MAGYAR TELEKOM

INTERIM FINANCIAL REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED MARCH 31, 2017

Budapest – May 10, 2017 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the first quarter of 2017, in accordance with International Financial Reporting Standards (IFRS).

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EGYÜTT. VELED

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REVENUE GROWTH DRIVEN BY STRONG MOBILE DATA AND SI/IT PERFORMANCE

1. HIGHLIGHTS

Financial highlights:

MAGYAR TELEKOM Group Financial Results - IFRS (HUF million, except ratios)	Q1 2016 Continuing operation (Unaudited)	Q1 2017 Continuing operation (Unaudited)	Change (%)
Total revenues	**138,326**	**140,507**	**1.6%**
Operating profit	**20,627**	**12,622**	**(38.8%)**
Profit attributable to:			
Owners of the parent	10,052	4,104	(59.2%)
Non-controlling interests	553	710	28.4%
	10,605	**4,814**	**(54.6%)**
Gross profit	88,638	87,565	(1.2%)
EBITDA	45,935	38,342	(16.5%)
EBITDA margin	33.2%	27.3%	n.a.
Free cash flow	9,932	250	(97.5%)
Basic earnings per share (HUF)	**9.64**	**2.83**	**(70.6%)**
CAPEX to Sales	**8.0%**	**11.0%**	**n.a.**
Number of employees (closing full equivalent)	**9,571**	**9,067**	**(5.3%)**
	Q4 2016 (Audited)	Q1 2017 (Unaudited)	
Net debt	**376,557**	**338,313**	**(10.2%)**
Net debt / total capital	**39.3%**	**37.0%**	**n.a.**

Strategic highlights:

- **Increase in Group revenue[1] driven by the strategically important areas of mobile data and SI/IT**
  - **Increase in mobile equipment revenues and accelerating postpaid customer growth in Hungary reflect strong customer acquisition and retention efforts in Q1 2017**
  - **Stable telephony revenues in Hungary supported by increased customer base in fixed broadband and pay TV, coupled with improving customer mix and increasing ARPU in the mobile segment**
  - **Return to growth in Hungarian SI/IT revenues, principally due to public procurement tenders**
  - **Decline in wholesale revenues in Macedonia partly compensated by growth in mobile data and pay TV revenues (both driven by higher subscriber bases)**
- **EBITDA decline driven by absence of one-off gains which boosted Q1 2016 results, and higher mobile equipment subsidies**
- **Reduction in Free Cash Flow from continuing operations reflects the high Q1 2016 comparison figure, which was boosted by one-off gains (from the sale of Origo and Infopark Building G) of HUF 11.3 billion**
- **Net transaction price of HUF 36.4 billion received on the disposal of Crnogorski Telekom**
- **Net debt ratio improved to 37.0% as a result of the sale of Crnogorski Telekom**

[1] Excluding Crnogorski Telekom results

Christopher Mattheisen, CEO commented:

"I am pleased to report a strong performance in the first quarter of 2017, with revenues for the Group increased by 1.6%. This excludes the results of Crnogorski Telekom, which, since the beginning of the year, are deconsolidated from Group results. The 16.5% decline in EBITDA that we witnessed in Q1 2017 largely reflects one-off profits realized on the sales of Infopark (Building G) and Origo in Q1 2016.

Our Hungarian operations performed well, with increased revenues due to growth in mobile data and SI/IT revenues. In the first quarter of this year, to capitalize on the positive momentum in the mobile market, we focused on customer acquisition and retention through increased marketing activities and investments in the form of higher levels of equipment subsidies. These efforts resulted in accelerated mobile postpaid customer growth, decreased churn and increased sales of smartphones and data packages. In the short term, the costs associated with these efforts have had a slight negative impact on our direct margin. However, many customers have subscribed to a 2-year loyalty contract, which has boosted rates of customer retention. At the end of March, we launched a new and flexible postpaid mobile tariff portfolio, with a choice of data and voice packages, which aims to increase our FMC customer base through discounts and the encouragement of upgrades to larger data packages. Notwithstanding the positive impacts this focus of customer acquisition and retention is having on our mobile indicators, it has also benefited the fixed line segment resulting in strong net adds in both fixed broadband and TV customer figures. Our efforts to grow our fixed customer base despite the highly competitive environment will be further supported by continued investment to expand our high speed internet network, albeit on a lower scale than in previous years. We plan to cover more than 250 thousand new households with high speed internet in 2017.

In Macedonia, despite political and competitive headwinds, as well as a 33% cut in mobile termination rates, MakTel's performance was relatively stable, resulting in a slight revenue and EBITDA decline. Mobile revenues showed steady growth for the quarter, thanks to our continued 4G and smartphone push, reflected in growing mobile broadband revenues and increased equipment sales.

Looking ahead to the rest of the year, although Digi seems to have postponed its entry to the mobile market, competitive pressures remain, both in mobile B2B and prepaid segments as well as for 3Play pricing. Further cuts to EU roaming rates, as well as the looming regulatory deadline for prepaid SIM registration are also set to pose challenges.

As previously communicated, we anticipate growth in the Hungarian SI/IT market this year, underpinned by higher EU fund inflows. We intend to increase our share of this growing market and the first quarter bears testimony that this is already happening; our SI/IT revenues have increased by 11.8% thanks to revenue streams resulting primarily from public procurement tender wins.

We believe that going forward, our new mobile postpaid portfolio will contribute to further expansion of our FMC customer base and as currently the only integrated operator, we will be able to maximize the telecommunication share of the household spending wallet."

Public guidance*:

	2016	Public guidance for 2017
Revenue	HUF 574 billion	around HUF 560 billion
EBITDA	HUF 188 billion	around HUF 182 billion
Capex	HUF 98 billion	around HUF 85 billion
FCF	HUF 57 billion	around HUF 55 billion
Dividend	HUF 25 per share	HUF 25 per share

**excluding Crnogorski Telekom financials and the transaction price of the disposal of the majority ownership*

2. MANAGEMENT REPORT

2.1. Consolidated IFRS Group Results

2.1.1 Group Profit and Loss

MAGYAR TELEKOM Consolidated Statements of Comprehensive Income (HUF million)	Q1 2016 (Unaudited)	Q1 2017 (Unaudited)	Change	Change (%)
Revenues				
Mobile revenues	72,287	74,250	1,963	2.7%
Fixed line revenues	48,346	47,548	(798)	(1.7%)
System Integration/Information Technology revenues	15,380	17,129	1,749	11.4%
Energy service revenues	2,313	1,580	(733)	(31.7%)
Total revenues	**138,326**	**140,507**	**2,181**	**1.6%**
Direct costs	**(49,688)**	**(52,942)**	**(3,254)**	**(6.5%)**
Gross profit	**88,638**	**87,565**	**(1,073)**	**(1.2%)**
Indirect costs	**(42,703)**	**(49,223)**	**(6,520)**	**(15.3%)**
EBITDA	**45,935**	**38,342**	**(7,593)**	**(16.5%)**
Depreciation and amortization	(25,308)	(25,720)	(412)	(1.6%)
Operating profit	**20,627**	**12,622**	**(8,005)**	**(38.8%)**
Net financial result	(6,607)	(6,050)	557	8.4%
Share of associates and joint ventures' results	(24)	309	333	n.m.
Profit before income tax	**13,996**	**6,881**	**(7,115)**	**(50.8%)**
Income tax	(3,391)	(2,067)	1,324	39.0%
Profit for the period from continuing operations	**10,605**	**4,814**	**(5,791)**	**(54.6%)**
Profit from discontinued operation	860	9,526	8,666	n.m.
Total profit for the period	**11,465**	**14,340**	**2,875**	**25.1%**

Total revenues, without the contribution of Crnogorski Telekom, increased 1.6% year-on-year to HUF 140.5 billion in Q1 2017 (Q1 2016: HUF 138.3 billion). This increase was largely driven by mobile data, equipment sales and SI/IT revenue growth.

