MAGYAR TELEKOM

HALF YEARLY REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED JUNE 30, 2018

Budapest – August 8, 2018 – 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 2018, in accordance with International Financial Reporting Standards (IFRS).

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EGYÜTT. VELED

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1. HIGHLIGHTS

Financial highlights:

MAGYAR TELEKOM Group Financial Results - IFRS (HUF million, except ratios)	Q2 2017 IAS 18/ IAS 11 Continuing operation	Q2 2018 IAS 18/ IAS 11	Change (%)	Q2 2018 IFRS 9 & 15 effect	Q2 2018 IFRS 9 & 15	Change (%)
Total revenues	153,521	167,713	9.2%	(47)	167,666	9.2%
Operating profit	20,282	21,982	8.4%	(809)	21,173	4.4%
Profit attributable to:						
Owners of the parent	10,320	14,509	40.6%	(765)	13,744	33.2%
Non-controlling interests	608	1,018	67.4%	(44)	974	n.m.
	10,928	15,527	42.1%	(809)	14,718	34.7%
Gross profit	90,847	93,114	2.5%	(591)	92,523	1.8%
EBITDA	47,856	51,012	6.6%	(809)	50,203	4.9%
EBITDA margin	31.2%	30.4%	n.a.	n.m.	29.9%	n.a.
Basic earnings per share (HUF)	9.91	14.00	41.3%	(0.74)	13.26	33.8%
	1-6 months 2017				1-6 months 2018	Change (%)
Free cash flow	10,749				11,626	8.2%
CAPEX to Sales	12.8%				9.7%	n.a.
Number of employees (closing full equivalent)	9,226				9,163	(0.7%)
	December 31, 2017				June 30, 2018	Change (%)
Net debt	309,641				324,025	4.6%
Net debt / total capital	34.8%				35.3%	n.a.

- **Continued increase in Group revenue thanks to sustained improvement in service revenue coupled with equipment and SI/IT sales growth**
  - **Hungarian postpaid, broadband and TV customer expansion continues**
  - **SI/IT revenue growth driven by high volume of public sector infrastructure projects**
  - **Macedonian revenue improvement across all segments amplified by favourable exchange rate movements**
- **EBITDA growth driven by higher revenues coupled with savings in other operating expenses**
- **Free Cash Flow increase as higher EBITDA, lower capex payments and declining acquisition costs offset higher payments to handset suppliers**
- **Net debt ratio rose to 35.3% reflecting dividend payment in May 2018**

Tibor Rékasi, CEO commented:

"I am delighted to report a strong performance across all our business lines in the second quarter of 2018. Growth rates achieved in System Integration and IT revenues and equipment sales, played a particularly important role in delivering a 9.2% year-on-year increase in Group revenues.

In Hungary, we witnessed continued growth in demand for mobile data, increased uptake of smart devices. Our flexible postpaid offering facilitated successful pre- to postpaid migration, further supporting our mobile data revenue growth and delivering a 7.8% year-on-year increase in ARPU.

In line with our strategy, we maintained a strong focus on growing our high-speed internet network with steady progress towards our coverage target of 300,000 additional households in 2018. The benefits of these efforts are reflected in the positive trajectory of our high-speed internet and TV revenues for the quarter. In addition to positive market dynamics, the strong growth in equipment sales reflects our successful efforts to meet customer needs by introducing the possibility of purchasing mobile devices for fixed services and vice versa.

With FMC as a focal point of our strategy, during the second quarter, we took action to further enhance the attractiveness of our Magenta 1 offer by doubling the mobile data allowance for these customers. We remain the only operator in Hungary that can meet a household's entire telecommunications needs and will continue to leverage this competitive advantage going forward.

In System Integration and IT, the highest revenue growth in recent years at 36.2% year-on-year was primarily achieved by delivering a high volume of hardware and software contracts with a lower profit margin. Whilst this achievement had limited impact on profitability it allowed us to reinforce our relationship with a wide range of customers and secure longer term contracts.

Group performance during the quarter was further supported by the continued turnaround in Macedonia. Both revenues and EBITDA improved thanks to solid performance across all business lines.

Based on higher than anticipated revenue growth in the second quarter, we expect our full year revenue to be higher than our original guidance at around HUF 630 billion. All other elements of the original guidance remain unchanged as the increase in revenue is largely due to revenue streams such as equipment sale and SI/IT performance that are lower margin serving to secure our customer base and set us up for the future rather than result in an immediate return."

Public guidance:

	2017 Actual*	Public guidance for 2018**
Revenue	HUF 611 billion	around HUF 630 billion ***
EBITDA	HUF 186 billion	around HUF 190 billion
Capex	HUF 86 billion	around HUF 90 billion
FCF	HUF 58 billion	around HUF 60 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*

*** including IFRS 9 & 15 impacts*

**** changed from around 600 billion*

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)	Q2 2017 IAS 18 / IAS 11	Q2 2018 IAS 18 / IAS 11	Change	Change (%)	Q2 2018 IFRS 9 & 15 effect	Q2 2018 IFRS 9 & 15
Revenues						
Mobile revenues	79,617	83,713	4,096	5.1%	(349)	83,364
Fixed line revenues	48,159	50,760	2,601	5.4%	302	51,062
System Integration/Information Technology revenues	24,398	33,240	8,842	36.2%	0	33,240
Energy service revenues	1,347	0	(1,347)	(100.0%)	0	0
Total revenues	**153,521**	**167,713**	**14,192**	**9.2%**	**(47)**	**167,666**
Direct costs	**(62,674)**	**(74,599)**	**(11,925)**	**(19.0%)**	**(544)**	**(75,143)**
Gross profit	**90,847**	**93,114**	**2,267**	**2.5%**	**(591)**	**92,523**
Indirect costs	**(42,991)**	**(42,102)**	**889**	**2.1%**	**(218)**	**(42,320)**
EBITDA	**47,856**	**51,012**	**3,156**	**6.6%**	**(809)**	**50,203**
Depreciation and amortization	(27,574)	(29,030)	(1,456)	(5.3%)	0	(29,030)
Operating profit	**20,282**	**21,982**	**1,700**	**8.4%**	**(809)**	**21,173**
Net financial result	(5,480)	(2,999)	2,481	45.3%	0	(2,999)
Share of associates and joint ventures' results	(2)	(88)	(86)	(4,300.0%)	0	(88)
Profit before income tax	**14,800**	**18,895**	**4,095**	**27.7%**	**(809)**	**18,086**
Income tax	(3,872)	(3,368)	504	13.0%	0	(3,368)
Profit for the period	**10,928**	**15,527**	**4,599**	**42.1%**	**(809)**	**14,718**
Profit attributable to non-controlling interests	608	1,018	410	67.4%	(44)	974
Profit attributable to owners of the parent	**10,320**	**14,509**	**4,189**	**40.6%**	**(765)**	**13,744**

Total revenues (excluding the impact of IFRS 15 adoption) increased by 9.2% year-on-year to HUF 167.7 billion in Q2 2018 and by 7.9% to HUF 317.3 billion in the first half of 2018 compared to the same period in 2017. Revenue growth was primarily driven by a strong increase in SI/IT revenues along with further increases in equipment sales and mobile data usage.

- **Mobile revenues (excluding IFRS 15 impacts) increased by 5.1% year-on-year to HUF 83.7 billion in Q2 2018** and by 4.9% year-on-year to HUF 161.4 billion in the first half of 2018, as both mobile data and equipment sales revenues continued to expand dynamically.
  - **Voice retail** revenues advanced moderately year-on-year to HUF 35.6 billion at the Group level in Q2 2018. Although total voice usage and post-paid ratios improved in both countries, the prevailing competitive pressures resulted in price and customer base erosion.
  - **Voice wholesale** revenue increased by 1.3% year-on-year, to HUF 2.5 billion in Q2 2018, driven by higher incoming domestic mobile traffic in Hungary, partly offset by lower volumes of incoming international mobile traffic in Macedonia.
  - **Data** revenues grew by 18.7% year-on-year, to HUF 21.1 billion in Q2 2018, reflecting the higher number of mobile internet subscribers across the Group, as well as the reclassification of mobile handset insurance revenues from other mobile revenues to mobile content revenues, effective from the beginning of 2018.
  - **SMS** revenues increased by 11.8% year-on-year to HUF 4.8 billion in Q2 2018 reflecting increased residential usage by a growing postpaid customer base as well as higher revenues from mass messaging in Hungary.
  - **Mobile equipment** revenues increased by 7.7% year-on-year to HUF 16.8 billion in Q2 2018, attributable to a growing proportion of higher-end handsets within the sales mix in both countries of operation.
  - **Other mobile** revenues decreased to HUF 2.9 billion in Q2 2018 due to the reclassification of mobile handset insurance revenues to mobile content revenues, effective from the beginning of 2018.
- **Fixed line revenues (excluding IFRS 15 impacts) were 5.4% higher year-on-year at HUF 50.8 billion in Q2 2018** and 6.5% higher at HUF 101.9 billion in the first half of 2018. Rising equipment sales, TV and broadband retail service revenues were among the key drivers behind this increase.
  - **Voice retail** revenues declined by 2.4% year-on-year to HUF 11.3 billion in Q2 2018, primarily as a result of a continued decline in the customer base, both in Hungary and Macedonia.

- **Broadband retail** revenues increased by 4.4% year-on-year, to HUF 12.9 billion in Q2 2018, attributable to the improvement in Hungary, where the expansion of the customer base more than compensated for prevailing competitive price pressures. In Macedonia, the positive impact of the expanded customer base was offset by a decline in price levels.
- **TV** revenues rose by 4.7% year-on-year to HUF 11.8 billion in Q2 2018, driven by the growing IPTV subscriber base in both countries of operation.
- **Fixed equipment** revenues grew to HUF 3.3 billion in Q2 2018, reflecting the significant increase in the volume of equipment sold in Hungary, which fully offset the moderate decline recorded in Macedonia.
- **Data retail** revenues declined by 13.3% year-on-year to HUF 2.3 billion reflecting the absence of revenues related to the FINA World Championship, supporting the results in Q2 2017.
- **Wholesale** revenues increased by 4.7% year-on-year to HUF 5.1 billion in Q2 2018. Lower wholesale revenues at the Macedonian operation, caused by lower fixed incoming domestic and international traffic, was offset by higher wholesale voice transit revenues in Hungary.
- **Other fixed line** revenues rose by 2.4% to HUF 4.2 billion, reflecting higher revenues from increased usage of Video on Demand in Hungary.

- **System Integration (SI) and IT revenues grew by 36.2% year-on-year to HUF 33.2 billion in Q2 2018**, resulting in a year-on-year revenue growth of 30.0% for the first half of 2018. Growth continued to be driven by Hungarian public sector projects, with a major PC delivery completed for the education sector along with other hardware and software deliveries for different public institutions. In Macedonia, the increase in SI/IT revenues was driven by the higher volume of customized solutions projects.
- **Energy Services** were discontinued following the exit from the residential segment of the electricity market, as of November 1, 2017.

