Digital Welfare Program, higher marketing expenses and increased sponsorship activities, higher maintenance, repairs, and remedial work expenses and parallel operation of legacy and next generation IT platforms. Furthermore, office rental fees also increased following the sale of Infopark

- **Other operating income** declined by HUF 0.4 billion in Q2 2016 due to higher income from network construction works and real estate sale in the same period of 2015. On the other hand, other operating income grew by HUF 5.4 billion on year-to-date basis due to the HUF 5.1 billion one-off profits realized on the Infopark and the Origo sale

EBITDA decreased by 2.0% from HUF 52.2 billion in Q2 2015 to HUF 51.2 billion in Q2 2016, as lower direct costs compensated for lower revenues, leading to a 0.8% higher Gross profit. Lower employee related expenses were offset by higher other operating expenses. EBITDA increased by 5.0% in the first half of 2016 compared to the same period of last year, driven by the same trends but boosted by one-offs in Other operating income

Depreciation and amortization expenses increased by 5.9% to HUF 28.3 billion, as software activation related to the new billing and new ERP system caused higher depreciation costs in 2016. Meanwhile, it remained roughly stable at HUF 55.0 billion in H1 2016 compared to the same period last year

Profit for the period declined by 14.3% to HUF 11.6 billion in Q2 2016. On a year to date basis, Profit for the period rose by 36.9% compared to the first half of last year driven by higher EBITDA boosted by one-offs and improved net financial results.

- **Operating profit** declined from HUF 25.5 billion in Q2 2015 to HUF 22.9 billion in Q2 2016 (down by 10.2%), while year-to-date improvement was 10.3% for the reasons described above

- **Net financial results** improved by 13.3% from HUF 6.8 billion loss in Q2 2015 to HUF 5.9 billion in Q2 2016. The result was primarily due to lower average interest rates (driven by favorable changes in the market conditions and decreasing amount of loans), as well as exchange gains on loans, accounts payable and receivables offsetting shrinking gains on derivatives. In year-to-date comparison, net financial results improved by 19.2% to HUF 12.5 billion loss also supported by gains on the fair valuation of derivatives

- **Income tax expense** increased by 6.6% and by 12.3% on quarterly and year-to-date basis and amounted to HUF 5.5 billion and HUF 9.0 billion, respectively, which is driven by the withholding tax related to the dividend declaration of Stonbridge in Q2 2016. The increase in H1 2016 is due to the same reason besides the increase in Profit before income tax, which also contributed to the higher income tax expense

- **Profit attributable to non-controlling interests** declined both in Q2 and in H1 2016 by HUF 0.8 billion to HUF 0.2 billion and HUF 1.0 billion, respectively, due to lower Profit for the period generated by international subsidiaries

Net debt improved by 9.6% compared to end of June 2015 and by 1.3% compared to year end 2015 amounting to HUF 404.1 billion. Meanwhile, **net debt ratio (net debt to total capital) improved from 42.9% at the end of December 2015 to 42.4%** driven by a reduction in short- and long-term borrowings considered together. 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 coming years.

2.1.2 Group Cash Flows

HUF millions	1-6 months 2015	1-6 months 2016	Change
Operating cash flow	58,479	62,369	3,890
Investing cash flow	(37,435)	(39,369)	(1,934)
Less: Proceeds from other financial assets - net	(17,075)	1,180	18,255
Investing cash flow excluding Proceeds from other financial assets – net	(54,510)	(38,189)	16,321
Repayment of other financial liabilities	(5,372)	(4,000)	1,372
Free cash flow	**(1,403)**	**20,180**	**21,583**
Proceeds from other financial assets - net	17,075	(1,180)	(18,255)
Proceeds from/Repayment of loans and other borrowings - net	(11,317)	(3,401)	7,916
Dividend paid to shareholders and Non-controlling interests	(6,158)	(19,224)	(13,066)
Exchange differences on cash and cash equivalents	(10)	95	105
Change in cash and cash equivalents	**(1,813)**	**(3,530)**	**(1,717)**

Free cash flow

Operating cash flow

Net cash generated from operating activities amounted to HUF 62.4 billion in H1 2016, compared to HUF 58.5 billion in H1 2015. Main reasons for the increase of HUF 3.9 billion were the following:

- HUF 4.8 billion positive change due to the higher EBITDA in H1 2016 than in H1 2015
- HUF 22.3 billion positive change in active working capital due to the transfer of the energy services for business customers to E2 and due to the higher decrease in SI/IT receivables fully collected. The changed terms of the installment receivables in 2016 also contributed to the positive change through the decrease in installment receivables
- HUF 0.7 billion positive change in active working capital due to MTR vendor overpayments in 2015 (paid using old rate, accounted at new rate as expense)
- HUF -1.9 billion negative change due to higher payment of severance provision in H1 2016 than in H1 2015
- HUF 1.0 billion positive change due to lower tax payments in Macedonia in 2016 as a result of additional tax payment in H1 2015 related to the changes of the tax law, no such payment in H1 2016
- HUF -20.5 billion negative change in passive working capital due to the less volume of energy suppliers as a result of the launch of E2's operation in the energy market and the higher payment of the SI/IT services in 2016 than in 2015. The different payment schedule of certain creditors had also adverse effect on the cash flows in H1 2016 compared to H1 2015
- HUF -1.7 billion negative change in passive working capital due to MTR debtor overpayments (invoiced and collected using old rate, accounted at new rate as revenue)
- HUF 4.3 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 -5.1 billion negative change 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 -38.2 billion in H1 2016, compared to HUF -54.5 billion in H1 2015. Main reasons for the HUF 16.3 billion lower cash outflow were the following:

- HUF -0.2 billion negative effect due to more CAPEX spending in H1 2016 than in H1 2015
- HUF -8.8 billion negative change due to higher amount of CAPEX creditors paid in H1 2016 than in H1 2015
- HUF 14.0 billion positive change due to lower volume of acquisition of business unit (GTS Hungary) in H1 2016 than in H1 2015
- HUF 3.4 billion positive change due to the sale of Origo Zrt.
- HUF 7.9 billion positive change due to the sale of Infopark building

Repayment of other financial liabilities

Repayment of other financial liabilities decreased from HUF -5.4 billion in H1 2015 to HUF -4.0 billion in H12016. Main reason for the lower payment of HUF 1.4 billion was the combined effect of the following:

- HUF 0.5 billion positive change due to the repayment of the loan related to the sale transaction of Origo Zrt.
- HUF 0.9 billion various other effects of the movement of financial liabilities

Free cash flow (FCF) overall increased from HUF -1.4 billion in H1 2015 to HUF 20.2 billion in H12016 due to the reasons described above.