- **Mobile revenues increased by 2.7% to HUF 74.3 billion in Q1 2017**, as the continued growth in mobile data and equipment sales offset the decline in voice revenues.
  - **Voice retail** revenues declined by 4.8% at Group level to HUF 34.7 billion. In Hungary, the 5.4% decline in voice retail revenues resulted from competitive pressures leading to price erosion, in both the business and residential segments, coupled with roaming rate reduction and decline in the overall subscriber base. Voice retail revenues increased slightly (+1.5%) in Macedonia, as moderate growth in the customer base was coupled with stable usage and price levels.
  - **Voice wholesale** revenues declined by 6.2% to HUF 2.3 billion, due to lower volume of international incoming mobile traffic and the cut in mobile termination rates in December 2016 in Macedonia.
  - **Data revenues** grew by 14.4% to HUF 17.2 billion, driven by higher mobile internet revenues across the Group, as both subscriber numbers and usage increased.
  - **SMS** revenues increased slightly to HUF 4.1 billion, as higher revenues from mass messaging in Hungary offset the declining trend in residential customers' SMS usage.
  - **Mobile equipment** revenues increased by 15.1% to HUF 12.5 billion, attributable to both our strong focus on customer acquisition in Hungary that led to increased smartphone sales, and higher third party export sales
- **Fixed line revenues declined by 1.7% to HUF 47.5 billion in Q1 2017,** due to lower voice, broadband, wholesale and other revenues. At the same time, the first quarter saw increased TV revenues and equipment sales.
  - **Voice-retail** revenues decreased by 7.6% to HUF 11.8 billion, driven by continued decline in the customer base and average tariff levels, both in Hungary and Macedonia.
  - **Broadband retail** revenues declined by 1.0% to HUF 12.1 billion, as in both Hungary and Macedonia, the positive impact of the higher customer base was offset by a decline in price levels.

- The 8.9% increase in **TV** revenues to HUF 11.1 billion reflects the growing IPTV subscriber base and higher ARPUs in both countries of operation.
- **Fixed equipment** revenues grew to HUF 1.9 billion, owing to a strong increase in TV set and laptop sales in Hungary.
- **Data retail** revenues declined by 1.8% to HUF 2.3 billion, as leased line revenues continued to decrease in Macedonia.
- **Wholesale** revenues declined by 13.8% to HUF 4.6 billion, due to termination of part of our wholesale activity at our Romanian subsidiary, Combridge, and lower fixed incoming domestic and international traffic at the Macedonian operation.
- **Other fixed line** revenues decreased by 9.2% to HUF 3.7 billion, reflecting lower revenues from device rental, the deconsolidation of Origo, and lower late payment fees.

- **System Integration (SI) and IT revenues improved by 11.4% year-on-year to HUF 17.1 billion in Q1 2017**, thanks to two major public procurement projects won: an infrastructure implementation project for the FINA World Championships, and an equipment delivery and system implementation project for the National University of Public Services. Furthermore, IT service sales in the Hungarian SMB segment also increased.
- **Energy Services revenues decreased to HUF 1.6 billion in Q1 2017**, due to a contracting electricity customer base and expiry of the last remaining gas universal contracts.

Direct costs increased by 6.5% to HUF 52.9 billion in Q1 2017 compared to Q1 2016. Telecom tax was reclassified from Other operating expenses to Direct costs since Management believes that presenting the new direct cost breakdown the financial data of the Group become more transparent. The increase in direct costs is a result of higher SI/IT and other costs, partly offset by lower energy service related costs and bad debt expense.

- **Interconnect costs** decreased to HUF 4.4 billion, driven by lower fixed traffic in both Hungary and Macedonia.
- **SI/IT service related costs** increased by HUF 1.4 billion to HUF 10.7 billion, reflecting higher revenues.
- **Bad debt expenses** improved by 25.6% to HUF 1.7 billion, thanks to an enhanced collection and credit check process.
- **Telecom tax** decreased by 5.4% to HUF 5.9 billion, reflecting the changing customer behavior.
- **Other direct costs** increased by 15.5% to HUF 28.8 billion, due to an increase in the cost of equipment sales in line with a higher volume of Hungarian smartphone sales, as well as to higher TV content related costs, mainly attributable to the new content fee introduced in July 2016 in Hungary.

Gross profit decreased by 1.2% year-on-year to HUF 87.6 billion in Q1 2017 as improved SI/IT margin and lower bad debt expense were more than offset by the increase in mobile equipment subsidies and TV service margin deterioration due to the new content fee.

Indirect costs increased by 1.5% to HUF 50.0 billion in Q1 2017 and other operating income significantly declined due to one-offs (sale of a real estate and Origo) positively impacting Q1 2016 results.

- **Employee-related expenses** improved by 2.1% to HUF 19.4 billion as a proportionately higher level of employee costs were related to projects capitalized in Q1 2017 than in the Q1 2016, whilst outsourcing to Ericsson resulted in savings in Macedonia.
- **Hungarian utility tax** in Q1 2017 was HUF 7.4 billion, HUF 0.2 billion higher than in Q1 2016, reflecting network acquisitions, as well as an increased length of taxable network due to refinement of the cable network records . These offset the positive effects of Magyar Telekom's tax credit relating to those new network investments and upgrades which enable internet access of least 100 Mbps.
- **Other operating expenses** increased by 4.5% to HUF 23.2 billion, driven by higher rental fees related to the sale and subsequent leaseback of Infopark (Building G) and the rental of local state-of-the-art cable networks, while maintenance, repairs, and remedial work expenses also increased in Hungary. In addition, maintenance costs increased in Macedonia due to the outsourcing to Ericsson.
- **Other operating income** declined sharply year-on-year to HUF 0.8 billion, reflecting the absence of above-mentioned one-off items, as well as provision reversals relating to the amendment of the collection flat rate in Q1 2016.

EBITDA declined by 16.5% year-on-year to HUF 38.3 billion in Q1 2017, due to lower gross margin and higher indirect costs, as well as an unusually high Q1 2016 comparison figure, supported by one-off items.

Depreciation and amortization expenses increased by 1.6% to HUF 25.7 billion, reflecting the software activation related to new billing and CRM systems in Hungary.

Profit for the period from continuing operations fell by 54.6% to HUF 4.8 billion in Q1 2017.

- **Operating profit** declined by 38.8% to HUF 12.6 billion, impacted by both lower EBITDA and higher D&A compared to Q1 2016.

