EGYÜTT. VELED

MAGYAR TELEKOM

INTERIM FINANCIAL REPORT

ANALYSIS OF THE FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2017

Budapest – November 8, 2017 – Magyar Telekom (Reuters: MTEL.BU and Bloomberg: MTELEKOM HB), the leading Hungarian telecommunications service provider, today reported its consolidated financial results for the third quarter and first nine months of 2017, in accordance with International Financial Reporting Standards (IFRS).

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1. HIGHLIGHTS

Financial highlights:

MAGYAR TELEKOM Group Financial Results - IFRS (HUF million, except ratios)	Q3 2016 Continuing operation (restated, unaudited)	Q3 2017 Continuing operation (unaudited)	Change (%)	1-9 months 2016 Continuing operation (restated, unaudited)	1-9 months 2017 Continuing operation (unaudited)	Change (%)
Total revenues	**142,865**	**155,381**	**8.8%**	**422,178**	**449,409**	**6.5%**
Operating profit	**22,737**	**30,171**	**32.7%**	**65,228**	**63,075**	**(3.3%)**
Profit attributable to:						
Owners of the parent	11,630	18,129	55.9%	32,364	32,553	0.6%
Non-controlling interests	964	1,212	25.7%	1,542	2,530	64.1%
	12,594	**19,341**	**53.6%**	**33,906**	**35,083**	**3.5%**
Gross profit	91,736	97,314	6.1%	272,562	275,726	1.2%
EBITDA	51,057	57,212	12.1%	145,727	143,410	(1.6%)
EBITDA margin	35.7%	36.8%	n.a.	34.5%	31.9%	n.a.
Free cash flow				38,544	27,421	(28.9%)
Basic earnings per share (HUF)	**11.94**	**17.41**	**45.7%**	**33.13**	**40.34**	**21.8%**
CAPEX to Sales				**13.2%**	**12.6%**	**n.a.**
Number of employees (closing full equivalent)				**8,859**	**9,329**	**5.3%**
				December 31, 2016 Continuing operation	**Sept 30, 2017** Continuing operation	**Change (%)**
Net debt				**376,557**	**343,725**	**(8.7%)**
Net debt / total capital				**39.3%**	**37.4%**	**n.a.**

- **Increase in Group revenue[1] driven by strong demand for equipment across all segments and continued growth of mobile data usage**
  - **Growth in mobile revenues driven by sustained increase in mobile service revenues resulting from strong mobile data demand, coupled with increasing visitor data usage and equipment sales, latter also supported by the provision reversal relating to the ceased loyalty program**
  - **Fixed line revenue increase attributable to a major data project, as well as improved ARPU levels for both TV and broadband in Hungary and higher TV set sale volumes**
  - **System Integration and IT (SI/IT) revenue increase reflects high demand for equipment deliveries particularly in the Hungarian public segment**
- **EBITDA grew by 12.1% year-on-year resulting from increased revenue, one-off income from real estate sales and cost optimisation measures**
- **Reduction in 9M 2017 Free Cash Flow from continuing operations reflects a deterioration in receivable balances as well as one-off gains (from the sale of Origo and Infopark Building G) of HUF 11.3 billion which supported 9M 2016 results**
- **Net debt ratio stood at 37.4% at the end of September 2017**

[1] Excluding Crnogorski Telekom results

Christopher Mattheisen, CEO commented:

“The strong revenue growth demonstrated by the Group in the first half of the year continued in Q3, up by 8.8% compared to the same period last year. We also saw a significant turnaround in EBITDA, which increased 12.1% year-on-year thanks to the launch of various initiatives. This improvement ultimately resulted from a more balanced revenue composition and cost structure optimisation measures.

Our Hungarian operations witnessed an increase in revenue in all three major service lines. In the mobile segment, demand for data services remained strong; visitor data usage also increased, reflecting the EU Roam Like Home legislation that came into force in mid-June this year. This growth in mobile will continue to be supported by unlimited data packages launched at the end of the summer. Favourable trends in customer mix and ARPU witnessed in the first half of the year continued to positively impact performance in the third quarter.

In the fixed line segment, we restructured our broadband offerings during the quarter, better exploiting our network capabilities by increasing the download speed offered in order to enhance our competitiveness. Initial results are promising; over 80 thousand customers have subscribed to the new packages, with almost half opting for a package of over 100 Mbps.

At the beginning of September, we expanded our flagship quadruple play Magenta 1 offering in line with evolving customer requirements. Besides the included fixed TV , broadband and mobile voice services, customers can now decide between fixed voice or mobile data as the additional element. This initiative demonstrates our continued focus on expansion of our active FMC (fixed-mobile convergence) customer base, which now stands at 11% of our total households. As the only integrated operator in Hungary, we are in a unique position to fulfil the communication requirements of Hungarian households and thus maximize the telecommunication share of the household spending wallet.

In Macedonia, EBITDA rose by 4% year-on-year, despite an increase in competitor related pricing pressure on the mobile market in the third quarter. This was thanks to continued expansion of mobile broadband and TV service subscriber bases coupled with significant savings in operating expenses.

Looking ahead to the rest of the year, whilst we expect the various initiatives we have introduced in both the mobile and fixed line segments to continue to support our performance, we also anticipate an increase in competitive pressures both in Hungary and Macedonia. As such, our public targets for the full year 2017 remain unchanged.”