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

Proceeds from other financial assets - net decreased by HUF 18.3 billion. Main reasons for the decrease were the following:

- HUF -5.3 billion lower cash inflows from derivatives in H1 2016 compared to H1 2015
- HUF -11.7 billion higher amount of Maktel's cash was invested as bank deposits over 3 months in H1 2016 in net terms
- HUF -1.3 billion higher amount of CT's cash was invested as bank deposits over 3 months in H1 2016 in net terms

Repayment of loans and other borrowings - net

The change is due to lower net repayment of loans primarily due to the dividend payment in H1 2016 (HUF +7.9 billion)

Dividend paid to shareholders and Non-controlling interest

Dividend paid to shareholders and Non-controlling interest increased by HUF 13 billion mainly as a result of Magyar Telekom's dividend payment to its parent and minority shareholders in H1 2016 which did not happen in H1 2015

Exchange differences on cash and cash equivalents

The change in exchange differences on cash and cash equivalent had no significant effect in relation of H1 2016 and H1 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 June 30, 2016 can be observed in the following lines:

- Trade and other receivables
- Property, plant and equipment
- Intangible assets
- Financial liabilities to related parties (current and non-current parts)
- Trade payables
- Retained earnings

Trade and other receivables decreased by HUF 9.0 billion from December 31, 2015 to June 30, 2016. The decrease is mainly due to the decrease of the energy related receivables. E2 launched its operation from January 1, 2016 and started to provide energy services for these customers.

Property, plant and equipment (PPE) and intangible assets together decreased by HUF 25.3 billion from December 31, 2015 to June 30, 2016. The main reason for the decrease is that the depreciation and scrapping of assets exceeded the capital expenditure of assets.

The current part of Financial liabilities to related parties increased by HUF 20.5 billion, whereas the noncurrent part decreased by HUF 21.8 billion from December 31, 2015 to June 30, 2016. The change is due to the reclassification between the long term and short term parts in line with the payment schedule of the loans.

Trade payables decreased by HUF 41.8 billion from December 31, 2015 to June 30, 2016. The reason of the decrease is due to the higher payments to the handset, Capex and SI/IT related suppliers.

Retained earnings increased by HUF 6.5 billion from December 31, 2015 to June 30, 2016. The change is due to the HUF 22.1 billion increase of the half-year result for 2016 opposed to 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 June 30, 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 2.1.2. Cash flows.

2.1.4 Related party transactions

There have not been any significant changes in related party transactions during H1 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 11.3 billion as at December 31, 2015. 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

For any significant events happened between the end of the quarter (June 30, 2016) and the date publishing of the "Half yearly report" please see our Investor Relations website:

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

2.2. Segment reports

Magyar Telekom introduced a new reporting structure from the beginning of 2016 to further simplify the operation on every managerial level of the company. The Group's new operating segments are MT-Hungary, Macedonia and Montenegro. MT-Hungary includes the former T-Hungary segment (residential and 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, energy retail services to millions of residential and business customers under the Telekom and T-Systems brands. Small and medium business 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 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. 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.

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.

2.2.1 MT-Hungary

Growing in mobile, stable fixed line, slow-down in SI/IT

HUF millions	Q2 2015	Q2 2016	Change	Change (%)	1-6 months 2015	1-6 months 2016	Change	Change (%)
Voice[1]	35,671	35,129	(542)	(1.5%)	74,307	69,740	(4,567)	(6.1%)
Non-voice[2]	17,042	18,152	1,110	6.5%	33,397	35,893	2,496	7.5%
Other[3]	13,528	15,746	2,218	16.4%	25,627	28,644	3,017	11.8%
Total mobile revenues	**66,241**	**69,027**	**2,786**	**4.2%**	**133,331**	**134,277**	**946**	**0.7%**
Voice retail	12,173	11,479	(694)	(5.7%)	24,464	22,796	(1,668)	(6.8%)
Broadband - retail	11,023	11,269	246	2.2%	21,088	22,125	1,037	4.9%
TV	9,266	9,929	663	7.2%	18,303	19,404	1,101	6.0%
Other[4]	10,908	11,430	522	4.8%	21,132	22,874	1,742	8.2%
Fixed line revenues	**43,370**	**44,107**	**737**	**1.7%**	**84,987**	**87,199**	**2,212**	**2.6%**
SI/IT revenues	17,629	13,112	(4,517)	(25.6%)	29,707	28,256	(1,451)	(4.9%)
Revenue from Energy services	10,443	1,490	(8,953)	(85.7%)	27,232	3,803	(23,429)	(86.0%)
Total revenues	**137,683**	**127,736**	**(9,947)**	**(7.2%)**	**275,257**	**253,535**	**(21,722)**	**(7.9%)**
Direct cost	**(49,781)**	**(38,219)**	**11,562**	**23.2%**	**(102,107)**	**(77,755)**	**24,352**	**23.8%**
Gross margin	**87,902**	**89,517**	**1,615**	**1.8%**	**173,150**	**175,780**	**2,630**	**1.5%**
Telecom tax	(6,486)	(6,112)	374	5.8%	(12,712)	(12,300)	412	3.2%
Utility tax	0	0	0	n.a.	(7,649)	(7,265)	384	5.0%
Other operating expenses (net)	(37,187)	(38,459)	(1,272)	(3.4%)	(73,400)	(70,019)	3,381	4.6%
EBITDA	**44,229**	**44,946**	**717**	**1.6%**	**79,389**	**86,196**	**6,807**	**8.6%**
Segment Capex	**20,580**	**21,030**	**450**	**2.2%**	**31,955**	**31,237**	**(718)**	**(2.2%)**

1 incorporates Voice retail and Voice wholesale revenues
2 incorporates Data and SMS revenues
3 incorporates Equipment and Other revenues
4 incorporates Equipment, Data retail, Wholesale and Other revenues