Direct costs (excluding IFRS 9 and 15 impacts) increased by 19.0% year-on-year, to HUF 74.6 billion in Q2 2018 (by 15.6% year-on-year to HUF 133.7 billion in H1 2018), driven by higher SI/IT and equipment costs, in line with the growth delivered in the related revenue lines.

- **Interconnect costs** increased by 13.8% year-on-year to HUF 5.3 billion in Q2 2018, reflecting increased mobile traffic in Hungary which led to higher payments to domestic mobile operators, while interconnect costs in Macedonia remained broadly unchanged.
- **SI/IT service related costs** increased by 40.9% year-on-year to HUF 25.3 billion in Q2 2018, driven by the strong growth in related projects and an increasing ratio of infrastructure delivery projects in the sales mix.
- **Bad debt expenses** deteriorated by HUF 0.5 billion year-on-year to HUF 2.0 billion in Q2 2018. This trend was driven primarily by an individual impairment as well as the absence of positive effects from the temporary improvement in factoring results that was recorded in the base period in Hungary. This could not be offset by the improvements recorded in Macedonia through one-offs and write downs in the base period. In the first half of 2018, bad debt expenses remained stable year-on-year, as the aforementioned deterioration was offset by a year-on-year improvement in the first quarter thanks to a temporary improvement related to factored trade receivables in Hungary.
- **Telecom tax** rose by 4.0% year-on-year to HUF 6.6 billion in Q2 2018, as a result of increased mobile traffic in Hungary, both in the retail and business segments.
- **Other direct costs** increased by 14.4% year-on-year, to HUF 35.4 billion in Q2 2018, primarily due to an increase in the cost of equipment sales in line with higher sales, and an increase in Hungarian roaming outpayments.

Gross profit (excluding IFRS 9 and 15 impacts) grew by 2.5% year-on-year to HUF 93.1 billion in Q2 2018 and by 2.9% year-on-year to HUF 183.6 billion in H1 2018, as the strong increase in revenues outweighed pressure on direct margins stemming from higher equipment subsidies and margin dilution in SI/IT services.

Indirect costs (excluding IFRS 9 and 15 impacts) improved by 2.1% year-on-year in Q2 2018 and by 1.6% year-on-year in H1 2018 to HUF 42.1 billion and to HUF 90.7 billion respectively, thanks to savings in other operating expenses.

- **Employee-related expenses** remained stable year-on-year at HUF 20.1 billion in Q2 2018. The increasing impacts of trainee employment-form changes at the Hungarian operation and the 5% average wage increase at the Company was counterbalanced by a lower average regular employee headcount.
- **Other operating expenses** improved by 4.6% year-on-year to HUF 23.1 billion in Q2 2018. Savings in marketing, maintenance and HR-related material expenses compensated for higher fees related to the rental of local state-of-the-art cable networks.
- **Other operating income** decreased by HUF 0.3 billion year-on-year in Q2 2018, reflecting the lower income from brand fee received from the E2 energy joint venture. In the first half of 2018 other operating income remained stable year-on-year, with the aforementioned decline offset by year-on-year increases in the first quarter, reflecting one-off accrual reversals in Q1 2018 related to lapsed unbilled liabilities.

EBITDA (excluding IFRS 9 and 15 impacts) grew by 6.6% year-on-year to HUF 51.0 billion in Q2 2018 (and by 7.8% versus H1 2017 to HUF 92.9 billion in H1 2018), as a result of a combined impact of the improved gross profit and savings on other operating expenses.

Depreciation and amortization expenses increased by 5.3% year-on-year to HUF 29.0 billion in Q2 2018 and by 4.8% to HUF 55.9 billion in H1 2018, driven by shortened useful lives of customer connections related network elements.

Profit for the period from continuing operations (excluding IFRS 9 and 15 impacts) grew by 42.1% year-on-year to HUF 15.5 billion in Q2 2018 and by 55.1% to HUF 24.4 billion in H1 2018, as the combined effect of higher EBITDA and lower net financial expenses more than offset the increase in D&A expenses.

- **Net financial expenses** improved by 45.3% year-on-year to HUF 3.0 billion in Q2 2018, primarily reflecting the unrealized gains recorded in relation to the fair valuation of derivatives in Q2 2018 that was driven by the 5.1% weakening of the EUR-HUF exchange rate.
- **Income tax** expenses decreased by 13.0% year-on-year, to HUF 3.4 billion in Q2 2018, driven by temporary correction items that levels out on an annual basis but offset the impact of the year-on-year increase in profit before tax.

Profit attributable to non-controlling interests (excluding IFRS 9 and 15 impacts), increased to HUF 1.0 billion in Q2 2018 and to HUF 1.8 billion in H1 2018, thanks to the improved performance of our Macedonian operation.

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 increased from HUF 309.6 billion at the end of 2017 **to HUF 324.0 billion at the end of June 2018** with the net debt ratio (net debt to total capital) up to 35.3%, reflecting the dividend payment in May 2018.

2.1.2 Group Cash Flows

HUF millions	1-6 months 2017	1-6 months 2018	Change
Operating cash flow	62,109	51,317	(10,792)
Investing cash flow	(48,655)	(37,860)	10,795
Less: Proceeds from other financial assets - net	1,801	1,330	(471)
Investing cash flow excluding Proceeds from other financial assets – net	(46,854)	(36,530)	10,324
Repayment of other financial liabilities	(4,506)	(3,161)	1,345
Free cash flow from continuing operation	**10,749**	**11,626**	**877**
Net cash generated from/(used in) operating activities from discontinued operation	(23)	0	23
Net cash (used in)/generated from investing activities from discontinued operation*	36,292	0	(36,292)
Repayment of other financial liabilities from discontinued operation	0	0	0
Free cash flow from discontinued operation	**36,269**	**0**	**(36,269)**
Total free cash flow	**47,018**	**11,626**	**(35,392)**
Proceeds from other financial assets - net	(1,801)	(1,330)	471
Proceeds from/Repayment of loans and other borrowings - net	(22,888)	19,473	42,361
Dividend paid to shareholders and Non-controlling interests	(26,672)	(25,999)	673
Repurchase of treasury shares	(673)	(1,822)	(1,149)
Net cash (used in)/generated from financing activities from discontinued operation	2,041	0	(2,041)
Exchange differences on cash and cash equivalents	(41)	234	275
Exchange differences on cash and cash equivalents from discontinued operation	0	0	0
Change in cash and cash equivalents	**(3,016)**	**2,182**	**5,198**

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

Free cash flow from continuing operations (FCF) increased from HUF 10.7 billion in H1 2017 to HUF 11.6 billion in H1 2018 due to the reasons described below:

Operating cash flow from continuing operations

Net cash generated from operating activities amounted to HUF 51.3 billion in H1 2018, compared to HUF 62.1 billion in H1 2017, as a result of the following trends:

- HUF 6.6 billion **positive impact of** higher **EBITDA** recorded in H1 2018 compared to H1 2017
- HUF 1.4 billion **negative change in active working capital,** mainly as a result of the following factors:
  - higher increase in instalment receivables compared to the corresponding period in H1 2017 in line with the increased corresponding sales volumes (negative impact: ca. HUF 4.4 billion)
  - lower SI/IT related advance payments in H1 2018 reflecting different project timings (positive impact: ca. HUF 2.6 billion)
  - slower growth in SI/IT receivables in H1 2018 compared to H1 2017 (positive impact: ca. HUF 1.4 billion)

  - slight increase in SI/IT related inventories during H1 2018 against a sharp decrease in H1 2017 due to different project timings, combined with a decrease in equipment inventories during H1 2018 due to sales seasonality related to the FIFA World CUP against a moderate increase in H1 2017 (negative impact: ca. HUF 1.6 billion)
  - decrease in prepaid expenses mainly for SI/IT related services during H1 2018 as opposed to an increase in H1 2017 (positive impact: ca. HUF 0.6 billion)
  - decrease in the total balance of contract assets and contract costs (excl. the effect of cumulative catch-up adjustments) following the implementation of IFRS 9 and IFRS 15 accounting standards, with effect from January 1, 2018 (positive net impact: ca. HUF 0.1 billion)
- HUF 0.9 billion **positive change in provisions,** principally due to lower net payments of legal provisions in H1 2018 versus H1 2017
- HUF 17.7 billion **negative change in passive working capital,** primarily driven by the following factors:
  - lower equipment creditors balance in H1 2018 compared to H1 2017 as a result of changes in payment terms agreed with handset suppliers (negative impact: HUF 15.5 billion)
  - lower payments to suppliers of SI/IT services in H1 2018 (positive impact: HUF 2.9 billion)
  - higher HR-related personnel expense payments in H1 2018 (negative impact: HUF 5.4 billion)
  - decrease in contract liabilities (excl. the effect of cumulative catch-up adjustments) due to the implementation of the IFRS 15 accounting standard with effect from 1 January 2018 (negative impact: ca. HUF 0.1 billion)

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

Net cash used in regular investing activities amounted to HUF 36.5 billion in H1 2018, compared to HUF 46.9 billion in H1 2017, with the lower cash outflow driven by the following:

- HUF 6.9 billion **positive effect** due to lower **CAPEX** in H1 2018 than in H1 2017
- HUF 4.0 billion **positive change** due to lower payments to **CAPEX creditors** in H1 2018 compared to H1 2017
- HUF 2.8 billion **positive change** due to the combined effect of fewer business combinations (**ServerInfo-Ingatlan Kft.** in H1 2017 vs **ITGen Kft.** in H1 2018) and the lower volume **of cable TV operation acquisitions** in H1 2018 compared to H1 2017
- HUF 0.4 billion **negative change** due to lower amount of **cash acquired** through acquisitions
- HUF 0.3 billion **positive change** related to the **disposal of PPE,** mainly reflecting real estate disposals in H1 2018

Repayment of other financial liabilities

Repayment of other financial liabilities decreased from HUF 4.5 billion in H1 2017 to HUF 3.2 billion in H1 2018, mainly due to the following:

- HUF 0.7 billion positive change caused by the termination of certain finance lease contracts, resulting in lower lease payments in H1 2018 compared to H1 2017
- HUF 0.9 billion positive impact of the absence of a repayment instalment relating to the financing of the Macedonian headquarters building in H1 2017
- HUF 0.2 billion negative change due to higher content right payments in H1 2018 compared to H1 2017

Free cash flow from discontinued operations (FCF) decreased by HUF 36.3 billion mainly due to the sale of Crnogorski Telekom A.D. (disclosed within discontinued operations) in Q1 2017.

Proceeds from other financial assets - net improved by HUF 0.5 billion, primarily due to a lower amount of 3-month bank deposits at Maktel in net terms compared to H1 2017.

Repayment of loans and other borrowings – net increased by HUF 42.4 billion, due to the higher reimbursement of certain bank loans as well as parent company (DT AG) loans from the sale proceeds of the Crnogorski Telekom A.D disposal in H1 2017.

Dividends paid to owners of the parent and non-controlling interests decreased by HUF 0.7 billion mainly due to the lower dividend payment from MT Group to its non-controlling interests in H1 2018 compared to H1 2017.

Repurchase of treasury shares was higher by HUF 1.1 billion due to the higher value spent on repurchase of treasury shares for the ESOP (Employee Share Ownership Program) in H1 2018 compared to H1 2017.