- **Net financial loss** narrowed to HUF 6.1 billion in Q1 2017, driven by the decline in interest expense thanks to lower average interest rates and lower total amount of loans outstanding. The lower interest expense was partly offset by higher losses on the fair valuation of derivatives, as in Q1 2017 the HUF strengthened by 0.75% against the EUR compared to a 0.33% weakening in Q1 2016.

- **Income tax** expense declined by 39.0% to HUF 2.1 billion in Q1 2017. The lower income tax expense reflects the significant decline in profit before income tax; although offset to a degree by the local tax.

Profit attributable to non-controlling interests increased to HUF 0.7 billion in Q1 2017, due to higher profit in Macedonia, where lower depreciation and amortization expenses more than offset the EBITDA decline.

Profit from discontinued operation

- In January 2017, the Company signed a share purchase agreement with Hrvatski Telekom d.d. for the sale of the Company's entire 76.53% shareholding in Crnogorski Telekom A.D., for a total consideration of EUR 123.5 million (HUF 38.5 billion). The transaction closed in January 2017. Consequently, in accordance with IFRS5, the results and cash flows of the Montenegrin operations are presented as discontinued operations for both the comparative and the current period. (For further details please see section 2.2.3)

Net debt decreased by 10.2% from HUF 376.6 billion at the end of the fourth quarter of 2016 to HUF 338.3 billion by the end of March 2017, and the net debt ratio (net debt to total capital) improved from 39.3% to 37.0%, reflecting the payment received from the sale of Crnogorski Telekom.

2.1.2 Group Cash Flows

HUF millions	1-3 months 2016	1-3 months 2017	Change
Operating cash flow from continuing operation	24,878	27,639	2,761
Investing cash flow from continuing operation	(18,654)	(28,138)	(9,484)
Less: Proceeds from other financial assets - net	4,942	2,723	(2,219)
Investing cash flow excluding Proceeds from other financial assets – net	(13,712)	(25,415)	(11,703)
Repayment of other financial liabilities	(1,234)	(1,974)	(740)
Free cash flow from continuing operation	**9,932**	**250**	**(9,682)**
Net cash generated from/(used in) operating activities from discontinued operation	1,365	(25)	(1,390)
Net cash (used in)/generated from investing activities from discontinued operation*	(1,550)	36,292	37,842
Free cash flow from discontinued operation	**(185)**	**36,267**	**36,452**
Total free cash flow	**9,747**	**36,517**	**26,770**
Proceeds from other financial assets - net	(4,917)	(2,723)	2,194
Proceeds from/Repayment of loans and other borrowings - net	(7,776)	(37,594)	(29,818)
Dividends paid to Owners of the parent and Non-controlling interests	(2,433)	0	2,433
Net cash (used in)/generated from financing activities from discontinued operation	(14)	2,041	2,055
Exchange differences on cash and cash equivalents	9	(47)	(56)
Exchange differences on cash and cash equivalents from discontinued operation	17	0	(17)
Change in cash and cash equivalents	**(5,367)**	**(1,806)**	**3,561**

* Less: Proceeds from other financial assets - net from discontinued operation

Free cash flow from continuing operation

Operating cash flow from continuing operation

Net cash generated from operating activities amounted to HUF 27.6 billion in Q1 2017, compared to HUF 24.9 billion in Q1 2016. Main reasons for the increase of HUF 2.8 billion were the following:

- HUF 7.6 billion **negative change** due to the lower **EBITDA** in Q1 2017 than in Q1 2016
- HUF 12.8 billion **negative change in active working capital** mainly as a result of the following impacts:
  - lower decrease of energy receivables due to transfer of the energy services for business customers to E2 at the beginning of 2016 (negative impact: ca. HUF 6.3 billion)
  - lower decrease in SI/IT receivables triggered by different seasonality of the projects (negative impact: ca. HUF 5.3 billion)
  - rearranged terms of the installment receivables in 2017 (the length of the installment period related to equipment sales has been extended) (negative impact: ca. HUF 1.3 billion)

- HUF 2.6 billion **positive change** due to lower net payments of severance **provision** in Q1 2017 than in Q1 2016
- HUF 14.5 billion **positive change in passive working capital** primarily driven by the following factors:

- higher payment to SI/IT services related suppliers in Q1 2016 (positive impact: HUF 4.0 billion)
- improved equipment vendor management in Q1 2017 (positive impact: HUF 7.2 billion)
- higher accrued liabilities and advance payment received from SI/IT related customers due to different project seasonality of SI/IT related services (positive impact: HUF 1.5 billion)
- HUF 0.8 billion positive change in passive working capital due to MTR debtor overpayments (invoiced and collected using old rate, accounted at new rate as revenue) in Q1 2016
- HUF 1.2 billion lower HR related personnel expense payments in Q1 2017 than in Q1 2016

- HUF 1.2 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 5.0 billion **positive change in other non-cash items** mainly due to the accounting net results from the sale of Origo Zrt. and Infopark (Building G)

Investing cash flow from continuing operation excluding proceeds from other financial assets – net

Net cash used in regular investing activities amounted to HUF 25.4 billion in Q1 2017, compared to HUF 13.7 billion in Q1 2016. Main reasons for the HUF 11.7 billion higher cash outflow were the following:

- HUF 4.4 billion negative effect due to higher CAPEX in Q1 2017 than in Q1 2016
- HUF 5.4 billion positive change due to lower amount of CAPEX creditors paid in Q1 2017 than in Q1 2016
- HUF 0.6 billion negative due to the acquisition of Serverinfo-Ingatlan Kft. (purchase price vs. cash acquired through the acquisition)
- HUF 0.8 billion negative change due to higher volume of acquisition of cable TV operations in Q1 2017 than in Q1 2016
- HUF 3.4 billion negative change in disposal of subsidiaries mostly due to the sale of Origo Zrt in Q1 2016
- HUF 7.9 billion negative change related to the disposal of PPE reflecting the sale of Infopark building in Q1 2016

Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF 1.2 billion in Q1 2016 to HUF 2.0 billion in Q1 2017, due to the following:

- HUF 0.5 billion negative change due to the repayment of a loan related to the sale of Origo Zrt. in Q1 2016
- HUF 0.3 billion negative change due to a combination of smaller miscellaneous other factors

Free cash flow from continuing operation (FCF) overall decreased from HUF 9.9 billion in Q1 2016 to HUF 0.3 billion in Q1 2017 due to the reasons described above

Free cash flow from discontinued operation (FCF) overall increased by HUF 36.5 billion due to the sale of Crnogorski Telekom A.D. disclosed within discontinued operation

Proceeds from other financial assets - net increased by HUF 2.2 billion, as HUF 2.6 billion higher amount of Maktel's cash was invested as bank deposits over 3 months in Q1 2016 in net terms

Repayment of loans and other borrowings – net increased by HUF 29.8 billion, due to the reimbursement of parent company (DT AG) loans from the sale proceeds of the Crnogorski Telekom A.D. disposal in Q1 2017

Dividends paid to Owners of the parent and Non-controlling interests improved by HUF 2.4 billion mainly due to Maktel's dividends paid to minority owners in Q1 2016, as there was no such equivalent payment in Q1 2017

Net cash (used in)/generated from financing activities from discontinued operation recorded a HUF 2.0 billion positive change due to the loan repayment by Crnogorski Telekom A.D. in Q1 2017

Exchange differences on cash and cash equivalents both from continuing and discontinued operation had no significant effect in Q1 2017 compared to Q1 2016

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 2016 to March 31 2017 can be observed in the following lines:

- Trade and other receivables
- Property plant and equipment and Intangible assets (including Goodwill)
- Financial liabilities to related parties (current parts)
- Trade payables

Trade and other receivables decreased by HUF 12.9 billion from December 31, 2016 to March 31, 2017. The decrease was largely due to the deconsolidation of the sold Montenegrin subsidiary, Crnogorski Telekom A.D. (HUF 8.9 billion), along with the decrease of trade receivables from SI/IT debtors (HUF 2.9 billion).