Public guidance*:

	2016	Public guidance for 2017
Revenue	HUF 574 billion	around HUF 580 billion
EBITDA	HUF 187 billion	around HUF 182 billion
Capex	HUF 98 billion	around HUF 85 billion
FCF	HUF 57 billion	around HUF 55 billion
Dividend	HUF 25 per share	HUF 25 per share

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

2. MANAGEMENT REPORT

2.1. Consolidated IFRS Group Results

2.1.1 Group Profit or Loss

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million)	Q3 2016 (restated, unaudited)	Q3 2017 (unaudited)	Change	Change (%)	1-9 months 2016 (restated, unaudited)	1-9 months 2017 (unaudited)	Change	Change (%)
Revenues								
Mobile revenues	78,810	85,531	6,721	8.5%	227,551	239,398	11,847	5.2%
Fixed line revenues	47,336	48,913	1,577	3.3%	144,873	144,620	(253)	(0.2%)
System Integration/Information Technology revenues	15,260	19,590	4,330	28.4%	44,492	61,117	16,625	37.4%
Energy service revenues	1,459	1,347	(112)	(7.7%)	5,262	4,274	(988)	(18.8%)
Total revenues	**142,865**	**155,381**	**12,516**	**8.8%**	**422,178**	**449,409**	**27,231**	**6.5%**
Direct costs	**(51,129)**	**(58,067)**	**(6,938)**	**(13.6%)**	**(149,616)**	**(173,683)**	**(24,067)**	**(16.1%)**
Gross profit	**91,736**	**97,314**	**5,578**	**6.1%**	**272,562**	**275,726**	**3,164**	**1.2%**
Indirect costs	**(40,679)**	**(40,102)**	**577**	**1.4%**	**(126,835)**	**(132,316)**	**(5,481)**	**(4.3%)**
EBITDA	**51,057**	**57,212**	**6,155**	**12.1%**	**145,727**	**143,410**	**(2,317)**	**(1.6%)**
Depreciation and amortization	(28,320)	(27,041)	1,279	4.5%	(80,499)	(80,335)	164	0.2%
Operating profit	**22,737**	**30,171**	**7,434**	**32.7%**	**65,228**	**63,075**	**(2,153)**	**(3.3%)**
Net financial result	(6,829)	(5,396)	1,433	21.0%	(19,369)	(16,926)	2,443	12.6%
Share of associates and joint ventures' results	(32)	(123)	(91)	(284.4%)	46	184	138	300.0%
Profit before income tax	**15,876**	**24,652**	**8,776**	**55.3%**	**45,905**	**46,333**	**428**	**0.9%**
Income tax	(3,282)	(5,311)	(2,029)	(61.8%)	(11,999)	(11,250)	749	6.2%
Profit for the period from continuing operations	**12,594**	**19,341**	**6,747**	**53.6%**	**33,906**	**35,083**	**1,177**	**3.5%**
Profit from discontinued operation	1,047	0	(1,047)	(100.0%)	2,796	9,526	6,730	240.7%
Total profit for the period	**13,641**	**19,341**	**5,700**	**41.8%**	**36,702**	**44,609**	**7,907**	**21.5%**

Total revenues increased by 8.8% year-on-year[2] to HUF 155.4 billion in Q3 2017 (Q3 2016: HUF 142.9 billion). This is largely due to strong growth in SI/IT revenues, higher equipment sales and continued increase in mobile data usage. These factors are also behind 9M 2017 revenue of HUF 449.4 billion, a 6.5% rise compared to the same period in 2016.

- **Mobile revenues grew by 8.5% year-on-year to HUF 85.5 billion in Q3 2017.** This increase is attributable to increased mobile data and handset sales revenues in both Hungary and Macedonia, coupled with provision reversal related to the ceased loyalty program in Hungary, which offset a decline in voice revenues. As a results of these trends, 9M 2017 mobile revenues increased by 6.5% year-on-year.
    - **Voice revenues** declined by 3.8% year-on-year to HUF 38.5 billion in Q3 2017. In Hungary, despite expansion of the customer base and further improvement in the customer mix, voice retail revenues were 3.7% lower due to continued price erosion resulting from competitive pressure in all segments. In Macedonia, voice revenues also declined due to a 27.6% decrease in voice wholesale revenues, resulting from the cut in mobile termination rates in December 2016.
    - **Data revenues** grew by 22.9% year-on-year to HUF 19.9 billion in Q3 2017, due to increased subscriber numbers and data usage in both Hungary and Macedonia, combined with favourable impacts resulting from the new Hungarian postpaid portfolio structure.
    - **SMS revenues** increased by 1.7% year-on-year to HUF 4.4 billion in Q3 2017 as higher revenues from mass messaging in Hungary offset the decline in Hungarian residential usage.
    - **Mobile equipment revenues** were 24.9% higher in Q3 2017, driven by increased average handset prices, a one-off provision reversal related to the ceased loyalty program as well as higher volumes of third party export sales.
    - **Other mobile revenues** grew by 22.4% year-on-year in Q3 2017, due to increased visitor data roaming following the implementation of the EU Roam Like Home legislation.
- **Fixed line revenues increased by 3.3% year-on-year to HUF 48.9 billion in Q3 2017** due to positive trends in broadband, TV, data and equipment revenues coupled with some slowdown in the decline of voice retail revenues. 9M 2017 fixed line revenues were broadly flat year-on-year as higher TV, equipment and data revenues were offset by a decline in voice and broadband retail and wholesale revenues.
    - **Voice retail revenues** declined 7.2% year-on-year to HUF 11.4 billion in Q3 2017, driven by continued declines in both the customer base and average tariff levels in Hungary and Macedonia.
    - **Broadband retail revenues** increased 2.4% year-on-year, amounting to HUF 12.4 billion in Q3 2017. This was due to a 3.5% increase in Hungary driven by enlarged customer base, while we also saw improvements in the ARPU trend resulting from portfolio rebalancing. This growth compensated for the decline in Macedonia driven by continued tariff pressure. 9M 2017 broadband retail revenues declined by 0.5%, due to tariff pressure in both countries.