Net cash (used in)/generated from financing activities from discontinued operations declined by HUF 2.0 billion due to the positive impact in H1 2017 of a loan repayment by Crnogorski Telekom A.D. to Magyar Telekom in H1 2017 following its disposal.

Exchange differences on cash and cash equivalents from continuing operations improved by HUF 0.3 billion due to more favourable foreign exchange rate movements in H1 2018 compared to H1 2017.

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 changes in the balances of the Statements of Financial Position from December 31, 2017 to June 30, 2018 can be observed in the following lines:

- Trade receivables and other assets
- Property plant and equipment and intangible assets (including Goodwill)
- Other non-current financial assets
- Other non-current assets
- Financial liabilities to related parties (current and non-current combined)
- Trade payables
- Other current liabilities

Trade receivables and other assets increased by HUF 22.4 billion from December 31, 2017 to June 30, 2018, driven by the increase in current installment receivables (ca. HUF 8.2 billion) and the adoption of IFRS 9 and IFRS 15 accounting standards. The total impact of the opening adjustment comes to HUF 9.5 billion related to the catch-up adjustment and ca. HUF 4.0 billion as a result of reclassification mainly from construction contract receivables under IAS 11 and the discount given to customers of unbilled receivables under IAS 18 to contract assets within the same line. The closing balance of contract assets amounted to HUF 17.6 billion.

Property plant and equipment (PPE) and intangible assets (including Goodwill) together decreased by HUF 19.9 billion from December 31, 2017 to June 30, 2018, as depreciation and scrapping of assets exceeded capital expenditure for the period.

Other non-current financial assets increased by HUF 6.0 billion from December 31, 2017 to June 30, 2018, mainly due to the adoption of IFRS 9 and IFRS 15 accounting standards. The closing balance of non-current contract assets amounted to HUF 3.6 billion.

Other non-current assets increased by HUF 5.5 billion from December 31, 2017 to June 30, 2018 as a result of the adoption of IFRS 9 and IFRS 15 accounting standards. The closing balance of contract cost amounted to HUF 5.0 billion.

Financial liabilities to related parties (current and non-current combined) increased by HUF 20.4 billion from December 31, 2017 to June 30, 2018, mainly due to the additional drawdown of short-term Group funds in H1 2018.

Trade payables decreased by HUF 24.7 billion from December 31, 2017 to June 30, 2018, largely a reflection of the decrease in the balances outstanding to handset suppliers.

Other current liabilities increased by HUF 8.0 billion from December 31, 2017 to June 30, 2018. The closing balance of Other current liabilities includes HUF 13.5 billion contract liabilities mainly as a result of reclassification from advance payments received from customers and from deferred revenue within the same line.

There have not been any other material changes in the items of the Consolidated Statement of Financial Position from December 31, 2017 to June 30, 2018; other less significant changes can largely be attributable to the impacts of the implementation of IFRS 9 and IFRS 15 accounting standards, as presented in Section 3.11. In terms of the Consolidated Statement of Cash Flows for 2018, the related explanations can be found above in Section 2.1.2.

2.1.4 Related party transactions

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

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 that in aggregation amounted to a nominal amount of HUF 10.7 billion as at December 31, 2017. 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 to date been delivering on its contractual obligations and expects to continue to do so in the future; consequently, there have been no significant drawdown of the guarantees in 2018 and this is expected to continue being the case going forward.

Commitments

There has not been any material change in the nature and amount of our commitments in 2018.

2.1.6 Significant events

Cable TV network and operations

At the beginning of August 2018, the Group acquired a cable TV business in the amount of HUF 1.1 billion. This acquisition qualified as business combination of the MT-Hungary operating segment. The majority of the total purchase price is to be paid after the transfer of possession in August 2018.

For any other significant events that occurred since the end of June 30, 2018, please see our Investor Relations website:
http://www.telekom.hu/about_us/investor_relations/investor_news

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 customers are served by the Telekom brand, while business customers (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, where it primarily provides 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 financial information related to these reportable segments. Such information is regularly provided to the Management Committee (MC) of the Company and reconciled with 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 are most consistent with how the Group's results are reported in the statutory financial statements.

2.2.1 MT-Hungary

Continued growth in revenue driven by significant increase in SI/IT contribution and strong equipment

HUF million	Q2 2017 IAS 18 / IAS 11	Q2 2018 IAS 18 / IAS 11	Change	Change (%)	Q2 2018 IFRS 9 & 15 effect	Q2 2018 IFRS 9 & 15
Voice	33,748	34,009	261	0.8%	(1,994)	32,015
Non-voice	20,155	23,709	3,554	17.6%	(945)	22,764
Equipment	14,515	15,577	1,062	7.3%	2,531	18,108
Other	3,563	2,619	(944)	(26.5%)	0	2,619
Total mobile revenues	**71,981**	**75,914**	**3,933**	**5.5%**	**(408)**	**75,506**
Voice retail	10,281	10,039	(242)	(2.4%)	(58)	9,981
Broadband - retail	10,962	11,510	548	5.0%	(230)	11,280
TV	10,433	10,803	370	3.5%	(155)	10,648
Equipment	1,332	3,182	1,850	138.9%	825	4,007
Other	10,335	10,368	33	0.3%	28	10,396
Fixed line revenues	**43,343**	**45,902**	**2,559**	**5.9%**	**410**	**46,312**
SI/IT revenues	**24,139**	**32,885**	**8,746**	**36.2%**	**0**	**32,885**
Revenue from Energy services	**1,347**	**0**	**(1,347)**	**(100.0%)**	**0**	**0**
Total revenues	**140,810**	**154,701**	**13,891**	**9.9%**	**2**	**154,703**
Direct costs	**(58,804)**	**(70,875)**	**(12,071)**	**(20.5%)**	**(489)**	**(71,364)**
Gross profit	**82,006**	**83,826**	**1,820**	**2.2%**	**(487)**	**83,339**
Indirect costs	**(38,956)**	**(38,468)**	**488**	**1.3%**	**(124)**	**(38,592)**
EBITDA	**43,050**	**45,358**	**2,308**	**5.4%**	**(611)**	**44,747**
Segment Capex	**19,028**	**14,699**	**(4,329)**	**(22.8%)**	**0**	**14,699**

Operational statistics – access numbers	June 30, 2017	June 30, 2018	Change (%)
Number of mobile customers (RPC)	5,390,118	5,305,926	(1.6%)
Postpaid share in the RPC base	61.7%	65.6%	n.a.
Total fixed voice access	1,425,319	1,391,050	(2.4%)
Total retail fixed broadband customers	1,049,837	1,104,456	5.2%
Total TV customers	1,006,241	1,044,919	3.8%

Operational statistics – ARPU (HUF)	Q2 2017 IAS 18 / IAS 11	Q2 2018 IAS 18 / IAS 11	Change (%)	1-6 months 2017	1-6 months 2018	Change (%)
Mobile ARPU	3,365	3,626	7.8%	3,327	3,557	6.9%
Postpaid ARPU	4,815	4,980	3.4%	4,816	4,917	2.1%
Prepaid ARPU	1,107	1,095	(1.1%)	1,068	1,046	(2.1%)
Blended fixed voice ARPU	2,405	2,397	(0.3%)	2,430	2,367	(2.6%)
Blended fixed broadband ARPU	3,563	3,534	(0.8%)	3,524	3,540	0.5%
Blended TV ARPU	3,493	3,461	(0.9%)	3,503	3,533	0.9%

Total revenues (excluding the impact of IFRS 15 adoption) **for the MT-Hungary segment** increased by 9.9% year-on-year in Q2 2018, primarily due to significantly higher SI/IT revenues and increased equipment sales, both in the mobile and the fixed segment. In the first half of the year total revenue grew by 8.4% on the year prior to HUF 291.6 billion. Fixed line revenues increased by 5.9% year-on-year as the strong growth in equipment sales continued and was complimented by steady growth in broadband and TV revenues.

- **Mobile revenues** (excluding the impact of IFRS 15 adoption) grew by 5.5% year-on-year in Q2 2018 to HUF 75.9 billion and by 5.0% H1 2018 versus H1 2017. This increase was driven by growth in all service revenue lines, most notably in mobile data and equipment sales. In addition, SMS revenues grew by 12.3% year-on-year. The flexible and customizable postpaid tariff system launched in 2017 continued to gain in popularity. Demand for higher data packages, along with growth in mobile broadband subscriptions, positively impacted mobile ARPU, leading to an 18.9% increase year-on-year for the quarter. The reclassification of mobile handset insurance revenues to mobile content revenues also positively influenced the figures reported for the period.
  - **Mobile service** revenue increased by 7.1% year-on-year to HUF 57.7 billion in Q2 2018, and by 6.3% year-on-year in the first half of 2018, as growth in mobile data revenues continued, supported by new data plans and customer upgrades to higher packages. These rising mobile data revenues, alongside the slight increase in mobile voice and significant rise in SMS revenues, were facilitated by the more favorable competitive environment during the quarter.
  - Mobile **equipment** revenue increased by 7.3% year-on-year to HUF 15.6 billion in Q2 2018, and by 6.9% in H1 2018 to HUF 27.8 billion, as a result of the higher ratio of high-end handsets in the sales mix and the positive effect of regulatory changes requiring the sale of audiovisual equipment with every 2-year loyalty contract.
  - **Other** revenues decreased by 26.5% year-on-year in Q2 2018 to HUF 2.6 billion, and by 24.6% in the first half of the year, due to the reclassification of mobile handset insurance revenues to mobile content revenues, effective from the beginning of 2018.
- **Fixed line revenues** increased (excluding the impact of IFRS 15 adoption) by 5.9% year-on-year in Q2 2018 to HUF 45.9 billion and by 7.3% to HUF 92.3 billion H1 2018 versus H1 2017 as growth in fixed broadband, TV and equipment revenues more than offset the continued structural decline in voice retail revenues. The continued strong growth of 138.9% in equipment sales was a result of the aforementioned regulatory changes in 2017 that mandate all 2-year loyalty contracts be coupled with equipment sales. These changes positively influenced the fixed equipment revenue line which has a relatively low base for prior year comparison.
  - **Voice retail** revenues decreased by 2.4% year-on-year in Q2 2018 and by 4.2% in the first half of the year due to a decline in customer base and tariff levels.
  - **Broadband retail** revenues were up by 5.0% year-on-year to HUF 11.5 billion in Q2 2018 and by 7.4% to HUF 23.4 billion in H1 2018, driven by a 5.2% increase in the number of broadband subscribers as well as a growing percentage of customers with fiber optic connections opting for higher bandwidth.
  - **TV** revenues rose by 3.5% year-on-year to HUF 10.8 billion in Q2 2018 and by 6.0% to HUF 22.0 billion in the first half of the year as the customer base expanded which offset the decline in ARPU levels.
  - **Equipment** revenues increased by 138.9% year-on-year to HUF 3.2 billion due to a greater amount of equipment being sold in relation to fixed contracts. Commensurately, revenue increased by 101.5% on the year prior to HUF 6.4 billion in H1 2018.
  - **Other** fixed line revenues increased by 0.3% year-on-year in Q2 2018 to HUF 10.4 billion and by 5.7% in H1 2018 to HUF 20.8 billion reflecting higher revenues from increased usage of Video on Demand in Hungary.
- **SI/IT revenues** increased by 36.2% year-on-year to HUF 32.9 billion in the second quarter of 2018, and by 30.1% to HUF 53.4 billion in the first 6 months of 2018, as market demand for hardware and software deliveries remained strong. These projects, however, typically have lower profit margins and hence a dilutive effect on the gross margin.
- **The energy services operation** was discontinued on November 1, 2017 and as such no revenue was realized in this line.
- **EBITDA** (excluding the impact of IFRS 9 and IFRS 15 adoption) in Q2 2018 increased by 5.4% year-on-year to HUF 45.4 billion and by 7.6% in the first half of 2018 to HUF 82.0 billion, driven by an increase in revenues from SI/IT services and equipment sales.
  - **Gross profit** increased by 2.2% year-on-year in Q2 2018 and by 2.8% in H1 2018 to HUF 165.3 billion, reflecting the growing demand for broadband internet, both in mobile and fixed, our strategic focus on equipment sales and an outstanding quarter in terms of SI/IT revenues. However, these were offset by higher direct costs versus Q2 2017, mostly due to growth in SI/IT and equipment revenues.
  - **Employee-related expenses** improved moderately by 0.2% year-on-year to HUF 18.5 billion in Q2 2018 as a lower average employee headcount offset the financial impacts of the 5% wage increase in Q1 2018.