Operational statistics – access numbers	Q2 2015	Q2 2016	Change (%)	1-6 months 2015	1-6 months 2016	Change (%)
Number of mobile customers (RPC)	5,476,293	5,344,240	(2.4%)	5,476,293	5,344,240	(2.4%)
Postpaid RPC	3,055,471	3,110,129	1.8%	3,055,471	3,110,129	1.8%
Prepaid RPC	2,420,822	2,234,111	(7.7%)	2,420,822	2,234,111	(7.7%)
Postpaid share in the RPC base	55.8%	58.2%	n.a.	55.8%	58.2%	n.a.
Total fixed voice access	1,471,899	1,440,696	(2.1%)	1,471,899	1,440,696	(2.1%)
Total retail fixed broadband customers	972,248	1,008,588	3.7%	972,248	1,008,588	3.7%
Total TV customers	940,871	971,309	3.2%	940,871	971,309	3.2%

Operational statistics – ARPU (HUF)	Q2 2015	Q2 2016	Change (%)	1-6 months 2015	1-6 months 2016	Change (%)
Mobile ARPU	3,216	3,315	3.1%	3,281	3,265	(0.5%)
Postpaid	4,895	4,898	0.1%	5,002	4,865	(2.8%)
Prepaid	1,133	1,132	(0.1%)	1,164	1,098	(5.7%)
Blended fixed voice ARPU	2,768	2,649	(4.3%)	2,759	2,621	(5.0%)
Blended retail fixed broadband ARPU	3,722	3,747	0.7%	3,612	3,672	1.7%
Blended TV ARPU	3,292	3,420	3.9%	3,257	3,350	2.9%

Total revenues decreased by 7.2% in Q2 2016 compared to the same quarter in the previous year in the Hungary segment (including former T-Hungary and T-Systems segments), primarily due to the exit from the residential gas market and the transfer of the B2B energy business into the E2, coupled with lower SI/IT revenues, while both mobile and fixed line revenues increased. As the MTR cut is now eliminated from the base of Q2 2015, the mobile revenues show an increase coupled with a positive performance on the fixed line side driven by TV compared to Q2 2016. Stripping out contributions from energy and SI/IT, in Q2 2016 core like-for-like telco revenues improved by 3.2% year-on-year. Total revenues declined by 7.9% year-to-date due to energy and SI/IT, but the good performance of 2015 on the Hungarian telco market continued in the first half of 2016.

- **Mobile revenues grew** (4.2% vs. Q2 2015) to HUF 69.0 billion, the sharp MTR cut in Hungary as of April 1, 2015 was out of the base so our mobile ARPU shows a 3.1% increase. Higher mobile broadband and equipment revenues were partly offset by shrinking voice revenues. Retail mobile market remained relatively stable due to muted impact of UPC as the only MVNO and Digi is not expected to enter before Q4 2016. Business mobile market is facing very strong price competition as we have higher than average market shares in both SMB and enterprise segments. Prepaid to postpaid migration continued as the demand for mobile broadband is still substantial and is responsible for the blended mobile ARPU uplift. Average revenue per prepaid and postpaid customers remained flat but the shifted mix of the customer base to the more valuable postpaid resulted in higher blended ARPU. The popularity of the flat tariff plans offering unlimited voice and messaging to the customers remained high and we continued to enlarge our 4Play Magenta 1 subscriber base helping to improve our performance in the high-end segment. More than one third of our postpaid customer base is enjoying the advantages of the flat tariff plans resulting in an increased minutes of usage by 7%
  - **Mobile voice revenues** decreased by only HUF 0.5 billion in Q2 2016 (down by 1.5% year-on-year): our underlying outgoing ARPU continued to increase thanks to the prepaid to postpaid migration and the increased share of our flat customer base supported by the successful sale of our 4Play Magenta 1 offer
  - **Mobile non-voice revenues** rose by 6.5% (up by HUF 1.1bn) in Q2 2016 compared to the same period in 2015 with double digit mobile broadband growth and a slight increase in SMS revenue from mass messaging in our enterprise segment
  - **Other revenues** increased with HUF 2.2 billion in the second quarter due to the significantly higher equipment and accessories sales in Hungary compared to the second quarter last year
  - **Total mobile revenues** slightly increased in H1 2016 (up by 0.7%) as improved mobile broadband and equipment revenues were partly offset by shrinking voice revenues driven by the MTR cut effect in the first quarter

- **Fixed line revenues** grew (by 1.7% vs. Q2 2015) thanks to the increasing revenues on the residential segment following High Speed Internet (HSI) network upgrades and roll-outs. Improvement in broadband, TV and wholesale revenues was partly offset by a fall in voice retail and equipment. We continued to increase our overall residential fixed line revenues by offering bundles including broadband plans with higher bandwidth and IPTV resulting in higher ARPUs. Competition in the business sub-segment remained intense
  - **Voice retail revenues** declined by 5.7% due to lower subscription fee revenues resulting from the decrease in the average number of fixed lines and lower ARPUs, as we continue to focus on our high-end residential fixed voice customer base enjoying the flat rate packages (Hoppá) which is also a part of our 4Play Magenta 1 proposition
  - **Broadband retail revenues** increased by 2.2% driven by both the higher number of retail broadband customers (over a million subscribers so far) and higher ARPUs thanks to successful upgrade activities to higher bandwidth packages

- **TV revenues rose** by 7.2% year-on-year in Q2 2016 due to higher customer base and increasing ARPUs; our IPTV customer base increased by more than 60,000 in a year, driven by new customer acquisitions and migration from cable TV (our satellite TV subscriber base started to decline)
- **Other fixed line revenues** increased in Q2 2016 due to the increased dunning fees and VoD usage boosted by EURO2016
- **Fixed line revenues** rose by 2.6% in H1 2016 (up by HUF 2.2 billion) year-on-year due to the GTS acquisition effect in the first quarter and the continued broadband and TV customer base growth coupled with improved ARPUs mitigated by lower voice revenues

- **SI/IT revenues declined by 25.6% in Q2 2016** due to the slowdown of EU funds inflows to the country
  - **Major projects won in the financial and the utility sectors**
  - **Our SI/IT margin** is up to 48.4% in Q2 2016 from the level of 35.3% in the second quarter last year as we continued to focus on the higher margin system integration projects
  - **SI/IT revenues** declined only by 4.9% in H1 2016 due to the strong first quarter principally reflecting the carry forward of projects started in 2015