[2] Excluding Crnogorski Telekom results

- **TV revenues** increased by 9.5% year-on-year to HUF 11.4 billion in Q3 2017 due to subscriber base expansion and higher ARPU levels in both Hungary and Macedonia.
- **Fixed equipment revenues** rose to HUF 1.7 billion in Q3 2017, resulting from increased TV set and laptop sales in Hungary.
- **Data retail revenues** increased to HUF 3.3 billion in Q3 2017, due to FINA World Championships related projects.
- **Wholesale revenues** declined by 7.2% year-on-year to HUF 4.6 billion in Q3 2017, due to lower fixed incoming traffic in both countries of operation.
- **Other fixed line revenues** were down 3.4% year-on-year, amounting to HUF 4.2 billion in Q3 2017, reflecting lower late payment fees.

- **SI/IT revenues increased by 28.4% year-on-year to HUF 19.6 billion in Q3 2017,** and by 37.4% to HUF 61.1 billion in the first nine months of 2017. The increase was primarily driven by the acceleration of EU fund inflows into Hungary, boosting levels of high volume software and hardware delivery projects.
- **Energy service revenues decreased by 7.7% year-on-year to HUF 1.3 billion in Q3 2017** due to the smaller electricity customer base and expiry of remaining gas universal contracts. 9M 2017 energy service revenues declined by 18.8% year-on-year to HUF 4.3 billion, due to the same factors. As announced on July 31, 2017, the Company has decided to exit from the residential segment of the electricity market with effect from November 1, 2017.

Direct costs increased by 13.6% year-on-year to HUF 58.1 billion, mostly due to a significant increase in SI/IT and equipment sales costs, in line with the related revenue rises. 9M 2017 direct costs increased by 16.1% year-on-year to HUF 173.7 billion, as a result of the same factors.

- **Interconnect costs** decreased by 4.2% year-on-year to HUF 4.9 billion in Q3 2017 reflecting the cut in Macedonian mobile termination rates.
- **SI/IT service related costs** rose to HUF 13.1 billion in Q3 2017, in line with related revenue increases.
- **Telecom tax** increased by 6.1% year-on-year to HUF 6.3 billion in Q3 2017, driven by higher mobile voice traffic in both residential and business segments resulting from the growing popularity of flat rate packages.
- **Other direct costs** grew by HUF 2.8 billion year-on-year to HUF 31.1 billion in Q3 2017, due to an increase in cost of equipment sales (in line with a higher volume of smartphone and TV set sales) and higher roaming related costs, partly offset by lower mobile handset subsidies.

Gross profit increased by 6.1% year-on-year in Q3 2017 to HUF 97.3 billion and by 1.2% year-on-year in 9M 2017 to HUF 275.7 billion, reflecting the changing revenue mix.

Indirect costs improved by 1.4% year-on-year to HUF 40.1 billion in the third quarter of 2017, thanks to an increase in other operating income. 9M 2017 indirect costs were 4.3% higher year-on-year, at HUF 132.3 billion, due to the absence of positive one-off items (the sale of Origo and Infopark Building G) that occurred in Q1 2016.

- **Employee related expenses** were HUF 18.6 billion in Q3 2017 compared to HUF 18.4 billion in Q3 2016. The 1.2% increase reflects higher employee numbers, partly offset by savings measures. In the first nine months of 2017, employee related expenses were broadly stable year-on-year, as cost optimization measures offset the negative impact of the higher employee numbers.
- **Other operating expenses** increased by 3.4% year-on-year, amounting to HUF 23.6 billion in Q3 2017, due to increased marketing expenses related to sponsorship of the FINA World Championships in July 2017.
- **Other operating income** increased to HUF 2.2 billion in Q3 2017 from HUF 0.6 billion in Q3 2016 thanks to real estate sales – as part of the real estate optimization program – and higher brand fee income from the E2 energy joint venture. In the first nine months of 2017, other operating income declined by HUF 4.1 billion compared to 9M 2016, owing to HUF 5.1 billion of one-off profits realized on the Infopark and the Origo sales in Q1 2016.

EBITDA was 12.1% higher year-on-year at HUF 57.2 billion in Q3 2017 due to increased gross profit and higher other operating income. 9M 2017 EBITDA declined by 1.6% as the improvement in gross profit was offset by lower other operating income reflecting the absence of one-off gains related to sale of Origo and Infopark (Building G) realised in Q1 2016.

Depreciation and amortization expenses declined by 4.5% year-on-year in Q3 2017 driven by useful life extensions of some assets as well as the scrapping of radio technical equipment. 9M 2017 depreciation and amortization expenses were broadly stable year-on-year as the above-mentioned factors were offset by software activation related to the new billing and CRM system in Hungary.

Profit for the period from continuing operations improved to HUF 19.3 billion in Q3 2017 from HUF 13.6 billion in Q3 2016, reflecting an increase in operating profit combined with lower financial expenses. For the first nine months of 2017, profit for the period from continuing operations increased by 3.5% compared to 9M 2016, as the decline in financial expenses offset lower operating profit.

- **Operating profit** increased to HUF 30.2 billion in Q3 2017, due to higher EBITDA, alongside lower depreciation and amortization expenses. However, for 9M 2017, operating profit declined by 3.3% compared to 9M 2016, driven by lower EBITDA.