Property plant and equipment (PPE) and intangible assets (including Goodwill) together decreased by HUF 53.3 billion from December 31, 2016 to March 31, 2017. The decrease is mainly due to the deconsolidation of the sold Montenegrin subsidiary, Crnogorski Telekom A.D. which affected this value by HUF 46.1 billion

The current parts of Financial liabilities to related parties decreased by HUF 39.4 billion from December 31, 2016 to March 31, 2017. This decrease was largely due to repayment of DT Group loans using the proceeds from the sale of the Montenegrin subsidiary.

Trade payables decreased by HUF 22.5 billion from December 31, 2016 to March 31, 2017. The decrease is mainly due to the deconsolidation of the sold Montenegrin subsidiary, Crnogorski Telekom A.D. in the amount of HUF 9.3 billion of derecognized liabilities and the decrease in the balance of SI/IT creditors by HUF 8.6 billion.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2016 to March 31, 2017. 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 2017 and the related explanations provided above in section 2.1.2 Cash flows.

2.1.4 Related party transactions

In January 2017, the Company signed a share purchase agreement with Hrvatski Telekom d.d. for the sale of the Company's entire 76.53% shareholding in Crnogorski Telekom A.D., for a total consideration of EUR 123.5 million (HUF 38.5 billion). The transaction closed in January 2017. (For further details please see section 2.2.3). Besides this transaction there have not been any significant changes in related party transactions during 2017 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. 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 2017 or 2016, 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 2017.

2.1.6 Significant events

For any significant events happened between the end of the quarter (March 31, 2017) and the date publishing of the "Interim financial report" please see our Investor Relations website:

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

2.1.7 Information on the changes in the remuneration policy

By reshaping the current remuneration structure, the Company has decided on the launch of an incentive program based on the new remuneration policy, by which the corporate financial targets, half (50%) of the total bonus, will be paid via the ESOP (employee share ownership

program) Organization for Magyar Telekom Plc. and T-Systems Hungary Ltd. eligible employees. Under the new incentive program, the Company will purchase Magyar Telekom shares worth ca. 2.6 billion forints over the course of the next 12 months. The purchased shares will be transferred to the ESOP Organization in several installments.
The remuneration condition of the new program is the operating free cash flow for the MT-Hungary segment for the financial year ending December 31, 2017 to exceed that for the previous year ending December 31, 2016. If the remuneration condition is met the bonus for the corporate financial target will be paid in cash by the ESOP Organization through conversion of the Magyar Telekom shares provided, expectedly in April 2018.

2.2. Segment reports

Magyar Telekom disposed of its majority stake in Crnogorski Telekom A.D. in January, 2017, and as such, the Montenegrin segment is no longer part of the Group's consolidated results. As of Q1 2017, Magyar Telekom's operating segments are MT-Hungary and Macedonia. MT-Hungary includes the former T-Hungary segment (residential and small and medium business (SMB) customers) and former T-Systems (enterprise segment).

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 and 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, as well as support functions on behalf of the Group including Procurement, Treasury, Real Estate, Accounting, Tax, Legal and Internal Audit. This segment is also responsible for the Group's points of presence in Bulgaria and Romania, which mainly provide wholesale services to local companies and operators. The Macedonian segment is responsible for the Group's full-scale mobile and fixed line telecommunications operations in Macedonia.

The following tables present information by reportable segment regularly provided to the Management Committee (MC) of the Company, reconciled to the corresponding Group numbers. This information 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 and stable fixed revenues coupled with improving SI/IT performance

HUF million	Q1 2016	Q1 2017	Change	Change (%)
Voice	34,611	32,917	(1,694)	(4.9%)
Non-voice	17,741	19,522	1,781	10.0%
Other	12,898	14,483	1,585	12.3%
Total mobile revenues	**65,250**	**66,922**	**1,672**	**2.6%**
Voice retail	11,317	10,480	(837)	(7.4%)
Broadband - retail	10,856	10,783	(73)	(0.7%)
TV	9,475	10,296	821	8.7%
Other	11,444	11,127	(317)	(2.8%)
Fixed line revenues	**43,092**	**42,686**	**(406)**	**(0.9%)**
SI/IT revenues	**15,144**	**16,938**	**1,794**	**11.8%**
Revenue from Energy services	**2,313**	**1,580**	**(733)**	**(31.7%)**
Total revenues	**125,799**	**128,126**	**2,327**	**1.8%**
Direct costs	**(45,724)**	**(49,314)**	**(3,590)**	**(7.9%)**
Gross profit	**80,075**	**78,812**	**(1,263)**	**(1.6%)**
Indirect costs	**(38,825)**	**(45,719)**	**(6,894)**	**(17.8%)**
EBITDA	**41,250**	**33,093**	**(8,157)**	**(19.8%)**
Segment Capex	**10,207**	**14,636**	**4,429**	**43.4%**

Operational statistics – access numbers	Mar 31, 2016	Mar 31, 2017	Change (%)
Number of mobile customers (RPC)	5,371,513	5,304,361	(1.3%)
Postpaid share in the RPC base	57.7%	60.1%	n.a.
Total fixed voice access	1,447,961	1,423,761	(1.7%)
Total retail fixed broadband customers	1,001,068	1,030,145	2.9%
Total TV customers	963,820	984,974	2.2%

Operational statistics – ARPU (HUF)	Q1 2016	Q1 2017	Change (%)
Mobile ARPU	3,216	3,289	2.3%
Postpaid ARPU	4,831	4,817	(0.3%)
Prepaid ARPU	1,066	1,031	(3.3%)
Blended fixed voice ARPU	2,592	2,455	(5.3%)
Blended retail fixed broadband ARPU	3,597	3,541	(1.6%)
Blended TV ARPU	3,280	3,512	7.1%

Total revenues increased by 1.8% in Q1 2017 vs. Q1 2016, primarily due to higher mobile data and equipment revenues, as well as improvement in SI/IT revenues. Fixed line revenues were slightly down compared to Q1 2016, due to declining voice retail and wholesale revenues, which offset growing TV and equipment revenues.