Energy services	Q2 2015	Q2 2016	Change (%)	1-6 months 2015	1-6 months 2016	Change (%)
Electricity points of delivery	108,676	94,662	(12.9%)	108,676	94,662	(12.9%)
Gas points of delivery	65,406	256	(99.6%)	65,406	256	(99.6%)

- **Energy services revenues decreased by HUF 9.0 billion** (down by 85.7%) in Q2 2016 versus Q2 2015 due to the residential gas market exit and transfer of the B2B energy business into E2
  - **The joint venture** that provides energy services for business (non-universal) customers started operating as of January 1, 2016
  - **The number of electricity points of delivery** decreased by 14 thousands due to us putting less sales focus on residential universal electricity business following the change in market environment and transferring our B2B electricity customers into the E2
  - **Electricity revenues declined** by HUF 4.7 billion in Q2 2016 compared to the same period last year mostly due to transferring our high spending B2B customer base to E2
  - **The drop in gas points of delivery** is caused by the exit from the residential segment of the gas market with effect from August 1, 2015, and the transferring of our non-universal B2B gas business to E2 resulting in HUF 4.5 billion lower revenues
  - **Energy revenues declined by HUF 23.4 billion in H1 2016** compared to the first half of 2015 due to the reasons described above

- **EBITDA increased by 1.6% in Q2 2016** (up by HUF 0.7 billion) due to an improvement in the gross profit and lower employee related expenses partly mitigated by higher other operating expenses
  - **Gross profit** rose by HUF 1.6 billion due to the improved telco margins driven by higher ARPUs in mobile, fixed BB and TV
  - **Telecommunication tax** expense declined by HUF 0.4 billion due to lower customer base and change in calling habits
  - **Employee-related expenses** improved due to the headcount reduction program implemented in 2014 and 2015 resulting in ca. HUF 2.0 billion of recurring savings for Q2 2016, partly offset by wage and cafeteria benefit increases and smaller proportion of capitalization of employee related expenses relating to projects in the quarter
  - **Other operating expenses** increased by HUF 2.8 billion driven by higher advisory fees due to HSI development for Digital Welfare Program, higher marketing costs and increased sport sponsorship activities, increased office rental fees following the sale of Infopark, higher maintenance, repairs, and remedial work expenses and parallel operation of legacy and next generation IT platforms in CRM, billing and ERP

- **Capex increased by HUF 0.5 billion** in the second quarter of 2016 compared to the same period of last year due to different activities.
  - HUF 1.1 billion more Capex on fixed line and mobile network developments
  - HUF 0.7 billion more Capex on “Must&Policy” mostly driven by regulatory requirements
  - HUF 2.0 billion less Capex on transformation and simplicity projects
  - HUF 0.7 billion more Capex spent on other projects
  - H1 2016 CAPEX decreased by HUF 0.7 billion compared to the first half of 2015

Outlook: Clearly there are some risks to growth in the year ahead as UPC continues to grow its mobile retail subscriber base and Digi is expected to enter this market in the fourth quarter, along with likely price erosion continuing in the business segment; however, there are mitigating factors. First, the negative revenue effect of last year’s MTR cut is behind us; secondly, we are positive about our fixed line residential business as we are about to leverage our last year’s HSI network developments and are looking forward to participating in the Digital Welfare Program run by the Hungarian Government; and thirdly, the SI/IT market is expected to further grow and our intention is to increase our market share focusing on high margin system integration projects. **As such, we are optimistic that we can continue to grow our overall revenues from residential telecommunications in Hungary in the year ahead and that last years’ EBITDA turnaround can be maintained.**

2.2.2 Macedonia

Continued revenue growth, increasing mobile market share

HUF millions	Q2 2015	Q2 2016	Change	Change (%)	1-6 months 2015	1-6 months 2016	Change	Change (%)
Voice	4,693	4,428	(265)	(5.6%)	9,208	8,784	(424)	(4.6%)
Non-voice	1,340	1,554	214	16.0%	2,615	2,965	350	13.4%
Other	1,156	1,444	288	24.9%	2,133	2,714	581	27.2%
Total mobile revenues	**7,189**	**7,426**	**237**	**3.3%**	**13,956**	**14,463**	**507**	**3.6%**
Voice retail	1,511	1,394	(117)	(7.7%)	3,077	2,800	(277)	(9.0%)
Broadband - retail	1,298	1,415	117	9.0%	2,606	2,828	222	8.5%
TV	766	749	(17)	(2.2%)	1,506	1,472	(34)	(2.3%)
Other	1,827	1,615	(212)	(11.6%)	3,761	3,404	(357)	(9.5%)
Fixed line revenues	**5,402**	**5,173**	**(229)**	**(4.2%)**	**10,950**	**10,504**	**(446)**	**(4.1%)**
SI/IT revenues	337	740	403	119.6%	526	976	450	85.6%
Total revenues	**12,928**	**13,339**	**411**	**3.2%**	**25,432**	**25,943**	**511**	**2.0%**
Direct cost	**(3,970)**	**(4,516)**	**(546)**	**(13.8%)**	**(7,557)**	**(8,516)**	**(959)**	**(12.7%)**
Gross margin	**8,958**	**8,823**	**(135)**	**(1.5%)**	**17,875**	**17,427**	**(448)**	**(2.5%)**
Other operating expenses (net)	(3,981)	(5,164)	(1,183)	(29.7%)	(7,851)	(8,889)	(1,038)	(13.2%)
EBITDA	**4,977**	**3,659**	**(1,318)**	**(26.5%)**	**10,024**	**8,538**	**(1,486)**	**(14.8%)**
Segment Capex	**1,272**	**1,457**	**185**	**14.5%**	**1,829**	**2,350**	**521**	**28.5%**

Operational statistics – access numbers	Q2 2015	Q2 2016	Change (%)	1-6 months 2015	1-6 months 2016	Change (%)
Number of mobile customers	1,179,584	1,220,698	3.5%	1,179,584	1,220,698	3.5%
Postpaid share in the customer base	36.9%	39.6%	n.a.	36.9%	39.6%	n.a.
Total fixed voice access	229,373	219,502	(4.3%)	229,373	219,502	(4.3%)
Total retail fixed broadband customers	189,389	188,701	(0.4%)	189,389	188,701	(0.4%)
Total TV customers	99,638	105,432	5.8%	99,638	105,432	5.8%

Following the good results in the first quarter, second quarter revenues continued to increase by 3.2% compared to Q2 2015 driven by growth in mobile and SI/IT revenues.