- Other operating expenses (net) decreased by 2.2% year-on-year in Q2 2018 due to savings on marketing and maintenance.

- **Capex** decreased by 16.6% from HUF 33.7 billion in H1 2017 to HUF 28.1 billion in H1 2018 as a result of reduced spending on 4G network expansion and the completion of companywide IT initiatives launched last year.

2.2.2 Macedonia

Further improved profitability thanks to cost enhancing measures

HUF million	Q2 2017 IAS 18 / IAS 11	Q2 2018 IAS 18 / IAS 11	Change	Change (%)	Q2 2018 IFRS 9 & 15 effect	Q2 2018 IFRS 9 & 15
Voice	4,255	4,139	(116)	(2.7%)	(302)	3,837
Non-voice	1,918	2,197	279	14.5%	(152)	2,045
Equipment	1,045	1,176	131	12.5%	513	1,689
Other	418	290	(128)	(30.6%)	0	290
Total mobile revenues	**7,636**	**7,802**	**166**	**2.2%**	**59**	**7,861**
Voice retail	1,248	1,216	(32)	(2.6%)	(45)	1,171
Broadband - retail	1,346	1,343	(3)	(0.2%)	(35)	1,308
TV	824	983	159	19.3%	(33)	950
Equipment	82	71	(11)	(13.4%)	86	157
Other	1,367	1,290	(77)	(5.6%)	0	1,290
Fixed line revenues	**4,867**	**4,903**	**36**	**0.7%**	**(27)**	**4,876**
SI/IT revenues	259	355	96	37.1%	0	355
Total revenues	**12,762**	**13,060**	**298**	**2.3%**	**32**	**13,092**
Direct cost s	**(3,915)**	**(3,769)**	**146**	**3.7%**	**(55)**	**(3,824)**
Gross profit	**8,847**	**9,291**	**444**	**5.0%**	**(23)**	**9,268**
Indirect costs	**(4,041)**	**(3,668)**	**373**	**9.2%**	**(38)**	**(3,706)**
EBITDA	**4,806**	**5,623**	**817**	**17.0%**	**(61)**	**5,562**
Segment Capex	**3,267**	**1,686**	**(1,581)**	**(48.4%)**	**0**	**1,686**

Operational statistics – access numbers	June 30, 2017	June 30, 2018	Change (%)
Number of mobile customers	1,209,184	1,172,368	(3.0%)
Postpaid share in the customer base	45.7%	49.9%	n.a.
Total fixed voice access	212,522	209,562	(1.4%)
Total fixed broadband access	189,657	189,929	0.1%
Total TV customers	112,436	121,734	8.3%

Total revenues in Macedonia (excluding IFRS 15 impacts) increased by 2.3% year-on-year to HUF 13.1 billion in Q2 2018, largely due to positive service revenue trends, increased mobile equipment sales and favourable exchange rate movements (the average HUF/MKD rate weakened by 2.8% in Q2 2018 compared to Q2 2017). In the first half of 2018, total revenues amounted to HUF 25.8 billion, representing a 2.5% improvement over the same period in 2017 (for full details, please see Appendix 3.12.).

- **Mobile revenues** (excluding IFRS 15 impacts) improved by 2.2% year-on-year in Q2 2018 (by 4.0% in H1 2018) as a result of continued growth in data revenues and further increases in equipment sales.
  - **Voice** revenues declined by 2.7% year-on-year in Q2 2018 as competition-driven price pressure, combined with lower international mobile termination revenues, offset the positive impact of the growing postpaid customer base and usage levels. In the first half of 2018, voice revenues remained broadly stable year-on-year as one-off revenue booked in Q1 2018 related to the terminated prepaid loyalty program compensated for the negative impacts.
  - **Non-voice** revenues increased by 14.5% year-on-year in Q2 2018 as the mobile broadband customer base expanded further, driving the dynamic mobile data revenue growth.
  - **Mobile equipment** revenues were 12.5% higher year-on-year in Q2 2018, driven by higher average handset prices and higher revenue from the sale of accessories.
  - **Other** mobile revenues declined by 30.6% year-on-year in Q2 2018, reflecting lower revenues from late payment fees.
- **Fixed line revenue** trends continued to improve and supported by the exchange rate impact, recorded a moderate increase of 0.7% in Q2 2018 (excluding IFRS 15 impacts). In the first half of 2018, fixed revenues declined by 1.0% year-on-year as higher TV revenues could not compensate for lower wholesale and retail voice revenues.
  - **Voice** retail revenues decreased by 2.6% year-on-year in Q2 2018, primarily driven by lower usage levels.

- **Broadband** retail revenues were moderately lower year-on-year in Q2 2018 as the further increase in the retail customer base offset most of the competition driven price erosion.
- **TV** revenues grew by 19.3% year-on-year in Q2 2018, as both the IPTV subscriber base and ARPUs continued to increase.
- Fixed **equipment** revenues declined by 13.4% in Q2 2018 due to the lower volume of TV sets and laptops sold and the decline in rental revenues.
- **Other** fixed revenues declined by 5.6% year-on-year in Q2 2018 as a result of the negative impact of lower domestic and international incoming traffic revenues, as well as lower wholesale broadband revenue.

- **SI/IT revenues** rose by 37.1% year-on-year in Q2 2018 and by 26.4% in H1 2018 vs. H1 2017, thanks to increased revenues from customized solution projects.

EBITDA (excluding IFRS 9 and 15 impacts) rose by 17.0% year-on-year to HUF 5.6 billion in Q2 2018 (and by 14.0% to HUF 10.9 billion in H1 2018) due to the combined effect of the revenue increase and cost savings in several expense lines:

- Direct cost reduction was achieved primarily due to lower bad debt expenses (supported by one-off items and write downs in the base period) and savings on TV content fees.
- Indirect cost improvement was driven by savings in marketing, HR-related material and maintenance costs.

Capex in the first half of 2018 decreased by 31.1% year-on-year to HUF 2.8 billion, driven by lower expenditures related to TV content capitalization**.**

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 2017**
Revenue	2,027
Direct costs	(533)
Employee related expenses	(332)
Depreciation and amortization	(517)
Other operating expenses	(525)
Operating expenses	(1,907)
Other operating income	73
Operating profit	193
Net financial result	7
Income tax from discontinued operations	(23)
Profit after tax from discontinued operations	**177**
Gain on sale from 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 from discontinued operation	(1,155)
Profit for the year from discontinued operations	**9,526**
Other comprehensive income from discontinued operations	(12,512)
Total comprehensive income from discontinued operations	**(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 consolidated annual financial statements for the year ended December 31, 2017, 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, 2017 have been filed with the Budapest Stock Exchange and the Central Bank of Hungary. The statutory accounts for December 31, 2017 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, 2017 with the following exceptions.

The following extracts from the accounting policy were applied by the Group. As of January 1, 2018, the Group adopted the following IFRS Standards, amendments and interpretations:

IFRS 9 and its amendments – Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2011, November 2013 and July 2014, the IASB amended the standard in order to make further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments completed the new financial instruments standard.

The adoption of the new standard and its amendments did not result in material changes in the consolidated financial statements of the Group. The new provisions on the classification of financial assets gave rise to changes in measurement and presentation of certain debt instruments failing to meet the" solely payments of principal and interest" (SPPI) criterion.

On January 1, 2018 (the date of initial application of IFRS 9), Magyar Telekom Group's management assessed which business models apply to the financial assets held by the group and classified its financial instruments into the appropriate IFRS 9 categories. The effects resulting from this reclassification are disclosed in 3.11.

From January 1, 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

The new provisions on the accounting of impairment losses led to expected losses having to be expensed earlier in case of trade receivables. Application of the simplified approach for financial assets with a significant financing component also led to a minor increase in impairment losses (HUF 0.8 billion). The impairment losses on contract assets recognized for the first time as of January 1, 2018 in accordance with IFRS 15 is disclosed within the effects of IFRS 15.

The cumulative effect arising from the transition is recognized as adjustment to the opening balance of equity in the year of initial application. Prior-year comparatives are not adjusted.

IFRS 15 – Revenue from Contracts with Customers

The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also resulted in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and new guidance for multiple-element arrangements.
The adoption of the new standard resulted in significant changes to the financial statements of the Group, primarily in respect of the timing of revenue recognition and in respect of capitalization of costs of obtaining a contract with a customer and contract fulfilment costs.

- Magyar Telekom utilized the option for simplified initial application, i.e., contracts that were not completed by January 1, 2018 were accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition (catch-up) was recognized as an adjustment to the opening balance of equity in 2018. Prior-year comparatives were not adjusted; however, an explanation of the reasons for the changes in items in the consolidated statement of financial position and the consolidated income statement for the current period are provided as a result of applying IFRS 15 for the first time. The effects were analyzed in a Group-wide project on implementation of the new standard. The changeover to the new standard resulted in a cumulative increase in retained earnings of HUF 19 billion before taxes. As a consequence, HUF 2 billion income tax arose. This effect was mainly attributable to the first-time recognition of

  - Contract assets (HUF 18 billion including also reclassifications of HUF 5 billion that resulted mainly from construction contract receivables under IAS 11 and the discount given to customers of unbilled receivables under IAS 18) that, under IFRS 15, led to the earlier recognition of revenue from the sale of goods and merchandise, and
  - Deferred customer acquisition costs (HUF 6 billion) that, under IFRS 15, resulted in the later recognition of selling expenses.