- **Net financial results** improved by 21.0% year-on-year to a loss of HUF 5.4 billion in Q3 2017, driven by a decline in interest expense thanks to a lower total amount of loans outstanding. This was coupled with lower losses on the fair valuation of derivatives; during Q3 2017 the HUF weakened slightly against the EUR, compared to a 2.2% strengthening during Q3 2016.

- **Income tax expense** was HUF 5.3 billion in Q3 2017, an increase of 61.8% year-on-year, due to higher profit before tax, as well as the impact of the change in the tax calculation methodology relating to the transition from local GAAP to standalone IFRS. For 9M 2017, income tax expense declined by 6.2% to HUF 11.3 billion as the impacts of the slight increase in the profit before tax and the change in the tax calculation methodology was offset by the cut in the corporate tax rate to 9% effective from January 1, 2017.

Profit attributable to non-controlling interests from continuing operations increased to HUF 1.2 billion in Q3 2017 from HUF 1.0 billion in Q3 2016, thanks to an improvement in profitability in Macedonia. 9M 2017 profit attributable to non-controlling interests from continuing operations improved by 64.1%, driven by the same factors.

Profit from discontinued operations

- 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 IFRS 5, the results and cash flows of the Montenegrin operations are presented as discontinued operations for both the comparative and the current period. (For further details please see section 2.2.3)

Net debt decreased by 8.7% year-to-date to HUF 343.7 billion (end of 2016: HUF 376.6 billion) with a **net debt ratio (net debt to total capital) of 37.4%**.

2.1.2 Group Cash Flows

HUF millions	1-9 months 2016 (restated)	1-9 months 2017	Change
Operating cash flow	100,759	95,536	(5,223)
Investing cash flow	(56,027)	(62,086)	(6,059)
Less: Proceeds from other financial assets - net	(446)	23	469
Investing cash flow excluding Proceeds from other financial assets – net	(56,473)	(62,063)	(5,590)
Repayment of other financial liabilities	(5,742)	(6,052)	(310)
Free cash flow from continuing operation	**38,544**	**27,421**	**(11,123)**
Net cash generated from/(used in) operating activities from discontinued operation	3,714	(23)	(3,737)
Net cash (used in)/generated from investing activities from discontinued operation*	(12,020)	36,292	48,312
Repayment of other financial liabilities from discontinued operation	(433)	0	433
Free cash flow from discontinued operation	**(8,739)**	**36,269**	**45,008**
Total free cash flow	**29,805**	**63,690**	**33,885**
Proceeds from other financial assets - net	7,665	(23)	(7,688)
Proceeds from/Repayment of loans and other borrowings - net	(23,317)	(39,019)	(15,702)
Dividends paid to Owners of the parent and Non-controlling interests	(21,351)	(29,375)	(8,024)
Repurchase of treasury shares	(559)	(1,826)	(1,267)
Net cash (used in)/generated from financing activities from discontinued operation	(1,305)	2,041	3,346
Exchange differences on cash and cash equivalents	(54)	1	55
Exchange differences on cash and cash equivalents from discontinued operation	(32)	0	32
Change in cash and cash equivalents	**(9,148)**	**(4,511)**	**4,637**

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

Free cash flow from continuing operation (FCF) overall decreased from HUF 38.5 billion in 9M 2016 to HUF 27.4 billion in 9M 2017 due to the reasons described below:

Operating cash flow from continuing operation

Net cash generated from operating activities amounted to HUF 95.5 billion in 9M 2017, compared to HUF 100.8 billion in 9M 2016. Main reasons for the decrease of HUF 5.2 billion were the following:

- HUF 2.4 billion **negative change** due to the lower **EBITDA** in 9M 2017 than in 9M 2016
- HUF 29.4 billion **negative change in active working capital** mainly as a result of the following impacts:
  - lower reduction of energy receivables compared to the corresponding period in 2016 due to the transfer of the energy services for business customers to E2 at the beginning of 2016 (negative impact: ca. HUF 8.2 billion)
  - increase in SI/IT receivables in contrast to the decrease recorded in 9M 2016, reflecting different timings of projects (negative impact: ca. HUF 8.2 billion)

- extension of the instalment periods relating to equipment sales, leading to a rise in outstanding balances in 2017 (negative impact: ca. HUF 7.7 billion)

- HUF 3.7 billion **positive change** mostly due to lower net payments of severance **provision** in 9M 2017 than in 9M 2016
- HUF 14.8 billion **positive change in passive working capital** primarily driven by the following factors:
  - higher payment to SI/IT services related suppliers in 9M 2016 (positive impact: HUF 7.9 billion)
  - improved equipment vendor management in 9M 2017 (positive impact: HUF 4.5 billion)
  - HUF 1.0 billion positive change in passive working capital due to MTR debtor overpayments (invoiced and collected using old rate, accounted at new rate as revenue) in 9M 2016
  - HUF 4.7 billion lower HR related personnel expense payments in 9M 2017 than in 9M 2016
- HUF 3.2 billion **positive change** due to the lower levels of **interest expense paid** reflecting continued easing in the wider interest rate environment and refinancing of certain loans on more favourable credit terms and due to the decreased average loan amount
- HUF 4.4 billion **positive change in other non-cash items** mainly due to the booking of one-off non-cash gains resulting from the sale of Origo Zrt and Infopark building which was partly offset by the accounting net results from the real estate sales recorded in 9M 2017