- **Mobile revenues** increased (+2.6% vs. Q1 2016), as growth in equipment and mobile broadband revenues were partly counterbalanced by the contraction in mobile voice revenues. Q1 2017 saw increased investment in the mobile market for this period of the year, through handset subsidies, resulting in increased number of acquired and retained customers, and also reflected in the outstandingly low churn figures. The postpaid ratio increased by 2.4 percentage points to 60.1%, while the popularity of Magenta 1, our flagship product, continued to grow. More than 136,000 subscribers chose this high-value 4Play package as of end of Q1 2017 vs. 50,000 at the end of Q1 2016. Magyar Telekom launched a new, flexible and customizable tariff system on March 24, 2017, allowing postpaid customers to combine four different voice and five different data packages, as per their preferences. Magyar Telekom's price premium remains unchanged; the price of the entry level package has been increased, however, the new portfolio offers 20% to 25% monthly fee discount for FMC (fixed-mobile convergence) bundles. The new mobile portfolio aims to increase FMC customer numbers, as well as to support upgrades to higher mobile data packages, through gradually increasing subsidies. The registration of prepaid SIMs was launched as of January 1, 2017, with registrations expected to peak in Q2 before the registration deadline (30 June, 2017) set by the regulator.
  - **Mobile voice revenues** decreased by 4.9% due to a decline in total customers coupled with lower roaming revenues in line with EU regulation, as well as competitive pressure in the prepaid and enterprise segments. During the quarter, blended ARPU increased, supported by the pre-to-postpaid migration, demand for higher mobile data packages, while our increasing customer base in flat rate tariffs resulted in a 7.4% increase in minutes of usage.
  - **Mobile non-voice revenues** rose by 10.0% driven by growth in mobile broadband attributable to the continued increase in smartphone penetration rates and a steady rise in average usage levels.
  - **Other revenues** increased by 12.3% due to higher equipment and accessories sales, reflecting our efforts to acquire and retain customers.
- **Fixed line revenues** slightly decreased; the structural decline in voice retail continued which along with falls in fixed wholesale and other revenues more than offset the sustained momentum of TV and higher fixed equipment sales.
  - **Voice retail revenues** declined by 7.4% due to a decline in the customer base and tariff levels.
  - **Broadband retail revenues** remained roughly unchanged, with an enlarged customer base and marginally lower ARPU (-1.6%, due to intense competition).
  - **TV revenues rose** by 8.7% in Q1 2017, with a rise in the customer base and material increase in ARPU levels. The new TV portfolio launched in November 2016, and the price increase (as of January 1, 2017) also resulting from the recently introduced content fee led to higher ARPUs compared to Q1 2016.
  - **Other fixed line revenues** decreased by 2.8% due to termination of part of our wholesale activity at our Romanian subsidiary, Combridge, shrinking late payment fees, and deconsolidation of Origo.
- **SI/IT revenues increased by 11.8%**, primarily due to winning large public procurement tenders such as an infrastructure and implementation project for the National University of Public Service and a data transmission project for the FINA World Championships.
  - **SI/IT gross profit improved** by 5.4% driven by higher revenues, while gross margin slightly decreased (37.6% vs. 39.9% in Q1 2016).

Energy services	Mar 31, 2016	Mar 31, 2017	Change (%)
Electricity points of delivery	95,679	91,488	(4.4%)
Gas points of delivery	256	0	n.a.

- **Energy services revenues decreased by** 31.7% due to the shrinking electricity customer base and expiry of the few remaining universal gas contracts in October 2016.
- **EBITDA decreased by 19.8%** mainly due to the absence of material one-offs in other operating income realized in Q1 2016, coupled with higher other operating expenses.
  - **Employee-related expenses** moderately improved as higher level of capitalization of project related costs counterbalanced the wage increase which came into effect at the beginning of 2017.
  - **Gross profit** declined by 1.6% as improved SI/IT margins and lower bad debt expenses were more than offset by the new TV content fee, as well as higher cost of equipment sales (both fixed and mobile) related to market investment at the beginning of this year.
  - **Other operating expenses (net)** increased by 50.7% in Q1 2017, due to one-off gains in other operating income realised in Q1 2016, coupled with higher rental fees (Infopark and some local state-of-the-art cable networks), maintenance, repairs, and remedial work expenses.
- **Capex for Q1 2017 increased by 43.4% vs. same period last year** due to higher spending on our 4G+ network, and investment in higher amount of set top boxes driven by strong TV sales more than offsetting lower investment in PSTN migration.

Outlook: Magyar Telekom is facing **several competitive and regulatory risks** to growth in 2017, including the ongoing **obligation to register prepaid SIMs**, which is also an opportunity to push pre-to-postpaid migration. Furthermore, we expect both the **prepaid and business mobile segments to remain very competitive**, with the **abolishment of EU roaming charges** as of June 15, 2017 set to pose a new challenge for mobile operators. We believe that our **new mobile postpaid portfolio** will contribute to **further expansion of our FMC customer base** and as the only integrated operator, we are well placed to maximize the telecommunication share of the household spending wallet. We plan to continue to **invest in our fixed line network**, **but on a lower scale than in previous years**, with a proportion of these investments supported by EU funds. By the end of 2017, we aim to have **rolled-out high speed internet** (HSI) **access to more than 250 thousand new households**, covering ca. 3.1 million households in total. We expect to monetize these network investments through the continued upward trajectory of penetration figures and through further expansion of the relative number of higher bandwidth package subscribers. We intend to **increase our share of the growing SI/IT market**. The growth of this market should be **underpinned by higher EU fund inflows**, following the temporary decline of EU fund inflows into Hungary in 2016.

2.2.2 Macedonia

Relatively stable performance despite political uncertainties and mobile termination rate cut

HUF million	Q1 2016	Q1 2017	Change	Change (%)
Voice	4,356	4,137	(219)	(5.0%)
Non-voice	1,411	1,817	406	28.8%
Other	1,270	1,374	104	8.2%
Total mobile revenues	**7,037**	**7,328**	**291**	**4.1%**
Voice retail	1,406	1,274	(132)	(9.4%)
Broadband - retail	1,413	1,366	(47)	(3.3%)
TV	723	806	83	11.5%
Other	1,789	1,457	(332)	(18.6%)
Fixed line revenues	**5,331**	**4,903**	**(428)**	**(8.0%)**
SI/IT revenues	236	191	(45)	(19.1%)
Total revenues	**12,604**	**12,422**	**(182)**	**(1.4%)**
Direct cost s	**(4,000)**	**(3,656)**	**344**	**8.6%**
Gross profit	**8,604**	**8,766**	**162**	**1.9%**
Indirect costs	**(3,725)**	**(3,988)**	**(263)**	**(7.1%)**
EBITDA	**4,879**	**4,778**	**(101)**	**(2.1%)**
Segment Capex	**893**	**824**	**(69)**	**(7.7%)**

Operational statistics – access numbers	Mar 31, 2016	Mar 31, 2017	Change (%)
Number of mobile customers	1,218,112	1,232,970	1.2%
Postpaid share in the customer base	38.5%	44.4%	n.a.
Total fixed voice access	221,245	213,938	(3.3%)
Total retail fixed broadband customers	188,647	189,020	0.2%
Total TV customers	104,203	110,797	6.3%

Despite political uncertainties and a 33% cut in mobile termination rates (effective from December 2016), MakTel's Q1 2017 financial results were relatively stable, with a revenue decline of 1.4% and an EBITDA decline of 2.1%. We managed to retain our healthy market positions in both fixed and mobile markets, despite the aggressive pricing strategies from our main competitor, VIP.