- As regards to the new standard's impact on the Consolidated Statement of Income, Magyar Telekom's share of overall revenue from the provision of services decreased, whilst the overall share of revenue from the sale of goods and merchandise increased by about 3 percentage points. As described, IFRS 15 means revenue is recognized earlier and expenses are recognized later for contracts not yet concluded by January 1, 2018. However, as the accounting effects of the changeover to the new standard were recognized directly in equity, the only effects on the Consolidated Statement of Income in 2018 were related to changes in the point in time at which revenue and expenses are realized. On the assumption that business development remains unchanged, this means for a mass market characterized by a large number of customer contracts that are being concluded at different points in time the following:
- For existing contracts, lower service revenues and higher selling expenses from the amortization of capitalized contract assets and customer acquisition costs are largely compensated for by higher revenue, on the conclusion of new contracts, from the sale of goods and lower selling expenses from the capitalization of contract assets and customer acquisition costs. Compared with the previous accounting method, major effects on earnings thus arise only if business development changes, for example, if volumes or prices change or if there are changes to business models or products offered.
- In the case of multiple-element arrangements (e.g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This lead to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the Consolidated Statement of Financial Position.
- At the same time, it resulted in higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services.
- Expenses for sales commissions (customer acquisition costs) must now be capitalized in the Contract costs line of the Consolidated Statement of Financial Position and recognized over the estimated customer retention period.
- On first-time application of the standard, both total assets and shareholders' equity increased due to the capitalization of contract assets and customer acquisition costs.
- Later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.
- Contract liabilities (which, as deferred revenue, were already recognized as liabilities in the past and with the transition reclassified) are now netted off against the contract assets for each customer contract.
- For the purposes of determining whether Magyar Telekom sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), there was no material change.
- A significant financing component is not considered for the amount and timing of revenue recognition if the period between when a promised good or service is transferred to the customer and when the customer pays for that good or service will be one year or less.

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

For further details regarding the effect of the accounting policy change please see sections 2.1.3 and 3.11.

3.2. Standards issued but not yet applied

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 "Leases." The standard will be effective for the first time for financial years beginning on or after January 1, 2019. From the date of first-time adoption, the new lease standard will have a material effect on Magyar Telekom Group's consolidated financial statements, as disclosed in the consolidated annual financial statements for the year ended December 31, 2017 particularly on the results of operations, net cash from operating activities, total assets, and the presentation of the financial position. Magyar Telekom will apply the modified retrospective approach. The most significant effect of IFRS 16 will be an increase in right-of-use assets and lease liabilities, the extent of which will be determined after a thorough in-progress analysis.

3.3. Interim 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)	Q2 2017 (unaudited)	Q2 2018 (unaudited)	Change	Change (%)
Revenues				
Voice retail	35,527	33,345	(2,182)	(6.1%)
Voice wholesale	2,476	2,507	31	1.3%
Data	17,793	20,043	2,250	12.6%
SMS	4,280	4,766	486	11.4%
Equipment	15,560	19,797	4,237	27.2%
Other mobile revenues	3,981	2,906	(1,075)	(27.0%)
Mobile revenues	**79,617**	**83,364**	**3,747**	**4.7%**
Voice retail	11,529	11,168	(361)	(3.1%)
Broadband retail	12,308	12,588	280	2.3%
TV	11,257	11,598	341	3.0%
Equipment	1,414	4,067	2,653	187.6%
Data retail	2,705	2,344	(361)	(13.3%)
Wholesale (voice, broadband, data)	4,870	5,097	227	4.7%
Other fixed line revenues	4,076	4,200	124	3.0%
Fixed line revenues	**48,159**	**51,062**	**2,903**	**6.0%**
System Integration/Information Technology revenues	24,398	33,240	8,842	36.2%
Energy service revenues	1,347	0	(1,347)	(100.0%)
Total revenues	**153,521**	**167,666**	**14,145**	**9.2%**
Direct costs				
Interconnect costs	(4,662)	(5,307)	(645)	(13.8%)
SI/IT service related costs	(17,952)	(25,291)	(7,339)	(40.9%)
Energy service related costs	(1,289)	0	1,289	100.0%
Bad debt expense	(1,500)	(2,286)	(786)	(52.4%)
Telecom tax	(6,351)	(6,606)	(255)	(4.0%)
Other direct costs	(30,920)	(35,653)	(4,733)	(15.3%)
Direct costs	**(62,674)**	**(75,143)**	**(12,469)**	**(19.9%)**
Gross profit	**90,847**	**92,523**	**1,676**	**1.8%**
Employee related expenses	(20,144)	(20,207)	(63)	(0.3%)
Utility tax	0	0	0	n.a.
Other operating expenses	(24,188)	(23,167)	1,021	4.2%
Other operating income	1,341	1,054	(287)	(21.4%)
EBITDA	**47,856**	**50,203**	**2,347**	**4.9%**
Depreciation and amortization	(27,574)	(29,030)	(1,456)	(5.3%)
Operating profit	**20,282**	**21,173**	**891**	**4.4%**
Net financial result	(5,480)	(2,999)	2,481	45.3%
Share of associates' and joint ventures' results	(2)	(88)	(86)	(4,300.0%)
Profit before income tax	**14,800**	**18,086**	**3,286**	**22.2%**
Income tax	(3,872)	(3,368)	504	13.0%
Profit for the period from continuing operations	**10,928**	**14,718**	**3,790**	**34.7%**
Profit for the period from discontinued operations	0	0	0	n.a.
Profit for the period	**10,928**	**14,718**	**3,790**	**34.7%**
Change in exchange differences on translating foreign operations	159	4,166	4,007	n.m.
Revaluation of available-for-sale financial assets	13	166	153	n.m.
Other comprehensive income for the period from continuing operations	172	4,332	4,160	n.m.
Other comprehensive income for the period from discontinued operations	0	0	0	n.a.
Other comprehensive income for the period	**172**	**4,332**	**4,160**	**n.m.**
Total comprehensive income for the period from continuing operations	11,100	19,050	7,950	71.6%
Total comprehensive income for the period from discontinued operations	0	0	0	n.a.
Total comprehensive income for the period	**11,100**	**19,050**	**7,950**	**71.6%**
Profit attributable to:				
Owners of the parent	10,320	13,744	3,424	33.2%
From continuing operations	10,320	13,744	3,424	33.2%
From discontinued operations	0	0	0	n.a.
Non-controlling interests	608	974	366	60.2%
From continuing operations	608	974	366	60.2%
From discontinued operations	0	0	0	n.a.
	10,928	**14,718**	**3,790**	**34.7%**

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Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q2 2017 (unaudited)	Q2 2018 (unaudited)	Change	Change (%)
Total comprehensive income attributable to:				
Owners of the parent	10,411	16,463	6,052	58.1%
From continuing operations	10,411	16,463	6,052	58.1%
From discontinued operations	0	0	0	n.a.
Non-controlling interests	689	2,587	1,898	275.5%
From continuing operations	689	2,587	1,898	275.5%
From discontinued operations	0	0	0	n.a.
	11,100	**19,050**	**7,950**	**71.6%**
Basic earnings per share (HUF)	**9.91**	**13.26**	**3.35**	**33.8%**
From continuing operations	9.91	13.26	3.35	33.8%
From discontinued operations	(0.00)	0.00	0.00	100.0%
Diluted earnings per share (HUF)	**9.90**	**13.26**	**3.36**	**34.0%**
From continuing operations	9.90	13.26	3.36	34.0%
From discontinued operations	(0.00)	0.00	0.00	100.0%

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

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Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	1-6 months 2017 (unaudited)	1-6 months 2018 (unaudited)	Change	Change (%)
Revenues				
Voice retail	70,268	66,131	(4,137)	(5.9%)
Voice wholesale	4,789	4,844	55	1.1%
Data	34,985	38,757	3,772	10.8%
SMS	8,427	9,315	888	10.5%
Equipment	28,035	37,099	9,064	32.3%
Other mobile revenues	7,363	5,490	(1,873)	(25.4%)
Mobile revenues	**153,867**	**161,636**	**7,769**	**5.0%**
Voice retail	23,283	22,169	(1,114)	(4.8%)
Broadband retail	24,457	25,523	1,066	4.4%
TV	22,359	23,572	1,213	5.4%
Equipment	3,358	8,181	4,823	143.6%
Data retail	4,991	4,658	(333)	(6.7%)
Wholesale (voice, broadband, data)	9,471	9,894	423	4.5%
Other fixed line revenues	7,788	8,655	867	11.1%
Fixed line revenues	**95,707**	**102,652**	**6,945**	**7.3%**
System Integration/Information Technology revenues	41,527	53,997	12,470	30.0%
Energy service revenues	2,927	0	(2,927)	(100.0%)
Total revenues	**294,028**	**318,285**	**24,257**	**8.2%**
Direct costs				
Interconnect costs	(9,092)	(9,974)	(882)	(9.7%)
SI/IT service related costs	(28,661)	(39,332)	(10,671)	(37.2%)
Energy service related costs	(2,806)	0	2,806	100.0%
Bad debt expense	(3,156)	(3,721)	(565)	(17.9%)
Telecome tax	(12,205)	(12,769)	(564)	(4.6%)
Other direct costs	(59,696)	(68,818)	(9,122)	(15.3%)
Direct costs	**(115,616)**	**(134,614)**	**(18,998)**	**(16.4%)**
Gross profit	**178,412**	**183,671**	**5,259**	**2.9%**
Employee related expenses	(39,529)	(39,718)	(189)	(0.5%)
Utility tax	(7,418)	(7,159)	259	3.5%
Other operating expenses	(47,340)	(46,128)	1,212	2.6%
Other operating income	2,073	2,092	19	0.9%
EBITDA	**86,198**	**92,758**	**6,560**	**7.6%**
Depreciation and amortization	(53,294)	(55,860)	(2,566)	(4.8%)
Operating profit	**32,904**	**36,898**	**3,994**	**12.1%**
Net financial result	(11,530)	(7,310)	4,220	36.6%
Share of associates' and joint ventures' results	307	307	0	0.0%
Profit before income tax	**21,681**	**29,895**	**8,214**	**37.9%**
Income tax	(5,939)	(5,663)	276	4.6%
Profit for the period from continuing operations	**15,742**	**24,232**	**8,490**	**53.9%**
Profit for the period from discontinued operations	9,526	0	(9,526)	(100.0%)
Profit for the period	**25,268**	**24,232**	**(1,036)**	**(4.1%)**
Change in exchange differences on translating foreign operations	(794)	4,836	5,630	n.m.
Revaluation of available-for-sale financial assets	12	241	229	n.m.
Other comprehensive income for the period from continuing operations	(782)	5,077	5,859	**n.m.**
Other comprehensive income for the period from discontinued operations	(12,512)	0	12,512	100.0%
Other comprehensive income for the period	**(13,294)**	**5,077**	**18,371**	**n.m.**
Total comprehensive income for the period from continuing operations	**14,960**	**29,309**	**14,349**	**95.9%**
Total comprehensive income for the period from discontinued operations	(2,986)	0	2,986	100.0%
Total comprehensive income for the period	**11,974**	**29,309**	**17,335**	**144.8%**
Profit attributable to:				
Owners of the parent	23,912	22,448	(1,464)	(6.1%)
From continuing operations	14,424	22,448	8,024	55.6%
From discontinued operations	9,488	0	(9,488)	(100.0%)
Non-controlling interests	1,356	1,784	428	31.6%
From continuing operations	1,318	1,784	466	35.4%
From discontinued operations	38	0	(38)	(100.0%)