- **Mobile revenue growth** (+3.3% vs. Q2 2015) reflects the success of our 4Play offer Magenta 1, launched to capitalize on the increasing demand for integrated fixed-mobile services
  - Principal components of this growth were the larger mobile customer base coupled with an increased postpaid share thanks to our focus on this segment. Our mobile market share continued to increase exceeding 48%, and by June 2016 approximately 40% of our customers subscribed for a postpaid package vs. 37% a year ago
  - Non-voice revenues increased (+16.0% vs. Q2 2015) due to a ca. 25% growth in mobile broadband revenues, partly offset by a decline in the number of SMSs sent
  - Other mobile revenues rose significantly (+24.9% vs. Q2 2015) due to higher equipment sales stemming from higher average price of handsets
  - Mobile voice revenues declined (-5.6% vs. Q2 2015) driven by declining ARPU in the prepaid segment and lower roaming prices due to the Balkan roaming agreement
  - H1 2016 mobile revenues increased by 3.6% compared to the first half of 2015 due to the reasons described above
- Continued **decline in fixed line revenues** (-4.2% vs. Q2 2015) mainly driven by lower voice-retail and fixed equipment revenues
  - Voice-retail revenue decline reflects lower traffic and customer base, partly offset by higher fixed broadband revenues
  - Other fixed revenues declined due to lower sales of equipment, such as TV sets and IT equipment
  - H1 2016 total fixed line revenues declined by 4.1% compared to the first half of 2015 in line with the quarterly change

- **An increase in System Integration/IT revenues** (+119.6% vs. Q2 2015) due to higher revenues from several ICT[5] projects
  - Higher uncertainty regarding public sector projects going forward presents a risk to SI/IT revenues
  - On a year-to-date comparison SI/IT revenues increased by 85.6%
- **EBITDA decline of 26.5%** vs. Q2 2015 in HUF terms driven by higher employee related expenses
  - Employee-related expenses increased significantly (by 65.6%) driven by a one-time severance booked in relation to an outsourcing project which impacted approximately 20% of total employees. Effective from July 1, 2016 Ericsson is responsible for our network plan and maintenance activities. Excluding this severance, EBITDA would have declined by only 1.3% year-on-year
  - In H1 2016 EBITDA decreased by 14.8% compared to the first half of 2015 driven by lower gross margin and higher employee-related expenses
- Significant **increase in Capex** (+14.5% vs. Q2 2015) mainly due to faster rollout and higher utilization of FTTH network. Capex in H1 2016 increased to HUF 2.4 bn (+28.5%) due to the same reasons impacting Q2 2016

Outlook: Despites the risks stemming from the current political environment in Macedonia, we believe in the sustainability of the current revenue turnaround which is expected to lead to higher margins, and ultimately, a turnaround in EBITDA.

2.2.3 Montenegro

Increasing competitive and regulatory pressures

HUF millions	Q2 2015	Q2 2016	Change	Change (%)	1-6 months 2015	1-6 months 2016	Change	Change (%)
Voice	1,960	2,085	125	6.4%	3,880	3,986	106	2.7%
Non-voice	946	719	(227)	(24.0%)	1,733	1,404	(329)	(19.0%)
Other	520	518	(2)	(0.4%)	900	940	40	4.4%
Total mobile revenues	**3,426**	**3,322**	**(104)**	**(3.0%)**	**6,513**	**6,330**	**(183)**	**(2.8%)**
Voice retail	1,344	1,133	(211)	(15.7%)	2,694	2,335	(359)	(13.3%)
Broadband - retail	894	835	(59)	(6.6%)	1,772	1,701	(71)	(4.0%)
TV	564	580	16	2.8%	1,125	1,178	53	4.7%
Other	1,163	935	(228)	(19.6%)	1,947	1,744	(203)	(10.4%)
Fixed line revenues	**3,965**	**3,483**	**(482)**	**(12.2%)**	**7,538**	**6,958**	**(580)**	**(7.7%)**
SI/IT revenues	568	403	(165)	(29.0%)	882	651	(231)	(26.2%)
Total revenues	**7,959**	**7,208**	**(751)**	**(9.4%)**	**14,933**	**13,939**	**(994)**	**(6.7%)**
Direct cost	**(2,386)**	**(2,297)**	**89**	**3.7%**	**(4,333)**	**(4,240)**	**93**	**2.1%**
Gross margin	**5,573**	**4,911**	**(662)**	**(11.9%)**	**10,600**	**9,699**	**(901)**	**(8.5%)**
Other operating expenses (net)	(2,413)	(2,525)	(112)	(4.6%)	(5,020)	(5,034)	(14)	(0.3%)
EBITDA	**3,160**	**2,386**	**(774)**	**(24.5%)**	**5,580**	**4,665**	**(915)**	**(16.4%)**
Segment Capex	**1,057**	**1,155**	**98**	**9.3%**	**1,304**	**1,674**	**370**	**28.4%**

Operational statistics – access numbers	Q2 2015	Q2 2016	Change (%)	1-6 months 2015	1-6 months 2016	Change (%)
Number of mobile customers	341,645	344,607	0.9%	341,645	344,607	0.9%
Postpaid share in the customer base	44.2%	50.6%	n.a.	44.2%	50.6%	n.a.
Total fixed voice access	146,663	138,377	(5.6%)	146,663	138,377	(5.6%)
Total retail fixed broadband customers	94,302	89,987	(4.6%)	94,302	89,987	(4.6%)
Total TV customers	61,686	59,905	(2.9%)	61,686	59,905	(2.9%)

[5] Information and Communication Technology

Competitive and regulatory pressures continued to be felt across all major revenue lines, with **total revenues declining by 9.4%** year-on-year in Q2 2016 in HUF terms.