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

Net cash used in regular investing activities amounted to HUF 62.1 billion in 9M 2017, compared to HUF 56.5 billion in 9M 2016. Main reasons for the HUF 5.6 billion higher cash outflow were the following:

- HUF 0.9 billion **negative effect** due to higher **CAPEX** in 9M 2017 than in 9M 2016
- HUF 8.1 billion **positive change** due to lower amount of **CAPEX creditors** paid in 9M 2017 than in 9M 2016
- HUF 1.0 billion **negative change** due to the **acquisition of Serverinfo-Ingatlan Kft** (purchase price vs. cash acquired through the acquisition)
- HUF 2.3 billion **negative change** due to higher volumes **of cable TV operation acquisition** in 9M 2017 than in 9M 2016
- HUF 3.4 billion **negative change** in **disposal of subsidiaries** due to the sale of Origo Zrt in 9M 2016
- HUF 6.1 billion **negative change** related to the **disposal of PPE** reflecting the sale of Infopark building in 9M 2016 (HUF 7.9 billion negative change) and the real estate sales in 9M 2017 (HUF 1.7 billion positive change)

Repayment of other financial liabilities

Repayment of other financial liabilities increased from HUF 5.7 billion in 9M 2016 to HUF 6.1 billion in 9M 2017, due to the following:

- HUF 0.5 billion **negative change** due to the **repayment of a loan** related to the sale of Origo Zrt. in 9M 2016
- HUF 1.6 billion **positive change** due to **termination of certain finance lease contracts** primarily affected 9M 2017 compared to 9M 2016
- HUF 0.9 million **negative change** due to the bringing forward of the last repayment **instalment** relating to the financing for the Macedonian headquarters building in 9M 2017
- HUF 0.5 million **negative change** due to the higher **content right** payment in 9M 2017 than in 9M 2016

Free cash flow from discontinued operation (FCF) overall increased by HUF 45.0 billion mainly due to the sale of Crnogorski Telekom A.D. (disclosed within discontinued operations)

Proceeds from other financial assets - net decreased by HUF 7.7 billion, primarily due to the following:

- HUF 0.9 billion higher amount of Maktel's cash was invested as bank deposits over 3 months in 9M 2016 in net terms
- HUF 7.5 billion more amount of TCG's cash was cashed in from bank deposits over 3 months in 9M 2016 in net terms and no such equivalent item is appeared during 9M 2017

Repayment of loans and other borrowings – net increased by HUF 15.7 billion, due to the reimbursement of parent company (DT AG) and certain bank loans from the sale proceeds of the Crnogorski Telekom A.D disposal in 9M 2017

Dividends paid to Owners of the parent and Non-controlling interests increased by HUF 8.0 billion mainly due to the higher dividend payment of MT to its Owner and Non-controlling interest as DPS (dividend per share) has risen from 15 HUF in 2016 to 25 HUF in 2017

Repurchase of treasury shares increased by HUF 1.3 billion due to the higher repurchase of treasury shares for ESOP (Employee Stock Ownership Plan) in 9M 2017, than in 9M 2016

Net cash (used in)/generated from financing activities from discontinued operation recorded a HUF 3.3 billion positive change made up mainly of the following:

- HUF 2.0 billion **positive impact** following the sale of Crnogorski Telekom A.D. in 9M 2017, relating to the repayment of its loan with Magyar Telekom; and
- HUF 1.3 billion **positive impact** relating to Crnogorski Telekom A.D. dividend payments, as there was no such equivalent payment in 9M 2017

Exchange differences on cash and cash equivalents both from continuing and discontinued operation had no significant effect in 9M 2017 compared to 9M 2016

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

2.1.3 Statements of Financial Position

The most significant change in the balances of the Statements of Financial Position from December 31 2016 to September 30 2017 can be observed in the following lines:

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

Property plant and equipment (PPE) and intangible assets (including Goodwill) together decreased by HUF 63.2 billion from December 31, 2016 to September 30, 2017. The decrease is mainly due to the deconsolidation of the sold Montenegrin subsidiary, Crnogorski Telekom A.D. in the amount of HUF 46.1 billion of derecognized assets.

The current parts of Financial liabilities to related parties decreased by HUF 24.1 billion from December 31, 2016 to September 30, 2017. The change is mainly results from the repayment of DT group loans with the consideration received for the sale of the Montenegrin subsidiary, partly offset by further borrowings.

Other financial liabilities decreased by HUF 13.6 billion from December 31, 2016 to September 30, 2017. The decrease is mainly due to certain bank loans repayments.

Trade payables decreased by HUF 26.9 billion from December 31, 2016 to September 30, 2017. The decrease is partly due to the deconsolidation of the sold Montenegrin subsidiary, Crnogorski Telekom A.D. in the amount of HUF 9.3 billion of derecognized liabilities. Further decrease is due to the reductions in amounts outstanding to handset, capex and opex creditors.

There has not been any other material change in the items of the Consolidated Statement of Financial Position from December 31, 2016 to September 30, 2017. The less significant changes in balances of the Consolidated Statements of Financial Position are largely explained by the items of the Consolidated Statement of Cash Flows for 2017 and the related explanations provided above in section 13.14 Cash flows.

2.1.4 Related party transactions

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

2.1.5 Contingencies and commitments

Contingent assets

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

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

Contingent liabilities

No provisions have been recognized for these cases as management estimates that it is unlikely that these claims originating from past events would result in any material economic outflows from the Group, or the amount of the obligation cannot be measured with sufficient reliability. The Group has no contingencies where the outflow of economic benefits would be probable and material.