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Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	1-6 months 2017 (unaudited)	1-6 months 2018 (unaudited)	Change	Change (%)
Total comprehensive income attributable to:				
Owners of the parent	13,747	25,612	11,865	86.3%
From continuing operations	13,953	25,612	11,659	83.6%
From discontinued operations	(206)	0	206	100.0%
Non-controlling interests	(1,773)	3,697	5,470	n.m.
From continuing operations	1,007	3,697	2,690	267.1%
From discontinued operations	(2,780)	0	2,780	100.0%
	11,974	**29,309**	**17,335**	**144.8%**
Basic earnings per share (HUF)	**22.96**	**21.65**	**(1.31)**	**(5.7%)**
From continuing operations	13.85	21.65	7.80	56.3%
From discontinued operations	9.11	0.00	(9.11)	(100.0%)
Diluted earnings per share (HUF)	**22.93**	**21.65**	**(1.28)**	**(5.6%)**
From continuing operations	13.83	21.65	7.82	56.5%
From discontinued operations	9.10	0.00	(9.10)	(100.0%)

3.5. Interim Consolidated Statements of Financial Position

MAGYAR TELEKOM

Consolidated Statements of Financial Position (HUF million)	Dec 31, 2017 (audited)	Jun 30, 2018 (unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	5,399	7,581	2,182	40.4%
Trade receivables and other assets	157,745	180,114	22,369	14.2%
Other current financial assets	8,162	10,194	2,032	24.9%
Current income tax receivable	384	(420)	(804)	n.m.
Inventories	17,175	17,934	759	4.4%
	188,865	215,403	26,538	14.1%
Assets held for sale	162	359	197	121.6%
Total current assets	**189,027**	**215,762**	**26,735**	**14.1%**
Non current assets				
Property, plant and equipment	458,343	448,436	(9,907)	(2.2%)
Intangible assets	229,174	218,557	(10,617)	(4.6%)
Goodwill	212,284	212,933	649	0.3%
Investments in associates and joint ventures	1,324	1,112	(212)	(16.0%)
Deferred tax assets	59	74	15	25.4%
Other non current financial assets	19,323	25,298	5,975	30.9%
Other non current assets	127	5,647	5,520	n.m.
Total non current assets	**920,634**	**912,057**	**(8,577)**	**(0.9%)**
Total assets	**1,109,661**	**1,127,819**	**18,158**	**1.6%**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	35,191	111,614	76,423	217.2%
Other financial liabilities	8,757	9,505	748	8.5%
Trade payables	135,446	110,784	(24,662)	(18.2%)
Current income tax payable	324	1,111	787	242.9%
Provisions	3,267	2,623	(644)	(19.7%)
Other current liabilities	43,596	51,612	8,016	18.4%
	226,581	287,249	60,668	26.8%
Liabilities held for sale	0	0	0	n.a.
Total current liabilities	**226,581**	**287,249**	**60,668**	**26.8%**
Non current liabilities				
Financial liabilities to related parties	231,646	175,601	(56,045)	(24.2%)
Other financial liabilities	47,608	45,080	(2,528)	(5.3%)
Deferred tax liabilities	13,743	15,403	1,660	12.1%
Provisions	9,231	9,554	323	3.5%
Other non current liabilities	779	527	(252)	(32.3%)
Total non current liabilities	**303,007**	**246,165**	**(56,842)**	**(18.8%)**
Total liabilities	**529,588**	**533,414**	**3,826**	**0.7%**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,282	27,264	(18)	(0.1%)
Treasury stock	(2,187)	(3,991)	(1,804)	(82.5%)
Retained earnings	396,320	408,424	12,104	3.1%
Accumulated other comprehensive income	21,505	24,669	3,164	14.7%
Total Equity of the owners of the parent	**547,195**	**560,641**	**13,446**	**2.5%**
Non-controlling interests	32,878	33,764	886	2.7%
Total equity	**580,073**	**594,405**	**14,332**	**2.5%**
Total liabilities and equity	**1,109,661**	**1,127,819**	**18,158**	**1.6%**

3.6. Interim Consolidated Statements of Cash Flows

MAGYAR TELEKOM

Consolidated Statements of Cash Flows (HUF million)	1-6 months 2017 (unaudited)	1-6 months 2018 (unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	15,742	24,232	8,490	53.9%
Depreciation and amortization	53,294	55,860	2,566	4.8%
Income tax expense	5,939	5,663	(276)	(4.6%)
Net financial result	11,530	7,310	(4,220)	(36.6%)
Share of associates' and joint ventures' result	(307)	(307)	0	0.0%
Change in assets carried as working capital	(11,021)	(12,411)	(1,390)	(12.6%)
Change in provisions	(1,472)	(538)	934	63.5%
Change in liabilities carried as working capital	2,998	(14,714)	(17,712)	n.m.
Income taxes paid	(4,756)	(4,663)	93	2.0%
Dividends received	109	535	426	390.8%
Interest and other financial charges paid	(10,295)	(9,449)	846	8.2%
Interest received	194	153	(41)	(21.1%)
Other non-cash items	154	(354)	(508)	n.m.
Net cash generated from operating activities (continuing operations)	**62,109**	**51,317**	**(10,792)**	**(17.4%)**
Net cash generated from / (used in) operating activities from discontinued operation	(23)	0	23	100.0%
Net cash generated from operating activities	**62,086**	**51,317**	**(10,769)**	**(17.3%)**
Cash flows from investing activities				
Purchase of property plant and equipment (PPE) and intangible assets	(37,686)	(30,818)	6,868	18.2%
Adjustments to cash purchases	(6,219)	(5,501)	718	11.5%
Purchase of subsidiaries and business units	(3,786)	(985)	2,801	74.0%
Cash acquired through business combinations	475	137	(338)	(71.2%)
(Payments for) / Proceeds from other financial assets - net	(1,801)	(1,330)	471	26.2%
Proceeds from disposal of subsidiaries and associates	0	0	0	n.a.
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	362	637	275	76.0%
Net cash used in investing activities (continuing operations)	**(48,655)**	**(37,860)**	**10,795**	**22.2%**
Net cash (used in) / generated from investing activities from discontinued operation	36,292	0	(36,292)	(100.0%)
Net cash used in investing activities	**(12,363)**	**(37,860)**	**(25,497)**	**(206.2%)**
Cash flows from financing activities				
Dividends paid to Owners of the parent and Non-controlling interests	(26,672)	(25,999)	673	2.5%
Proceeds from/Repayment of loans and other borrowings -net	(22,888)	19,473	42,361	n.m.
Repayment of other financial liabilities	(4,506)	(3,161)	1,345	29.8%
Repurchase of treasury shares	(673)	(1,822)	(1,149)	(170.7%)
Net cash used in financing activities (continuing operations)	**(54,739)**	**(11,509)**	**43,230**	**79.0%**
Net cash (used in) /generated from financing activities from discontinued operation	2,041	0	(2,041)	(100.0%)
Net cash used in financing activities	**(52,698)**	**(11,509)**	**41,189**	**78.2%**
Exchange differences on cash and cash equivalents	(41)	234	275	n.m.
Exchange differences on cash and cash equivalents from discontinued operation	0	0	0	n.a.
Change in cash and cash equivalents	**(3,016)**	**2,182**	**5,198**	**n.m.**
Cash and cash equivalents, beginning of period	10,805	5,399	(5,406)	(50.0%)
Cash and cash equivalents, end of period	7,789	7,581	(208)	(2.7%)
Change in cash and cash equivalents	**(3,016)**	**2,182**	**5,198**	**n.m.**

3.7. Net debt reconciliation to changes in Statements of Cash Flows

In HUF millions	Opening	Changes in cash and cash equivalents	Changes affecting cash flows from operating activities	Changes in financial liabilities without cash movement	Changes affecting cash flows from investing activities	Changes affecting cash flows from financing activities				Closing
	Balance at January 1, 2018					Proceeds from loans and borrowings	Repayment of loans and other borrowings	Repayment of other financial liability	Other	Balance at June 30, 2018
Related party loans	261,225		(6,121)	12,639		27,591	(8,118)			287,216
Derivatives from related parties	5,612			(4,373)	(1,240)					(1)
Building exchange payable	15			1						16
Frequency fee payable	45,214		(1,110)	1,295				(1,901)		43,498
Finance lease liabilities	4,173			183				(504)		3,852
Debtors overpayment	1,110		43	0						1,153
Other financial liabilities	5,853		205	314	450			(756)		6,066
-Less cash and cash equivalent	(5,399)	(2,182)		0						(7,581)
-Less other current financial assets	(8,162)		416	(2,082)	(366)					(10,194)
Net debt	**309,641**	**(2,182)**	**(6,567)**	**7,977**	**(1,156)**	**27,591**	**(8,118)**	**(3,161)**		**324,025**
Treasury share purchase									(1,822)	
Dividends paid to Owners of the parent and Non-controlling interest									(25,999)	
Net Cash used in financing activities									**(11,509)**	

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3.8. Interim Consolidated Statements of Changes in Equity

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

	pieces	in HUF millions									
			Capital reserves				Accumulated Other Comprehensive Income				
	Shares of common stock	Common stock	Additional paid in capital	Reserve for equity settled share-based transactions	Treasury stock	Retained earnings	Cumulative translation adjustment	Revaluation reserve for AFS financial assets – net of tax	Equity of the owners of the parent	Non-controlling interests	Total Equity
Balance at December 31, 2016	**1,042,742,543**	**104,275**	**27,379**	**511**	**(825)**	**375,660**	**31,521**	**(31)**	**538,490**	**42,843**	**581,333**
Dividend						(26,067)			**(26,067)**		**(26,067)**
Dividend declared to Non-controlling interests									**0**	(3,320)	**(3,320)**
Equity settled share-based transactions				(610)	777				**167**		**167**
Total comprehensive income						23,912	(10,172)	7	**13,747**	(1,773)	**11,974**
Treasury share repurchase					(673)				**(673)**		**(673)**
Disposal of subsidiaries									**0**	(6,743)	**(6,743)**
Balance at June 30, 2017	**1,042,742,543**	**104,275**	**27,379**	**(99)**	**(721)**	**373,505**	**21,349**	**(24)**	**525,664**	**31,007**	**556,671**
Dividend									**0**		**0**
Dividend declared to Non-controlling interests									**0**		**0**
Equity settled share-based transactions				2					**2**		**2**
Total comprehensive income						22,815	177	3	**22,995**	1,871	**24,866**
Treasury share repurchase					(1,466)				**(1,466)**		**(1,466)**
Disposal of subsidiaries									**0**		**0**
Balance at December 31, 2017	**1,042,742,543**	**104,275**	**27,379**	**(97)**	**(2,187)**	**396,320**	**21,526**	**(21)**	**547,195**	**32,878**	**580,073**
Adoption of new standards (IFRS15, IFRS9)						15,724			**15,724**	671	**16,395**
Dividend						(26,068)			**(26,068)**		**(26,068)**
Dividend declared to Non-controlling interests									**0**	(3,482)	**(3,482)**
Equity settled share-based transactions				(18)	18				**0**		**0**
Total comprehensive income						22,448	3,027	137	**25,612**	3,697	**29,309**
Treasury share repurchase					(1,822)				**(1,822)**		**(1,822)**
Disposal of subsidiaries									**0**		**0**
Balance at June 30, 2018	**1,042,742,543**	**104,275**	**27,379**	**(115)**	**(3,991)**	**408,424**	**24,553**	**116**	**560,641**	**33,764**	**594,405**