- **Mobile revenues** showed steady growth in Q1 2017 (+4.1% vs. Q1 2016) thanks to our continued 4G and smartphone push, reflected in growing mobile broadband revenues and increased equipment sales.
  - Voice revenues decreased by 5.0%, mainly driven by a decline in voice wholesale revenues reflecting the lower volume of international incoming mobile traffic and the 33% cut in mobile termination rates. Q1 2017 saw a slightly larger overall customer base and ARPU, coupled with stable usage.
  - Thanks to our 4G broadband push, non-voice revenues increased by 28.8%, with a 16% growth in the mobile broadband customer base, and higher levels of usage that contributed to higher ARPUs.
  - Other mobile revenues increased due to higher equipment sales stemming from the higher average price of handsets, as well as growing sales of accessories.
- **Fixed line revenues** declined by 8.0% year-on-year in Q1 2017, largely driven by lower voice-retail and wholesale revenues.
  - Voice retail revenues declined by 9.4%, reflecting lower traffic levels and a decrease in customer base.
  - Broadband retail revenues declined by 3.3% due to lower pricing because of 3Play competition.
  - The growth in TV revenues continued during Q1 2017, as both the IPTV subscriber base and ARPUs increased.
  - Other fixed revenues declined due to the negative impact of lower incoming domestic and international traffic volumes and prices on wholesale revenues, coupled with lower sales of fixed equipment (such as TV sets, tablets and laptops) and a decline in leased line revenues.
- **SI/IT revenues** fell by 19.1% vs. Q1 2016, driven by different monthly dynamics. .
  - Due to the current political situation with no established Parliament in place, we face higher uncertainty regarding public procurement projects going forward, which presents a risk to SI/IT revenues in Macedonia.
- **EBITDA declined** by 2.1% in Q1 2017 vs. Q1 2016, due to higher other operating expenses offsetting savings in employee-related expenses and the improvement in gross profit.
  - Employee related costs decreased by 11.9%, related to the Ericsson outsourcing.
  - Other operating expenses increased due to higher consultancy and marketing costs and increased maintenance costs driven by outsourcing to Ericsson.
- **Capex in Q1 2017 decreased by 7.7%** vs. Q1 2016, as lower investments in FTTH networks more than offset the higher amount of set top boxes in line with the increasing number of 2Play and 3Play customers.

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

2.2.3 Montenegro (discontinued operation)

In January 2017, the Company signed a share purchase agreement with Hrvatski Telekom d.d. for the sale in its entirety of the 76.53% shareholding held in Crnogorski Telekom A.D. for a total consideration of EUR 123.5 million (HUF 38.5 billion). The transaction closed in January 2017.

a) Results from discontinued operation

HUF millions	Q1 2016	Q1 2017
Revenue	6,725	2,027
Direct costs	(1,927)	(533)
Employee related expenses	(1,040)	(332)
Depreciation and amortization	(1,388)	(517)
Other operating expenses	(1,481)	(525)
Operating expenses	(5,836)	(1,907)
Other operating income	36	73
Operating profit	925	193
Net financial result	49	7
Income tax from discontinued operations	(114)	(23)
Profit after tax from discontinued operations	**860**	**177**
Gain on sale of discontinued operation	-	10,504
Of which reclassification of cumulative amount of the exchange differences relating to foreign operation sold from equity to profit or loss	-	9,690
Income tax on gain on sale of discontinued operation	-	(1,155)
Profit for the year from discontinued operations	**860**	**9,526**
Other comprehensive income from discontinued operations	170	(12,512)
Total comprehensive income from discontinued operations	**1,030**	**(2,986)**

b) Effect of disposal on the financial position of the Group

HUF millions	Mar 31, 2017 (unaudited)
Cash and cash equivalents	2,062
Trade and other receivables	8,860
Other current financial assets	452
Other current assets	736
Inventories	558
Property, plant and equipment	24,079
Intangible assets	21,977
Deferred tax assets	718
Other non current financial assets	3,060
Other non current assets	540
Current financial liabilities	(2,826)
Other current liabilities	(1,099)
Trade payables	(9,260)
Current income tax payable	(408)
Provisions - current	(40)
Non current financial liabilities	(590)
Deferred tax liabilities	(1,439)
Provisions - non current	(175)
Net assets and liabilities	**47,205**
Consideration received	38,458
Cash and cash equivalents disposed of	2,062
Net cash inflows	**36,396**

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, 2016, 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, 2016 have been filed with the Budapest Stock Exchange and the Central Bank of Hungary. The statutory accounts for December 31, 2016 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, 2016 with the following exception.

There were two major changes compared to 2016:

a) as a result of the sale of Crnogorski Telekom (details in Section 2.2.3) the 2016 figures were classified as discontinued operation and re-presented in accordance with IFRS5 and
b) telecom tax was reclassified from Other operating expenses to Direct costs since Management believes that presenting the new direct cost breakdown the financial data of the Group become more transparent. This change is also reflected on the face of the Consolidated Statements of Comprehensive Income as telecom tax appeared in 2017 as a separate line within Direct costs and utility tax appeared instead of Hungarian sector specific taxes.