Guarantees

Magyar Telekom is also exposed to risks that arise from the possible drawdown of guarantees in a nominal amount of HUF 10.2 billion as at December 31, 2016. These guarantees were issued by banks on behalf of Magyar Telekom as collateral to secure the fulfillment of the Group's certain contractual obligations. The Group has been delivering on its contractual obligations and expects to continue doing so in the future, therefore no significant drawdown of the guarantees happened in 2017 or 2016, and is not expected to happen in the future.

Commitments

There has not been any material change in the nature and amount of our commitments in 2017.

2.1.6 Significant events

For any significant events happened between the end of the quarter (September 30, 2017) and the date publishing of the "Interim financial report" please see our Investor Relations website: http://www.telekom.hu/about_us/investor_relations/investor_news

2.2. Segment reports

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

The MT-Hungary segment operates in Hungary, providing mobile and fixed line telecommunications, TV distribution, information communication and system integration services to millions of residential and business customers under the Telekom and T-Systems brands. Residential and SMB customers are served by the Telekom brand and key business customers (large corporate and public sector customers) are served by the T-Systems brand. The MT-Hungary segment is also responsible for the wholesale of mobile and fixed line services within Hungary, and performs strategic and cross-divisional management, as well as support functions on behalf of the Group, including Procurement, Treasury, Real Estate, Accounting, Tax, Legal and Internal Audit. This segment is also responsible for the Group's points of presence in Bulgaria and Romania, which mainly provide wholesale services to local companies and operators. The Macedonian segment is responsible for the Group's full-scale mobile and fixed line telecommunications operations in Macedonia.

The following tables present information by reportable segment regularly provided to the Management Committee (MC) of the Company, reconciled to the corresponding Group numbers. This information includes several key indicators of profitability that are considered for the purposes of assessing performance and allocating resources. It is the Management's belief that Revenue, EBITDA and Capex are the most appropriate indicators for monitoring each segment's performance and most consistent with how the Group's results are reported in the statutory financial statements.

2.2.1 MT-Hungary

Continued significant growth in revenue driven by equipment demand and mobile data usage

HUF million	Q3 2016 (restated)	Q3 2017	Change	Change (%)	1-9 months 2016 (restated)	1-9 months 2017	Change	Change (%)
Voice	35,021	33,876	(1,145)	(3.3%)	104,761	100,541	(4,220)	(4.0%)
Non-voice	18,533	22,007	3,474	18.7%	54,426	61,684	7,258	13.3%
Other	16,894	21,256	4,362	25.8%	45,538	53,817	8,279	18.2%
Total mobile revenues	**70,448**	**77,139**	**6,691**	**9.5%**	**204,725**	**216,042**	**11,317**	**5.5%**
Voice retail	10,924	10,155	(769)	(7.0%)	33,720	30,916	(2,804)	(8.3%)
Broadband - retail	10,671	11,047	376	3.5%	32,796	32,792	(4)	(0.0%)
TV	9,650	10,544	894	9.3%	29,054	31,273	2,219	7.6%
Other	11,071	12,362	1,291	11.7%	33,945	35,156	1,211	3.6%
Fixed line revenues	**42,316**	**44,108**	**1,792**	**4.2%**	**129,515**	**130,137**	**622**	**0.5%**
SI/IT revenues	**14,749**	**19,314**	**4,565**	**31.0%**	**43,005**	**60,391**	**17,386**	**40.4%**
Revenue from Energy services	**1,459**	**1,347**	**(112)**	**(7.7%)**	**5,262**	**4,274**	**(988)**	**(18.8%)**
Total revenues	**128,972**	**141,908**	**12,936**	**10.0%**	**382,507**	**410,844**	**28,337**	**7.4%**
Direct costs	**(47,210)**	**(54,464)**	**(7,254)**	**(15.4%)**	**(137,265)**	**(162,582)**	**(25,317)**	**(18.4%)**
Gross profit	**81,762**	**87,444**	**5,682**	**6.9%**	**245,242**	**248,262**	**3,020**	**1.2%**
Indirect costs	**(36,627)**	**(36,444)**	**183**	**0.5%**	**(113,911)**	**(121,119)**	**(7,208)**	**(6.3%)**
EBITDA	**45,135**	**51,000**	**5,865**	**13.0%**	**131,331**	**127,143**	**(4,188)**	**(3.2%)**
Segment Capex	**19,835**	**17,017**	**(2,818)**	**(14.2%)**	**51,072**	**50,681**	**(391)**	**(0.8%)**

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Operational statistics – access numbers	Sep 30, 2016	Sep 30, 2017	Change (%)
Number of mobile customers (RPC)	5,301,049	5,400,966	1.9%
Postpaid share in the RPC base	58.9%	62.6%	n.a.
Total fixed voice access	1,437,116	1,420,725	(1.1%)
Total retail fixed broadband customers	1,018,564	1,062,528	4.3%
Total TV customers	978,692	1,016,192	3.8%

Operational statistics – ARPU (HUF)	Q3 2016	Q3 2017	Change (%)	1-9 months 2016	1-9 months 2017	Change (%)
Mobile ARPU	3,354	3,446	2.8%	3,295	3,367	2.2%
Postpaid ARPU	4,882	4,899	0.4%	4,870	4,844	(0.5%)
Prepaid ARPU	1,197	1,063	(11.2%)	1,130	1,067	(5.6%)
Blended fixed voice ARPU	2,533	2,380	(6.0%)	2,591	2,413	(6.9%)
Blended retail fixed broadband ARPU	3,521	3,461	(1.7%)	3,631	3,498	(3.7%)
Blended TV ARPU	3,302	3,479	5.4%	3,334	3,495	4.8%

Total revenues for the MT-Hungary segment **increased by 10.0% year-on-year in Q3 2017**, primarily due to significantly higher SI/IT revenues coupled with increased mobile data and mobile equipment sales. Fixed line revenues also increased due to growth in broadband and TV revenues.