- **Mobile revenue decline** (-3.0% vs. Q2 2015) reflects lower voice ARPU and a decline in SMSs (both outgoing and incoming) due to OTT competition
  - Decline in mobile market share reversed following successful Montenegro launch of 4Play offer Magenta 1 in January 2016, which resulted in subscriber growth and a significant increase in our post-paid ratio of 51% (vs. 44% in Q2 2015)
  - Decrease in non-voice revenues due to a significant decline in mobile broadband prices driven by fierce competition and lower SMS revenues
  - H1 2016 total mobile revenues declined by 2.8% compared to the first half of 2015 due to the reasons described above
- **Fixed line revenue declined further** (-12.2% vs. Q2 2015) in the face of sustained competitive and regulatory headwinds
  - Stronger push by cable competitors of 3Play bundle offers leading to some decline in our fixed broadband and TV market share (fixed voice market share remains strong at over 95%)
  - Fixed voice and broadband revenues decreased due to sustained regulatory pressures
  - Other fixed line revenues declined due to lower fixed wholesale revenues
  - H1 2016 total fixed line revenues declined by only 7.7% compared to the first half of 2015 as we faced more pressure from the stronger competition in Q2 2016 compared to Q1 2016
- **Decline in SI/IT revenues** (-29.0% vs. Q2 2015) reflecting a different dynamic to the execution of ICT deals, on a year-to-date basis SI/IT revenues were down by 26.2%.
- **Q2 2016 EBITDA decline of 24.5%** year-on-year in HUF terms (H1 2016 down by 16.4% year-on-year) was driven principally by the 11.9% decline in the gross profit and higher other operating expenses
  - Decline in gross profit principally reflects the 9.4% fall in total revenues, due to ongoing competitive pressures across all business lines
  - A one-time effect of reversal of former years' tax expense accruals in Q2 2015 related to a favorable court decision, which influences the underlying year-on-year comparison and leads to 4.6% higher other operating expenses. Nevertheless, disregarding this one-off item, the change in other operating expenses has a favorable effect on EBITDA
- **Capex increased** (+9.3% vs. Q2 2015) principally due to an acceleration in the rollout of FTTH in order to narrow the High Speed Internet coverage gap to our cable operator competitors. Capex in H1 2016 increased to HUF 1.7bn (+28.4%) due to the same reasons impacting Q2 2016

Outlook: We believe that with fixed and mobile services continuing to converge, the launch of our 4Play offer Magenta 1 will help us mitigate the pressure stemming from fiercer competition and stricter regulation, by being better positioned to defend the strong market share that we have in fixed line voice and to grow our mobile subscribers.

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.

EGYÜTT. VELED

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)	Q2 2015 (Unaudited)	Q2 2016 (Unaudited)	Change	Change (%)
Revenues				
Voice retail	39,450	38,655	(795)	(2.0%)
Voice wholesale	2,874	2,987	113	3.9%
Data	14,725	15,960	1,235	8.4%
SMS	4,603	4,465	(138)	(3.0%)
Equipment	11,735	13,855	2,120	18.1%
Other mobile revenues	3,486	3,839	353	10.1%
Mobile revenues	**76,873**	**79,761**	**2,888**	**3.8%**
Voice retail	15,028	14,006	(1,022)	(6.8%)
Broadband retail	13,215	13,519	304	2.3%
TV	10,596	11,258	662	6.2%
Equipment	1,648	1,302	(346)	(21.0%)
Data retail	2,728	2,720	(8)	(0.3%)
Wholesale	5,403	5,310	(93)	(1.7%)
Other fixed line revenues	4,027	4,545	518	12.9%
Fixed line revenues	**52,645**	**52,660**	**15**	**0.0%**
System Integration/Information Technology revenues	18,534	14,255	(4,279)	(23.1%)
Energy service revenues	10,443	1,490	(8,953)	(85.7%)
Total revenues	**158,495**	**148,166**	**(10,329)**	**(6.5%)**
Direct costs				
Interconnect costs	(4,950)	(5,441)	(491)	(9.9%)
SI/IT service related costs	(12,056)	(7,638)	4,418	36.6%
Energy service related costs	(10,113)	(1,481)	8,632	85.4%
Bad debt expense	(2,235)	(2,250)	(15)	(0.7%)
Other direct costs	(26,728)	(28,132)	(1,404)	(5.3%)
Direct costs	**(56,082)**	**(44,942)**	**11,140**	**19.9%**
Gross margin	**102,413**	**103,224**	**811**	**0.8%**
Employee-related expenses	(22,334)	(21,234)	1,100	4.9%
Hungarian sector specific special taxes	(6,486)	(6,112)	374	5.8%
Other operating expenses	(23,123)	(26,006)	(2,883)	(12.5%)
Other operating income	1,707	1,282	(425)	(24.9%)
EBITDA	**52,177**	**51,154**	**(1,023)**	**(2.0%)**
Depreciation and amortization	(26,703)	(28,281)	(1,578)	(5.9%)
Operating profit	**25,474**	**22,873**	**(2,601)**	**(10.2%)**
Net financial result	(6,816)	(5,911)	905	13.3%
Share of associates' and joint ventures' results	0	102	102	n.a.
Profit before income tax	**18,658**	**17,064**	**(1,594)**	**(8.5%)**
Income tax	(5,129)	(5,468)	(339)	(6.6%)
Profit for the period	**13,529**	**11,596**	**(1,933)**	**(14.3%)**
Change in exchange differences on translating foreign operations	7,025	731	(6,294)	(89.6%)
Revaluation of available-for-sale financial assets	(16)	(10)	6	37.5%
Other comprehensive income for the period	7,009	721	(6,288)	(89.7%)
Total comprehensive income for the period	**20,538**	**12,317**	**(8,221)**	**(40.0%)**
Profit attributable to:				
Owners of the parent	12,520	11,370	(1,150)	(9.2%)
Non-controlling interests	1,009	226	(783)	(77.6%)
	13,529	**11,596**	**(1,933)**	**(14.3%)**
Total comprehensive income attributable to:				
Owners of the parent	17,229	11,867	(5,362)	(31.1%)
Non-controlling interests	3,309	450	(2,859)	(86.4%)
	20,538	**12,317**	**(8,221)**	**(40.0%)**
Basic and diluted earnings per share (HUF)	**12.01**	**10.91**	**(1.10)**	**(9.2%)**