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

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q1 2016 (restated, unaudited)	Q1 2017 (unaudited)	Change	Change (%)
Revenues				
Voice retail (mobile)	36,500	34,741	(1,759)	(4.8%)
Voice wholesale (mobile) MTC, incoming	2,467	2,313	(154)	(6.2%)
Data (mobile)	15,027	17,192	2,165	14.4%
SMS	4,125	4,147	22	0.5%
Equipment (mobile)	10,843	12,475	1,632	15.1%
Other mobile revenues	3,325	3,382	57	1.7%
Mobile revenues	**72,287**	**74,250**	**1,963**	**2.7%**
Voice retail (fix)	12,723	11,754	(969)	(7.6%)
Broadband retail (fix)	12,269	12,149	(120)	(1.0%)
TV (fix)	10,198	11,102	904	8.9%
Equipment (fix) (Sale of devices and accessories)	1,400	1,944	544	38.9%
Data retail (fix)	2,328	2,286	(42)	(1.8%)
Wholesale (fix)	5,338	4,601	(737)	(13.8%)
Other fixed line revenues	4,090	3,712	(378)	(9.2%)
Fixed line revenues	**48,346**	**47,548**	**(798)**	**(1.7%)**
System Integration/Information Technology revenues	15,380	17,129	1,749	11.4%
Energy service revenues	2,313	1,580	(733)	(31.7%)
Total revenues	**138,326**	**140,507**	**2,181**	**1.6%**
Direct costs				
Interconnect costs	(4,794)	(4,430)	364	7.6%
SI/IT service related costs	(9,309)	(10,709)	(1,400)	(15.0%)
Energy service related costs	(2,256)	(1,517)	739	32.8%
Bad debt expense	(2,225)	(1,656)	569	25.6%
Telephone tax	(6,188)	(5,854)	334	5.4%
Other direct costs	(24,916)	(28,776)	(3,860)	(15.5%)
Direct costs	**(49,688)**	**(52,942)**	**(3,254)**	**(6.5%)**
Gross profit	**88,638**	**87,565**	**(1,073)**	**(1.2%)**
Employee related expenses	(19,803)	(19,385)	418	2.1%
Utility tax	(7,265)	(7,418)	(153)	(2.1%)
Other operating expenses	(22,147)	(23,152)	(1,005)	(4.5%)
Other operating income	6,512	732	(5,780)	(88.8%)
EBITDA	**45,935**	**38,342**	**(7,593)**	**(16.5%)**
Depreciation and amortization	(25,308)	(25,720)	(412)	(1.6%)
Operating profit	**20,627**	**12,622**	**(8,005)**	**(38.8%)**
Net financial result	(6,607)	(6,050)	557	8.4%
Share of associates' and joint ventures' results	(24)	309	333	n.m.
Profit before income tax	**13,996**	**6,881**	**(7,115)**	**(50.8%)**
Income tax	(3,391)	(2,067)	1,324	39.0%
Profit for the period from continuing operations	**10,605**	**4,814**	**(5,791)**	**(54.6%)**
Profit for the period from discontinued operations	860	9,526	8,666	n.m.
Profit for the period	**11,465**	**14,340**	**2,875**	**25.1%**
Change in exchange differences on translating foreign operations	194	(953)	(1,147)	n.m.
Revaluation of available-for-sale financial assets	(1)	(1)	0	0.0%
Other comprehensive income for the period from continuing operations	193	(954)	(1,147)	**n.m.**
Other comprehensive income for the period from discontinued operations	170	(12,512)	(12,682)	n.m.
Other comprehensive income for the period	**363**	**(13,466)**	**(13,829)**	**n.m.**
Total comprehensive income for the period from continuing operations	**10,798**	**3,860**	**(6,938)**	**(64.3%)**
Total comprehensive income for the period from discontinued operations	1,030	(2,986)	(4,016)	n.m.
Total comprehensive income for the period	**11,828**	**874**	**(10,954)**	**(92.6%)**
Profit attributable to:				
Owners of the parent	10,715	13,592	2,877	26.9%
From continuing operations	10,052	4,104	(5,948)	(59.2%)
From discontinued operations	663	9,488	8,825	n.m.
Non-controlling interests	750	748	(2)	(0.3%)
From continuing operations	553	710	157	28.4%
From discontinued operations	197	38	(159)	(80.7%)
	11,465	**14,340**	**2,875**	**25.1%**

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MAGYAR TELEKOM
Consolidated Statements of Comprehensive Income
(HUF million, except per share amounts)

	Q1 2016 (restated, unaudited)	Q1 2017 (unaudited)	Change	Change (%)
Total comprehensive income attributable to:				
Owners of the parent	10,978	3,336	(7,642)	(69.6%)
From continuing operations	10,180	3,542	(6,638)	(65.2%)
From discontinued operations	798	(206)	(1,004)	n.m.
Non-controlling interests	850	(2,462)	(3,312)	n.m.
From continuing operations	618	318	(300)	(48.5%)
From discontinued operations	232	(2,780)	(3,012)	n.m.
	11,828	**874**	**(10,954)**	**(92.6%)**
Basic earnings per share (HUF)	**10.28**	**13.05**	**2.77**	**26.9%**
From continuing operations	9.64	2.83	(6.81)	(70.6%)
From discontinued operations	0.64	10.22	9.58	n.m.
Diluted earnings per share (HUF)	**10.28**	**13.04**	**2.76**	**26.8%**
From continuing operations	9.64	2.83	(6.81)	(70.6%)
From discontinued operations	0.64	10.21	9.57	n.m.

3.3. Consolidated Statements of Financial Position

MAGYAR TELEKOM Consolidated Statements of Financial Position (HUF million)	Dec 31, 2016 (audited)	Mar 31, 2017 (unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	10,805	8,999	(1,806)	(16.7%)
Trade and other receivables	157,645	144,696	(12,949)	(8.2%)
Other current financial assets	5,104	6,008	904	17.7%
Current income tax receivable	2,225	3,668	1,443	64.9%
Inventories	16,643	18,325	1,682	10.1%
	192,422	181,696	(10,726)	(5.6%)
Assets held for sale	1,556	1,559	3	0.2%
Total current assets	**193,978**	**183,255**	**(10,723)**	**(5.5%)**
Non current assets				
Property, plant and equipment	483,174	458,620	(24,554)	(5.1%)
Intangible assets	260,165	237,911	(22,254)	(8.6%)
Goodwill	218,098	211,654	(6,444)	(3.0%)
Investments in associates and joint ventures	1,078	1,387	309	28.7%
Deferred tax assets	73	59	(14)	(19.2%)
Other non current financial assets	18,254	16,314	(1,940)	(10.6%)
Other non current assets	709	183	(526)	(74.2%)
Total non current assets	**981,551**	**926,128**	**(55,423)**	**(5.6%)**
Total assets	**1,175,529**	**1,109,383**	**(66,146)**	**(5.6%)**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	72,589	33,142	(39,447)	(54.3%)
Other financial liabilities	22,600	25,222	2,622	11.6%
Trade payables	136,623	114,154	(22,469)	(16.4%)
Current income tax payable	719	609	(110)	(15.3%)
Provisions	4,493	3,507	(986)	(21.9%)
Other current liabilities	40,537	42,773	2,236	5.5%
	277,561	219,407	(58,154)	(21.0%)
Liabilities held for sale	0	0	0	n.a.
Total current liabilities	**277,561**	**219,407**	**(58,154)**	**(21.0%)**
Non current liabilities				
Financial liabilities to related parties	247,179	246,670	(509)	(0.2%)
Other financial liabilities	50,098	48,286	(1,812)	(3.6%)
Deferred tax liabilities	8,740	8,533	(207)	(2.4%)
Provisions	9,528	9,440	(88)	(0.9%)
Other non current liabilities	1,090	1,419	329	30.2%
Total non current liabilities	**316,635**	**314,348**	**(2,287)**	**(0.7%)**
Total liabilities	**594,196**	**533,755**	**(60,441)**	**(10.2%)**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,890	28,054	164	0.6%
Treasury stock	(825)	(825)	0	0.0%
Retained earnings	375,660	389,252	13,592	3.6%
Accumulated other comprehensive income	31,490	21,234	(10,256)	(32.6%)
Total Equity of the owners of the parent	**538,490**	**541,990**	**3,500**	**0.6%**
Non-controlling interests	42,843	33,638	(9,205)	(21.5%)
Total equity	**581,333**	**575,628**	**(5,705)**	**(1.0%)**
Total liabilities and equity	**1,175,529**	**1,109,383**	**(66,146)**	**(5.6%)**