- **Mobile revenues grew** by 9.5% in Q3 2017 vs. Q3 2016 to HUF 77.1 billion, and by 5.5% in 9M 2017 vs. 9M 2016 to HUF 216.0 billion. These increases were mainly due to growth in mobile data and equipment sales, which more than offset the contraction in mobile voice revenues. The flexible and customizable postpaid tariff system, launched at the end of March, has been well received by the market; demand for higher data packages and data boosters positively impacted mobile ARPU, resulting in a 2.8% ARPU increase year-on-year in Q3 2017. Our focus on FMC remains unchanged, demonstrated in part by the expansion of our integrated Magenta 1 offer, initiated at the start of September this year. This offering used to supply mobile voice, fixed voice, fixed broadband and TV and now, as part of our efforts to adapt to evolving communication requirements, as a replacement for fixed voice, subscribers are able to select more or even unlimited mobile data within the tariff package.
  - **Mobile service revenue increased** by 4.3% year-on-year to HUF 55.9 billion in Q3 2017, as growth in mobile data revenues continued, as a result of increased subscriber numbers, usage and data boosters. Growth in mobile data revenues compensated for the decline in voice revenues driven by competitive pressures, particularly in the SMB and Enterprise segments.
  - **Other revenues** increased by 25.8% year-on-year to HUF 21.3 billion in the third quarter, due to significantly higher equipment and accessories sales, as well as the provision reversal related to the ceased loyalty program in Hungary, which positively impacted equipment revenues. Visitor data usage also increased, reflecting the EU Roam Like Home legislation that came into force in mid-June this year.
- **Fixed line revenues increased** by 4.2% year-on-year in Q3 2017, to HUF 44.1 billion, due to growth in fixed broadband, TV, data and equipment revenues, which more than offset the continued structural decline in voice retail revenues.
  - **Voice retail revenues** decreased by 7.0% year-on-year in Q3 2017 due to a decline in customer base and tariff levels.
  - **Broadband retail revenues** were up by 3.5% year-on-year to HUF 11.0 billion in Q3 2017, as the enlarged customer base offset slightly lower ARPU levels. ARPU levels only slightly declined, despite the increasingly competitive environment, due to fixed broadband portfolio rebalancing efforts. The fixed line internet portfolio has been expanded, through the introduction of higher bandwidth internet packages, enabling the Company to capitalize on its network investments. The largest new package offers a download speed of 2000 Mbps (the fastest speed currently available in Hungary). 100 Mbps and 250 Mpbs packages have also been introduced, in addition to the currently available 50 Mbps package. 9M 2017 broadband retail revenues were stable year-on-year at HUF 32.8 billion as the larger subscriber base and upgrades to higher speed packages were offset by tariff pressure.
  - **TV revenues rose** by 9.3% year-on-year in Q3 2017, attributable to customer base expansion and increased ARPU levels. The new TV portfolio launched in November 2016 and the price increase as of January 1, 2017 (also resulting from the recently introduced content fee) led to higher ARPU levels compared to Q3 2016.
  - **Other fixed line revenues** increased by 11.7% year-on-year to HUF 12.4 billion in Q3 2017, due to an increase in data revenues driven by FINA World Championships related projects and increased fixed equipment sales due to higher sale volumes of TV sets and laptops.
- **SI/IT revenues increased** by 31.0% year-on-year to HUF 19.3 billion in the third quarter of 2017, due to increased EU fund inflows into Hungary. The projects awarded from these funds are typically hardware and software deliveries, which have significantly lower profit margins than other projects. As a result, despite higher revenues, **SI/IT gross profit** was relatively stable, whilst the gross margin ratio decreased. 9M 2017 SI/IT revenues grew by HUF 17.4 billion year-on-year to HUF 60.4 billion, driven by the above-mentioned trends.

Energy services	Sep 30, 2016	Sep 30, 2017	Change (%)
Electricity points of delivery	93 572	89 372	(4.5%)
Gas points of delivery	256	0	(100.0%)

- **Energy services revenues decreased** by 7.7% in Q3 2017 vs. Q3 2016, due to a smaller electricity customer base and expiry of the few remaining universal gas contracts. 9M 2017 energy revenues were down by 18.8% compared to 9M 2016, as a result of the same factors.
- **EBITDA increased** by 13.0% year-on-year in Q3 2017, driven by an increase in gross profit and higher other operating income. This EBITDA growth was also supported by some one-off positive impacts.
  - **Gross profit** increased by 6.9% year-on-year in Q3 2017 reflecting a more balanced revenue composition and the provision reversal related to the ceased loyalty program. Higher telecom tax, driven by increased mobile voice traffic due to growing popularity of flat rate packages, was offset by lower mobile handset subsidies.
  - **Employee-related expenses** increased by 1.6% year-on-year to HUF 17.3 billion in Q3 2017 as higher employee numbers more than offset saving measures.
  - **Other operating expenses (net)** decreased by 2.3% year-on-year in Q3 2017 due to real estate sales and higher brand fee income from the E2 energy joint venture, partly offset by higher marketing expenses related to sponsorship of the FINA World Championships.