3.9. Exchange rate information

Exchange rate	Q2 2017	Q2 2018	Change (%)	1-6 months 2017	1-6 months 2018	Change (%)
HUF/EUR beginning of period	308.70	312.55	**1.2%**	311.02	310.14	**(0.3%)**
HUF/EUR period-end	308.87	328.60	**6.4%**	308.87	328.60	**6.4%**
HUF/EUR cumulative monthly average	309.37	317.36	**2.6%**	309.45	314.72	**1.7%**
HUF/MKD beginning of period	5.00	5.08	**1.6%**	5.06	5.04	**(0.4%)**
HUF/MKD period-end	5.01	5.34	**6.6%**	5.01	5.34	**6.6%**
HUF/MKD cumulative monthly average	5.02	5.16	**2.8%**	5.02	5.11	**1.8%**

3.10. Segment information

HUF millions	Q2 2017	Q2 2018	1-6 months 2017	1-6 months 2018
Total MT-Hungary revenues	140,810	154,703	268,936	292,586
Less: MT-Hungary revenues from other segments	(34)	(31)	(61)	(58)
Telekom Hungary revenues from external customers	**140,776**	**154,672**	**268,875**	**292,528**
Total Macedonia revenues	12,762	13,092	25,184	25,872
Less: Macedonia revenues from other segments	(17)	(17)	(31)	(34)
Macedonia revenues from external customers	**12,745**	**13,075**	**25,153**	**25,838**
Total consolidated revenue of the segments	153,521	167,747	294,028	318,366
Measurement/rounding differences to Group revenue	0	(81)	0	(81)
Total revenue of the Group from continuing operations	**153,521**	**167,666**	**294,028**	**318,285**
Total Montenegro revenues	0	0	2,023	0
Less: Montenegro revenues from other segments	0	0	4	0
Montenegro revenues from external customers	**0**	**0**	**2,027**	**0**
Total revenue from discontinued operations	**0**	**0**	**2,027**	**0**
Segment results (EBITDA)				
MT-Hungary	43,050	44,747	76,143	81,986
Macedonia	4,806	5,562	9,584	10,863
Total EBITDA of the segments	**47,856**	**50,309**	**85,727**	**92,849**
Measurement/rounding differences to Group EBITDA	0	(106)	471	(91)
Total EBITDA of the Group from continuing operations	**47,856**	**50,203**	**86,198**	**92,758**
Montenegro	0	0	702	0
Income from sale of Crnogorski Telekom (segment Montenegro)	0	0	10,504	0
Measurement/rounding differences	0	0	8	0
Total EBITDA from discontinued operations	**0**	**0**	**11,214**	**0**

3.11. Impact of IFRS 9 and IFRS 15

The following additional tables show the amounts by which each financial statement line item is affected in the current reporting period due to the application of the new standards compared to previous accounting policy applied that was in effect before the change. We show the impact of IFRS 9 and IFRS 15 accounting standards together since that of IFRS 9 accounting standard is not significant. For further details please see section 3.1

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Consolidated Statements of Financial Position (HUF million)	Dec 31, 2017 (audited)	Catch-up & reclass IFRS 9 & IFRS 15	IFRS 9 & IFRS 15 effect	Other changes	Jun 30, 2018 (unaudited)	Change	Change (%)
ASSETS							
Current assets							
Cash and cash equivalents	5,399	0	0	2,182	7,581	2,182	40.4%
Trade receivables and other assets	157,745	9,467	218	12,684	180,114	22,369	14.2%
Thereof: Contract assets	0	14,286	218	3,072	17,576	17,576	n.a.
Other current financial assets	8,162	0	0	2,032	10,194	2,032	24.9%
Current income tax receivable	384	(339)	0	(465)	(420)	(804)	n.m.
Inventories	17,175	0	0	759	17,934	759	4.4%
	188,865	9,128	218	17,192	215,403	26,538	14.1%
Assets held for sale	162	0	0	197	359	197	121.6%
Total current assets	**189,027**	**9,128**	**218**	**17,389**	**215,762**	**26,735**	**14.1%**
Non current assets							
Property, plant and equipment	458,343	0	0	(9,907)	448,436	(9,907)	(2.2%)
Intangible assets	229,174	0	0	(10,617)	218,557	(10,617)	(4.6%)
Goodwill	212,284	0	0	649	212,933	649	0.3%
Investments in associates and joint ventures	1,324	0	0	(212)	1,112	(212)	(16.0%)
Deferred tax assets	59	(1,264)	0	1,279	74	15	25.4%
Other non current financial assets	19,323	3,365	154	2,456	25,298	5,975	30.9%
Thereof: Contract assets	0	3,365	154	0	3,519	3,519	n.a.
Other non current assets	127	5,507	(474)	487	5,647	5,520	n.m.
Thereof: Contract costs	0	5,507	(474)	0	5,033	5,033	n.a.
Total non current assets	**920,634**	**7,608**	**(320)**	**(15,865)**	**912,057**	**(8,577)**	**(0.9%)**
Total assets	**1,109,661**	**16,736**	**(102)**	**1,524**	**1,127,819**	**18,158**	**1.6%**
LIABILITIES							
Current liabilities							
Financial liabilities to related parties	35,191	0	0	76,423	111,614	76,423	217.2%
Other financial liabilities	8,757	(64)	0	812	9,505	748	8.5%
Trade payables	135,446	0	0	(24,662)	110,784	(24,662)	(18.2%)
Current income tax payable	324	356	0	431	1,111	787	242.9%
Provisions	3,267	0	0	(644)	2,623	(644)	(19.7%)
Other current liabilities	43,596	(178)	(73)	8,267	51,612	8,016	18.4%
Thereof: Contract liabilities	0	11,265	(73)	2,262	13,454	13,454	n.a.
	226,581	114	(73)	60,627	287,249	60,668	26.8%
Liabilities held for sale	0	0	0	0	0	0	n.a.
Total current liabilities	**226,581**	**114**	**(73)**	**60,627**	**287,249**	**60,668**	**26.8%**
Non current liabilities							
Financial liabilities to related parties	231,646	0	0	(56,045)	175,601	(56,045)	(24.2%)
Other financial liabilities	47,608	0	0	(2,528)	45,080	(2,528)	(5.3%)
Deferred tax liabilities	13,743	172	0	1,488	15,403	1,660	12.1%
Provisions	9,231	0	0	323	9,554	323	3.5%
Other non current liabilities	779	55	(54)	(253)	527	(252)	(32.3%)
Thereof: Contract liabilities	0	520	(54)	(248)	218	218	n.a.
Total non current liabilities	**303,007**	**227**	**(54)**	**(57,015)**	**246,165**	**(56,842)**	**(18.8%)**
Total liabilities	**529,588**	**341**	**(127)**	**3,612**	**533,414**	**3,826**	**0.7%**
EQUITY							
Equity of the owners of the parent							
Common stock	104,275	0	0	0	104,275	0	0.0%
Capital reserves	27,282	0	0	(18)	27,264	(18)	(0.1%)
Treasury stock	(2,187)	0	0	(1,804)	(3,991)	(1,804)	(82.5%)
Retained earnings	396,320	15,724	(137)	(3,483)	408,424	12,104	3.1%
Accumulated other comprehensive income	21,505	0	208	2,956	24,669	3,164	14.7%
Total Equity of the owners of the parent	**547,195**	**15,724**	**71**	**(2,349)**	**560,641**	**13,446**	**2.5%**
Non-controlling interests	32,878	671	(46)	261	33,764	886	2.7%
Total equity	**580,073**	**16,395**	**25**	**(2,088)**	**594,405**	**14,332**	**2.5%**
Total liabilities and equity	**1,109,661**	**16,736**	**(102)**	**1,524**	**1,127,819**	**18,158**	**1.6%**

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MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million)	Q2 2017 IAS 18 / IAS 11	Q2 2018 IAS 18 / IAS 11	Q2 2018 IFRS 9 & IFRS 15 effect	Q2 2018 IFRS 9 & IFRS 15
Revenues				
Voice retail	35,527	35,641	(2,296)	33,345
Voice wholesale	2,476	2,507	0	2,507
Data	17,793	21,121	(1,078)	20,043
SMS	4,280	4,785	(19)	4,766
Equipment	15,560	16,753	3,044	19,797
Other mobile revenues	3,981	2,906	0	2,906
Mobile revenues	**79,617**	**83,713**	**(349)**	**83,364**
Voice retail	11,529	11,255	(87)	11,168
Broadband retail	12,308	12,853	(265)	12,588
TV	11,257	11,786	(188)	11,598
Equipment	1,414	3,253	814	4,067
Data retail	2,705	2,344	0	2,344
Wholesale (voice, broadband, data)	4,870	5,097	0	5,097
Other fixed line revenues	4,076	4,172	28	4,200
Fixed line revenues	**48,159**	**50,760**	**302**	**51,062**
System Integration/Information Technology revenues	24,398	33,240	0	33,240
Energy service revenues	1,347	0	0	0
Total revenues	**153,521**	**167,713**	**(47)**	**167,666**
Direct costs				
Interconnect costs	(4,662)	(5,307)	0	(5,307)
SI/IT service related costs	(17,952)	(25,291)	0	(25,291)
Energy service related costs	(1,289)	0	0	0
Bad debt expense	(1,500)	(2,035)	(251)	(2,286)
Telecom tax	(6,351)	(6,606)	0	(6,606)
Other direct costs	(30,920)	(35,360)	(293)	(35,653)
Direct costs	**(62,674)**	**(74,599)**	**(544)**	**(75,143)**
Gross profit	**90,847**	**93,114**	**(591)**	**92,523**
Employee related expenses	(20,144)	(20,086)	(121)	(20,207)
Utility tax	0	0	0	0
Other operating expenses	(24,188)	(23,070)	(97)	(23,167)
Other operating income	1,341	1,054	0	1,054
EBITDA	**47,856**	**51,012**	**(809)**	**50,203**
Depreciation and amortization	(27,574)	(29,030)	0	(29,030)
Operating profit	**20,282**	**21,982**	**(809)**	**21,173**
Net financial result	(5,480)	(2,999)	0	(2,999)
Share of associates' and joint ventures' results	(2)	(88)	0	(88)
Profit before income tax	**14,800**	**18,895**	**(809)**	**18,086**
Income tax	(3,872)	(3,368)	0	(3,368)
Profit for the period from continuing operations	**10,928**	**15,527**	**(809)**	**14,718**
Profit for the period from discontinued operations	0	**0**	**0**	0
Profit for the period	**10,928**	**15,527**	**(809)**	**14,718**
Change in exchange differences on translating foreign operations	159	3,969	197	4,166
Revaluation of available-for-sale financial assets	13	166	0	166
Other comprehensive income for the period from continuing operations	172	4,135	197	4,332
Other comprehensive income for the period from discontinued operations	0	0	0	0
Other comprehensive income for the period	**172**	**4,135**	**197**	**4,332**
Total comprehensive income for the period from continuing operations	11,100	19,662	(612)	19,050
Total comprehensive income for the period from discontinued operations	0	0	0	0
Total comprehensive income for the period	**11,100**	**19,662**	**(612)**	**19,050**
Profit attributable to:				
Owners of the parent	10,320	14,509	(765)	13,744
From continuing operations	10,320	14,509	(765)	13,744
From discontinued operations	0	0	0	0
Non-controlling interests	608	1,018	(44)	974
From continuing operations	608	1,018	(44)	974
From discontinued operations	0	0	0	0
	10,928	**15,527**	**(809)**	**14,718**