3.3. Consolidated Statements of Profit or loss and other comprehensive income – first half year-on-year comparison

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	1-6 months 2015 (Unaudited)	1-6 months 2016 (Unaudited)	Change	Change (%)
Revenues				
Voice retail	77,687	76,767	(920)	(1.2%)
Voice wholesale	9,708	5,743	(3,965)	(40.8%)
Data	28,618	31,406	2,788	9.7%
SMS	9,127	8,856	(271)	(3.0%)
Equipment	21,757	25,070	3,313	15.2%
Other mobile revenues	6,914	7,213	299	4.3%
Mobile revenues	**153,811**	**155,055**	**1,244**	**0.8%**
Voice - retail	30,235	27,931	(2,304)	(7.6%)
Broadband retail	25,466	26,654	1,188	4.7%
TV	20,934	22,054	1,120	5.4%
Equipment	3,553	2,940	(613)	(17.3%)
Data retail	5,297	5,269	(28)	(0.5%)
Wholesale	10,039	10,919	880	8.8%
Other fixed line revenues	7,770	8,709	939	12.1%
Fixed line revenues	**103,294**	**104,476**	**1,182**	**1.1%**
System Integration/Information Technology revenues	31,115	29,883	(1,232)	(4.0%)
Energy service revenues	27,232	3,803	(23,429)	(86.0%)
Total revenues	**315,452**	**293,217**	**(22,235)**	**(7.0%)**
Direct costs				
Interconnect costs	(12,999)	(10,738)	2,261	17.4%
SI/IT service related costs	(18,929)	(16,972)	1,957	10.3%
Energy service related costs	(25,882)	(3,737)	22,145	85.6%
Bad debt expense	(4,127)	(4,664)	(537)	(13.0%)
Other direct costs	(51,922)	(54,258)	(2,336)	(4.5%)
Direct costs	**(113,859)**	**(90,369)**	**23,490**	**20.6%**
Gross margin	**201,593**	**202,848**	**1,255**	**0.6%**
Employee-related expenses	(44,232)	(42,077)	2,155	4.9%
Hungarian sector specific special taxes	(20,361)	(19,565)	796	3.9%
Other operating expenses	(44,834)	(49,634)	(4,800)	(10.7%)
Other operating income	2,477	7,830	5,353	216.1%
EBITDA	**94,643**	**99,402**	**4,759**	**5.0%**
Depreciation and amortization	(54,371)	(54,977)	(606)	(1.1%)
Operating profit	**40,272**	**44,425**	**4,153**	**10.3%**
Net financial result	(15,429)	(12,469)	2,960	19.2%
Share of associates' and joint ventures' results	0	78	78	n.a.
Profit before income tax	**24,843**	**32,034**	**7,191**	**28.9%**
Income tax	(7,992)	(8,973)	(981)	(12.3%)
Profit for the period	**16,851**	**23,061**	**6,210**	**36.9%**
Change in exchange differences on translating foreign operations	(140)	1,095	1,235	n.m.
Revaluation of available-for-sale financial assets	(28)	(11)	17	60.7%
Other comprehensive income for the period	(168)	1,084	1,252	n.m.
Total comprehensive income for the period	**16,683**	**24,145**	**7,462**	**44.7%**
Profit attributable to:				
Owners of the parent	15,026	22,085	7,059	47.0%
Non-controlling interests	1,825	976	(849)	(46.5%)
	16,851	**23,061**	**6,210**	**36.9%**
Total comprehensive income attributable to:				
Owners of the parent	15,037	22,845	7,808	51.9%
Non-controlling interests	1,646	1,300	(346)	(21.0%)
	16,683	**24,145**	**7,462**	**44.7%**
Basic and diluted earnings per share (HUF)	**14.42**	**21.19**	**6.77**	**46.9%**

3.4. Consolidated Statements of Financial Position

MAGYAR TELEKOM Consolidated Statements of Financial Position (HUF million)	Dec 31, 2015 (Audited)	Jun 30, 2016 (Unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	17,558	14,028	(3,530)	(20.1%)
Trade and other receivables	162,762	153,755	(9,007)	(5.5%)
Other current financial assets	11,052	13,312	2,260	20.4%
Current income tax receivable	1,356	738	(618)	(45.6%)
Inventories	12,665	13,842	1,177	9.3%
	205,393	195,675	(9,718)	(4.7%)
Assets held for sale	4,785	1,863	(2,922)	(61.1%)
Total current assets	**210,178**	**197,538**	**(12,640)**	**(6.0%)**
Non current assets				
Property, plant and equipment	493,204	477,633	(15,571)	(3.2%)
Intangible assets	260,909	251,200	(9,709)	(3.7%)
Goodwill	217,935	218,185	250	0.1%
Investments in associates and joint ventures	1,000	1,078	78	7.8%
Deferred tax assets	47	47	0	0.0%
Other non current financial assets	22,950	18,075	(4,875)	(21.2%)
Other non current assets	801	789	(12)	(1.5%)
Total non current assets	**996,846**	**967,007**	**(29,839)**	**(3.0%)**
Total assets	**1,207,024**	**1,164,545**	**(42,479)**	**(3.5%)**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	136,906	157,422	20,516	15.0%
Other financial liabilities	26,152	23,401	(2,751)	(10.5%)
Trade payables	140,182	98,363	(41,819)	(29.8%)
Current income tax payable	1,399	1,297	(102)	(7.3%)
Provisions	7,185	3,351	(3,834)	(53.4%)
Other current liabilities	39,142	43,495	4,353	11.1%
	350,966	327,329	(23,637)	(6.7%)
Liabilities held for sale	1,217	0	(1,217)	(100.0%)
Total current liabilities	**352,183**	**327,329**	**(24,854)**	**(7.1%)**
Non current liabilities				
Financial liabilities to related parties	220,088	198,291	(21,797)	(9.9%)
Other financial liabilities	54,857	52,332	(2,525)	(4.6%)
Deferred tax liabilities	23,813	27,261	3,448	14.5%
Provisions	9,907	9,311	(596)	(6.0%)
Other non current liabilities	1,245	1,218	(27)	(2.2%)
Total non current liabilities	**309,910**	**288,413**	**(21,497)**	**(6.9%)**
Total liabilities	**662,093**	**615,742**	**(46,351)**	**(7.0%)**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,412	27,390	(22)	(0.1%)
Treasury stock	(307)	(275)	32	10.4%
Retained earnings	337,014	343,466	6,452	1.9%
Accumulated other comprehensive income	31,824	32,584	760	2.4%
Total Equity of the owners of the parent	**500,218**	**507,440**	**7,222**	**1.4%**
Non-controlling interests	44,713	41,363	(3,350)	(7.5%)
Total equity	**544,931**	**548,803**	**3,872**	**0.7%**
Total liabilities and equity	**1,207,024**	**1,164,545**	**(42,479)**	**(3.5%)**