3.4. Consolidated Statements of Cash Flows

MAGYAR TELEKOM

Consolidated Statements of Cash Flows (HUF million)	1-3 months 2016 (Restated, unaudited)	1-3 months 2017 (Unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	10,605	4,814	(5,791)	(54.6%)
Depreciation and amortization	25,308	25,720	412	1.6%
Income tax expense	3,391	2,067	(1,324)	(39.0%)
Net financial result	6,607	6,050	(557)	(8.4%)
Share of associates' and joint ventures' result	24	(309)	(333)	n.m.
Change in assets carried as working capital	13,352	509	(12,843)	(96.2%)
Change in provisions	(3,454)	(814)	2,640	76.4%
Change in liabilities carried as working capital	(14,629)	(173)	14,456	98.8%
Income taxes paid	(3,835)	(3,865)	(30)	(0.8%)
Dividends received	0	0	0	n.a.
Interest and other financial charges paid	(7,683)	(6,505)	1,178	15.3%
Interest received	113	109	(4)	(3.5%)
Other non-cash items	(4,921)	36	4,957	n.m.
Net cash generated from operating activities (continuing operations)	24,878	27,639	2,761	11.1%
Net cash generated from / (used in) operating activities from discontinued operation	1,365	(25)	(1,390)	n.m.
Net cash generated from operating activities	**26,243**	**27,614**	**1,371**	**5.2%**
Cash flows from investing activities				
Purchase of property plant and equipment (PPE) and intangible assets	(11,100)	(15,452)	(4,352)	(39.2%)
Adjustments to cash purchases	(14,192)	(8,829)	5,363	37.8%
Purchase of subsidiaries and business units	(13)	(1,777)	(1,764)	n.m.
Cash acquired through business combinations	0	475	475	n.a.
(Payments for) / Proceeds from other financial assets - net	(4,942)	(2,723)	2,219	44.9%
Proceeds from disposal of subsidiaries and associates	3,464	0	(3,464)	(100.0%)
Payments for interests in associates and joint ventures	0	0	0	n.a.
Proceeds from disposal of property, plant and equipment (PPE) and intangible assets	8,129	168	(7,961)	(97.9%)
Net cash used in investing activities (continuing operations)	(18,654)	(28,138)	(9,484)	(50.8%)
Net cash (used in)/generated from investing activities from discontinued operation	(1,525)	36,292	37,817	n.m.
Net cash (used in)/generated from investing activities	**(20,179)**	**8,154**	**28,333**	**n.m.**
Cash flows from financing activities				
Dividends paid to Owners of the parent and Non-controlling interests	(2,433)	0	2,433	100.0%
Proceeds from/Repayment of loans and other borrowings -net	(7,776)	(37,594)	(29,818)	(383.5%)
Repayment of other financial liabilities	(1,234)	(1,974)	(740)	(60.0%)
Repurchase of treasury shares	0	0	0	n.a.
Net cash used in financing activities (continuing operations)	(11,443)	(39,568)	(28,125)	(245.8%)
Net cash (used in) /generated from financing activities from discontinued operation	(14)	2,041	2,055	n.m.
Net cash used in financing activities	**(11,457)**	**(37,527)**	**(26,070)**	**(227.5%)**
Exchange differences on cash and cash equivalents	9	(47)	(56)	n.m.
Exchange differences on cash and cash equivalents from discontinued operation	17	0	(17)	(100.0%)
Change in cash and cash equivalents	**(5,367)**	**(1,806)**	**3,561**	**66.3%**
Cash and cash equivalents, beginning of period	17,558	10,805	(6,753)	(38.5%)
Cash and cash equivalents, end of period	12,191	8,999	(3,192)	(26.2%)
Change in cash and cash equivalents	**(5,367)**	**(1,806)**	**3,561**	**66.3%**

3.5. Consolidated Statements of Changes in Equity

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

	pieces	in HUF millions									
			Capital reserves				Accumulated Other Comprehensive				
	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, 2015	**1,042,742,543**	**104,275**	**27,379**	**33**	**(307)**	**337,014**	**31,892**	**(68)**	**500,218**	**44,713**	**544,931**
Equity settled share-based transactions				8					8		8
Total comprehensive income						10,715	264	(1)	10,978	850	11,828
Balance at March 31, 2016	**1,042,742,543**	**104,275**	**27,379**	**41**	**(307)**	**347,729**	**32,156**	**(69)**	**511,204**	**45,563**	**556,767**
Dividend						(15,633)			(15,633)		(15,633)
Dividend declared to Non-controlling interests									0	(4,650)	(4,650)
Equity settled share-based transactions				470	32				502		502
Total comprehensive income						43,564	(635)	38	42,967	1,930	44,897
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**
Equity settled share-based transactions				164					164		164
Total comprehensive income						13,592	(10,255)	(1)	3,336	(2,462)	874
Disposal of subsidiaries									0	(6,743)	(6,743)
Balance at March 31, 2017	**1,042,742,543**	**104,275**	**27,379**	**675**	**(825)**	**389,252**	**21,266**	**(32)**	**541,990**	**33,638**	**575,628**

3.6. Exchange rate information

Exchange rate	Q1 2016	Q1 2017	Change (%)
HUF/EUR beginning of period	313.12	311.02	**(0.7%)**
HUF/EUR period-end	314.16	308.70	**(1.7%)**
HUF/EUR cumulative monthly average	312.27	309.52	**(0.9%)**
HUF/MKD beginning of period	5.08	5.06	**(0.4%)**
HUF/MKD period-end	5.09	5.00	**(1.7%)**
HUF/MKD cumulative monthly average	5.06	5.02	**(0.7%)**

3.7. Segment information

HUF millions	Q1 2016	Q1 2017	Change	Change (%)
Total Telekom Hungary revenues	125,799	128,126	2,327	1.8%
Less: Telekom Hungary revenues from other segments	(61)	(27)	34	55.7%
Telekom Hungary revenues from external customers	**125,738**	**128,099**	**2,361**	**1.9%**
Total Macedonia revenues	12,604	12,422	(182)	(1.4%)
Less: Macedonia revenues from other segments	(16)	(14)	2	12.5%
Macedonia revenues from external customers	**12,588**	**12,408**	**(180)**	**(1.4%)**
Total consolidated revenue of the segments	138,326	140,507	2,181	1.6%
Measurement/rounding differences to Group revenue	0	0	0	n.a.
Total revenue of the Group from continuing operations	**138,326**	**140,507**	**2,181**	**1.6%**
Total Montenegro revenues	6,731	2,023	(4,708)	(69.9%)
Less: Montenegro revenues from other segments	(6)	4	10	166.7%
Montenegro revenues from external customers	**6,725**	**2,027**	**(4,698)**	**(69.9%)**
Total revenue from discontinued operations	**6,725**	**2,027**	**(4,698)**	**(69.9%)**
Segment results (EBITDA)				
Telekom Hungary	41,250	33,093	(8,157)	(19.8%)
Macedonia	4,879	4,778	(101)	(2.1%)
Total EBITDA of the segments	**46,129**	**37,871**	**(8,258)**	**(17.9%)**
Measurement/rounding differences to Group EBITDA	(160)	471	631	394.4%
Total EBITDA of the Group from continuing operations	**45,969**	**38,342**	**(7,627)**	**(16.6%)**
Montenegro	2,279	702	(1,577)	(69.2%)
Income from sale of Crnogorski Telekom (segment Montenegro)	0	10,504	10,504	n.a.
Measurement/rounding differences	0	8	8	n.a.
Total EBITDA from discontinued operations	**2,279**	**11,214**	**8,935**	**392.1%**

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

Budapest, May 10, 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, 2016, 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.