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q2 2017 IAS 18 / IAS 11	Q2 2018 IAS 18 / IAS 11	Q2 2018 IFRS 9 & IFRS 15 effect	Q2 2018 IFRS 9 & IFRS 15
Total comprehensive income attributable to:				
Owners of the parent	10,411	17,030	(567)	16,463
From continuing operations	10,411	17,030	(567)	16,463
From discontinued operations	0	0	0	0
Non-controlling interests	689	2,632	(45)	2,587
From continuing operations	689	2,632	(45)	2,587
From discontinued operations	0	0	0	0
	11,100	**19,662**	**(612)**	**19,050**
Basic earnings per share (HUF)	**9.91**	**14.00**	**(0.74)**	**13.26**
From continuing operations	9.91	14.00	(0.74)	13.26
From discontinued operations	(0.00)	0.00	0.00	0.00
Diluted earnings per share (HUF)	**9.90**	**14.00**	**(0.74)**	**13.26**
From continuing operations	9.90	14.00	(0.74)	13.26
From discontinued operations	(0.00)	0.00	0.00	0.00

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MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million)	1-6 months 2017 IAS 18 / IAS 11	1-6 months 2018 IAS 18 / IAS 11	1-6 months 2018 IFRS 9 & IFRS 15 effect	1-6 months 2018 IFRS 9 & IFRS 15
Revenues				
Voice retail	70,268	70,760	(4,629)	66,131
Voice wholesale	4,789	4,844	0	4,844
Data	34,985	40,795	(2,038)	38,757
SMS	8,427	9,352	(37)	9,315
Equipment	28,035	30,150	6,949	37,099
Other mobile revenues	7,363	5,490	0	5,490
Mobile revenues	**153,867**	**161,391**	**245**	**161,636**
Voice retail	23,283	22,317	(148)	22,169
Broadband retail	24,457	25,993	(470)	25,523
TV	22,359	23,904	(332)	23,572
Equipment	3,358	6,554	1,627	8,181
Data retail	4,991	4,658	0	4,658
Wholesale (voice, broadband, data)	9,471	9,894	0	9,894
Other fixed line revenues	7,788	8,602	53	8,655
Fixed line revenues	**95,707**	**101,922**	**730**	**102,652**
System Integration/Information Technology revenues	41,527	53,997	0	53,997
Energy service revenues	2,927	0	0	0
Total revenues	**294,028**	**317,310**	**975**	**318,285**
Direct costs				
Interconnect costs	(9,092)	(9,974)	0	(9,974)
SI/IT service related costs	(28,661)	(39,332)	0	(39,332)
Energy service related costs	(2,806)	0	0	0
Bad debt expense	(3,156)	(3,154)	(567)	(3,721)
Telecom tax	(12,205)	(12,769)	0	(12,769)
Other direct costs	(59,696)	(68,435)	(383)	(68,818)
Direct costs	**(115,616)**	**(133,664)**	**(950)**	**(134,614)**
Gross profit	**178,412**	**183,646**	**25**	**183,671**
Employee related expenses	(39,529)	(39,625)	(93)	(39,718)
Utility tax	(7,418)	(7,159)	0	(7,159)
Other operating expenses	(47,340)	(46,014)	(114)	(46,128)
Other operating income	2,073	2,092	0	2,092
EBITDA	**86,198**	**92,940**	**(182)**	**92,758**
Depreciation and amortization	(53,294)	(55,860)	0	(55,860)
Operating profit	**32,904**	**37,080**	**(182)**	**36,898**
Net financial result	(11,530)	(7,310)	0	(7,310)
Share of associates' and joint ventures' results	307	307	0	307
Profit before income tax	**21,681**	**30,077**	**(182)**	**29,895**
Income tax	(5,939)	(5,663)	0	(5,663)
Profit for the period from continuing operations	**15,742**	**24,414**	**(182)**	**24,232**
Profit for the period from discontinued operations	9,526	**0**	**0**	0
Profit for the period	**25,268**	**24,414**	**(182)**	**24,232**
Change in exchange differences on translating foreign operations	(794)	4,628	208	4,836
Revaluation of available-for-sale financial assets	12	241	0	241
Other comprehensive income for the period from continuing operations	(782)	4,869	208	5,077
Other comprehensive income for the period from discontinued operations	(12,512)	0	0	0
Other comprehensive income for the period	**(13,294)**	**4,869**	**208**	**5,077**
Total comprehensive income for the period from continuing operations	**14,960**	29,283	26	29,309
Total comprehensive income for the period from discontinued operations	(2,986)	0	0	0
Total comprehensive income for the period	**11,974**	**29,283**	**26**	**29,309**
Profit attributable to:				
Owners of the parent	23,912	22,585	(137)	22,448
From continuing operations	14,424	22,585	(137)	22,448
From discontinued operations	9,488	0	0	0
Non-controlling interests	1,356	1,829	(45)	1,784
From continuing operations	1,318	1,829	(45)	1,784
From discontinued operations	38	0	0	0
	25,268	**24,414**	**(182)**	**24,232**

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q2 2017 IAS 18 / IAS 11	Q2 2018 IAS 18 / IAS 11	Q2 2018 IFRS 9 & IFRS 15 effect	Q2 2018 IFRS 9 & IFRS 15
Total comprehensive income attributable to:				
Owners of the parent	10,411	17,030	(567)	16,463
From continuing operations	10,411	17,030	(567)	16,463
From discontinued operations	0	0	0	0
Non-controlling interests	689	2,632	(45)	2,587
From continuing operations	689	2,632	(45)	2,587
From discontinued operations	0	0	0	0
	11,100	**19,662**	**(612)**	**19,050**
Basic earnings per share (HUF)	**9.91**	**14.00**	**(0.74)**	**13.26**
From continuing operations	9.91	14.00	(0.74)	13.26
From discontinued operations	(0.00)	0.00	0.00	0.00
Diluted earnings per share (HUF)	**9.90**	**14.00**	**(0.74)**	**13.26**
From continuing operations	9.90	14.00	(0.74)	13.26
From discontinued operations	(0.00)	0.00	0.00	0.00

3.12. Statements of Profit or loss for the Segments – first half year-on-year comparison

MT Hungary

HUF million	1-6 months 2017 IAS 18 / IAS 11	1-6 months 2018 IAS 18 / IAS 11	Change	Change (%)	1-6 months 2018 IFRS 9 & 15 effect	1-6 months 2018 IFRS 9 & 15
Voice	66,665	67,203	538	0.8%	(4,019)	63,184
Non-voice	39,677	45,890	6,213	15.7%	(1,787)	44,103
Equipment	25,966	27,762	1,796	6.9%	5,891	33,653
Other	6,595	4,971	(1,624)	(24.6%)	0	4,971
Total mobile revenues	**138,903**	**145,826**	**6,923**	**5.0%**	**85**	**145,911**
Voice retail	20,761	19,896	(865)	(4.2%)	(98)	19,798
Broadband - retail	21,745	23,350	1,605	7.4%	(406)	22,944
TV	20,729	21,978	1,249	6.0%	(272)	21,706
Equipment	3,152	6,351	3,199	101.5%	1,631	7,982
Other	19,642	20,764	1,122	5.7%	53	20,817
Fixed line revenues	**86,029**	**92,339**	**6,310**	**7.3%**	**908**	**93,247**
SI/IT revenues	**41,077**	**53,428**	**12,351**	**30.1%**	**0**	**53,428**
Revenue from Energy services	**2,927**	**0**	**(2,927)**	**(100.0%)**	**0**	**0**
Total revenues	**268,936**	**291,593**	**22,657**	**8.4%**	**993**	**292,586**
Direct costs	**(108,118)**	**(126,265)**	**(18,147)**	**(16.8%)**	**(843)**	**(127,108)**
Gross profit	**160,818**	**165,328**	**4,510**	**2.8%**	**150**	**165,478**
Indirect costs	**(84,675)**	**(83,361)**	**1,314**	**1.6%**	**(131)**	**(83,492)**
EBITDA	**76,143**	**81,967**	**5,824**	**7.6%**	**19**	**81,986**
Segment Capex	**33,664**	**28,070**	**(5,594)**	**(16.6%)**	**0**	**28,070**

Macedonia

HUF million	1-6 months 2017 IAS 18 / IAS 11	1-6 months 2018 IAS 18 / IAS 11	Change	Change (%)	1-6 months 2018 IFRS 9 & 15 effect	1-6 months 2018 IFRS 9 & 15
Voice	8,392	8,401	9	0.1%	(610)	7,791
Non-voice	3,735	4,257	522	14.0%	(288)	3,969
Equipment	2,069	2,388	319	15.4%	1,058	3,446
Other	768	522	(246)	(32.0%)	0	522
Total mobile revenues	**14,964**	**15,568**	**604**	**4.0%**	**160**	**15,728**
Voice retail	2,522	2,421	(101)	(4.0%)	(52)	2,369
Broadband - retail	2,712	2,643	(69)	(2.5%)	(64)	2,579
TV	1,630	1,926	296	18.2%	(60)	1,866
Equipment	206	203	(3)	(1.5%)	79	282
Other	2,700	2,479	(221)	(8.2%)	0	2,479
Fixed line revenues	**9,770**	**9,672**	**(98)**	**(1.0%)**	**(97)**	**9,575**
SI/IT revenues	450	569	119	26.4%	0	569
Total revenues	**25,184**	**25,809**	**625**	**2.5%**	**63**	**25,872**
Direct cost s	**(7,571)**	**(7,486)**	**85**	**1.1%**	**(107)**	**(7,593)**
Gross profit	**17,613**	**18,323**	**710**	**4.0%**	**(44)**	**18,279**
Indirect costs	**(8,029)**	**(7,398)**	**631**	**7.9%**	**(18)**	**(7,416)**
EBITDA	**9,584**	**10,925**	**1,341**	**14.0%**	**(62)**	**10,863**
Segment Capex	**4,091**	**2,819**	**(1,272)**	**(31.1%)**	**0**	**2,819**

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.

Tibor Rékasi
Chief Executive Officer, member of the Board

János Szabó
Chief Financial Officer

Budapest, August 8, 2018

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, 2017, 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.