3.5. Consolidated Statements of Cash Flows

MAGYAR TELEKOM

Consolidated Statements of Cash Flows (HUF million)	1-6 months 2015 (Unaudited)	1-6 months 2016 (Unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	16,851	23,061	6,210	36.9%
Depreciation and amortization	54,371	54,977	606	1.1%
Income tax expense	7,992	8,973	981	12.3%
Net financial result	15,429	12,469	(2,960)	(19.2%)
Share of associates' and joint ventures' result	0	(78)	(78)	n.a.
Change in assets carried as working capital	(13,688)	11,618	25,306	n.m.
Change in provisions	(1,571)	(4,405)	(2,834)	(180.4%)
Change in liabilities carried as working capital	715	(22,623)	(23,338)	n.m.
Income tax paid	(6,196)	(5,012)	1,184	19.1%
Dividend received	0	14	14	n.a.
Interest and other financial charges paid	(14,877)	(11,979)	2,898	19.5%
Interest received	503	343	(160)	(31.8%)
Other non-cash items	(1,050)	(4,989)	(3,939)	(375.1%)
Net cash generated from operating activities	**58,479**	**62,369**	**3,890**	**6.7%**
Cash flows from investing activities				
Investments in tangible and intangible assets	(35,088)	(35,261)	(173)	(0.5%)
Adjustments to cash purchases	(6,201)	(15,144)	(8,943)	(144.2%)
Purchase of subsidiaries and business units	(15,773)	(28)	15,745	99.8%
Cash acquired through business combinations	1,815	0	(1,815)	(100.0%)
(Payments for) / Proceeds from other financial assets - net	17,075	(1,180)	(18,255)	n.m.
Proceeds from disposal of property, plant and equipment (PPE) and intangible assets	737	8,760	8,023	n.m.
Proceeds from disposal of subsidiaries and associates	0	3,484	3,484	n.a.
Net cash used in investing activities	**(37,435)**	**(39,369)**	**(1,934)**	**(5.2%)**
Cash flows from financing activities				
Dividends paid to shareholders and Non-controlling interests	(6,158)	(19,224)	(13,066)	(212.2%)
Proceeds from/Repayment of loans and other borrowings -net	(11,317)	(3,401)	7,916	69.9%
Repayment of other financial liabilities	(5,372)	(4,000)	1,372	25.5%
Net cash used in financing activities	**(22,847)**	**(26,625)**	**(3,778)**	**(16.5%)**
Exchange differences on cash and cash equivalents	(10)	95	105	n.m.
Change in cash and cash equivalents	**(1,813)**	**(3,530)**	**(1,717)**	**(94.7%)**
Cash and cash equivalents, beginning of period	14,625	17,558	2,933	20.1%
Cash and cash equivalents, end of period	12,812	14,028	1,216	9.5%
Change in cash and cash equivalents	**(1,813)**	**(3,530)**	**(1,717)**	**(94.7%)**

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											
Dividend declared to Non-controlling interests										(6,423)	(6,423)
Equity settled share-based transactions				10					10		10
Acquisition of GTS Hungary						(1,108)			(1,108)		(1,108)
Total comprehensive income						15,026	28	(17)	15,037	1,646	16,683
Balance at June 30, 2015	1,042,742,543	104,275	27,379	27	(307)	324,324	32,304	(109)	487,893	45,667	533,560
Dividend											
Dividend declared to Non-controlling interests										(2,699)	(2,699)
Equity settled share-based transactions				6					6		6
Total comprehensive income						12,690	(412)	41	12,319	1,745	14,064
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										(4,650)	(4,650)
Equity settled share-based transactions				(22)	32				10		10
Total comprehensive income						22,085	767	(7)	22,845	1,300	24,145
Balance at June 30, 2016	1,042,742,543	104,275	27,379	11	(275)	343,466	32,659	(75)	507,440	41,363	548,803

3.7. Exchange rate information

Exchange rate	Q2 2015	Q2 2016	Change (%)	1-6 months 2015	1-6 months 2016	Change (%)
HUF/EUR beginning of period	299.14	314.16	**5.0%**	314.89	313.12	**(0.6%)**
HUF/EUR period-end	315.04	316.16	**0.4%**	315.04	316.16	**0.4%**
HUF/EUR cumulative monthly average	306.52	313.71	**2.3%**	306.75	312.99	**2.0%**
HUF/MKD beginning of period	4.86	5.09	**4.7%**	5.12	5.08	**(0.8%)**
HUF/MKD period-end	5.11	5.12	**0.2%**	5.11	5.12	**0.2%**
HUF/MKD cumulative monthly average	4.97	5.08	**2.2%**	4.98	5.07	**1.8%**

3.8. Segment information

HUF millions	Q2 2015	Q2 2016	1-6 months 2015	1-6 months 2016
Total Telekom Hungary revenues	137,683	127,736	275,257	253,535
Less: Telekom Hungary revenues from other segments	(59)	(71)	(131)	(132)
Telekom Hungary revenues from external customers	**137,624**	**127,665**	**275,126**	**253,403**
Total Macedonia revenues	12,928	13,339	25,432	25,943
Less: Macedonia revenues from other segments	(18)	(17)	(33)	(33)
Macedonia revenues from external customers	**12,910**	**13,322**	**25,399**	**25,910**
Total Montenegro revenues	7,959	7,208	14,933	13,939
Less: Montenegro revenues from other segments	2	(29)	(6)	(35)
Montenegro revenues from external customers	**7,961**	**7,179**	**14,927**	**13,904**
Total consolidated revenue of the segments	158,495	148,166	315,452	293,217
Measurement/rounding differences to Group revenue	0	0	0	0
Total revenue of the Group	**158,495**	**148,166**	**315,452**	**293,217**
Segment results (EBITDA)				
Telekom Hungary	44,229	44,946	79,389	86,196
Macedonia	4,977	3,659	10,024	8,538
Montenegro	3,160	2,386	5,580	4,665
Total EBITDA of the segments	**52,366**	**50,991**	**94,993**	**99,399**
Measurement/rounding differences to Group EBITDA	(189)	163	(350)	3
Total EBITDA of the Group	**52,177**	**51,154**	**94,643**	**99,402**

4. DECLARATION

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

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

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

Budapest, August 4, 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, 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.