  9M 2017 EBITDA declined 3.2% year-on-year as slightly higher gross profit was offset by lower operating income due to the absence of one-off gains related to sale of Origo and Infopark (Building G) realized in Q1 2016.
- **Capex remained stable in the first nine months of 2017** at HUF 50.7 billion vs. HUF 51.1 billion in the same period last year, due to increased spending on our 4G+ and NGA networks which offset lower investment in PSTN migration.

Outlook: As the only integrated operator in Hungary, we believe our **focus on FMC positions us well to address competitive challenges faced in both the mobile market**, where operators are launching unlimited data offers, **and the fixed segment**, which is characterized by increasingly competitive 3Play offers. **Our competitive advantage will continue to allow us to maximize the telecommunication share of the household spending wallet.**

2.2.2 Macedonia

Stable gross profit and increased mobile revenues despite intensifying competition

HUF million	Q3 2016	Q3 2017	Change	Change (%)	1-9 months 2016	1-9 months 2017	Change	Change (%)
Voice	5,000	4,624	(376)	(7.5%)	13,784	13,016	(768)	(5.6%)
Non-voice	1,905	2,208	303	15.9%	4,870	5,943	1,073	22.0%
Other	1,462	1,562	100	6.8%	4,176	4,399	223	5.3%
Total mobile revenues	**8,367**	**8,394**	**27**	**0.3%**	**22,830**	**23,358**	**528**	**2.3%**
Voice retail	1,353	1,236	(117)	(8.6%)	4,153	3,758	(395)	(9.5%)
Broadband - retail	1,397	1,316	(81)	(5.8%)	4,225	4,028	(197)	(4.7%)
TV	765	858	93	12.2%	2,237	2,488	251	11.2%
Other	1,584	1,442	(142)	(9.0%)	4,988	4,348	(640)	(12.8%)
Fixed line revenues	**5,099**	**4,852**	**(247)**	**(4.8%)**	**15,603**	**14,622**	**(981)**	**(6.3%)**
SI/IT revenues	511	276	(235)	(46.0%)	1,487	726	(761)	(51.2%)
Total revenues	**13,977**	**13,522**	**(455)**	**(3.3%)**	**39,920**	**38,706**	**(1,214)**	**(3.0%)**
Direct costs	**(3,967)**	**(3,644)**	**323**	**8.1%**	**(12,483)**	**(11,215)**	**1,268**	**10.2%**
Gross profit	**10,010**	**9,878**	**(132)**	**(1.3%)**	**27,437**	**27,491**	**54**	**0.2%**
Indirect costs	**(4,065)**	**(3,668)**	**397**	**9.8%**	**(12,954)**	**(11,697)**	**1,257**	**9.7%**
EBITDA	**5,945**	**6,210**	**265**	**4.5%**	**14,483**	**15,794**	**1,311**	**9.1%**
Segment Capex	**2,278**	**1,902**	**(376)**	**(16.5%)**	**4,628**	**5,993**	**1,365**	**29.5%**

Operational statistics – access numbers	Sep 30, 2016	Sep 30, 2017	Change (%)
Number of mobile customers	1 280 724	1 253 883	(2.1%)
Postpaid share in the customer base	39.3%	44.6%	n.a.
Total fixed voice access	219 564	201 858	(8.1%)
Total retail fixed broadband customers	166 319	166 622	0.2%
Total TV customers	106 726	114 205	7.0%

Total **revenues declined by 3.3% year-on-year in Q3 2017**, largely attributable to the 4.8% decrease in fixed line revenue alongside stable mobile segment revenue. SI/IT revenues also declined, mainly due to delayed government projects. 9M 2017 total revenues declined by 3.0% compared to 9M 2016, driven by the above-mentioned factors.

- **Mobile revenues were stable** year-on-year in Q3 2017 at HUF 8.4 billion and increased by 2.3% in the first nine months of 2017 vs. 9M 2016, driven by growth in mobile data, equipment sales and retail voice revenues.
  - Mobile service revenues decreased by 1.1% year-on-year in Q3 2017 driven by increased competitive pressure coupled with lower wholesale revenues resulting from the ca. 30% MTR cut introduced in December 2016, and a lower volume of international incoming mobile traffic. Non-voice revenues continued to increase in line with international trends due to a ca. 20% growth in mobile broadband revenues.
  - Other mobile revenues rose by 6.8%, due to increased equipment sales resulting from higher average pricing and growth in the volume of mobile handset sales.
- **Total fixed line revenues decreased** by 4.8% year-on-year vs. Q3 2016 mainly due to lower voice retail, broadband and wholesale revenues. 9M 2017 total fixed line revenues declined by 6.3% year-on-year, in line with the above-mentioned trends.
  - Voice retail revenues declined by 8.6%, mainly driven by lower subscriber numbers and a general decrease in usage.
  - Broadband retail revenues declined by 5.8% year-on-year in Q3 2017 due to lower pricing resulting from 3Play competition.
  - TV revenues continued to grow in Q3 2017 due to increased IPTV customer numbers and higher ARPU levels compared to Q3 2016.
  - Other fixed revenues were down 9.0% in Q3 2017 year-on-year, primarily driven by lower wholesale revenues as a result of lower domestic incoming traffic, as well as a decline in equipment sales (including TV sets and IT equipment).
- **SI/IT revenues significantly decreased**; Q3 2017 revenues declined by 46.0% vs. Q3 2016 and 9M 2017 revenues by 51.2% vs. 9M 2016, due to delayed major government projects resulting from political uncertainty.

- **Q3 2017 EBITDA increased** by 4.5% year-on-year despite a slight deterioration in direct margin, due to cost optimization measures coupled with temporary savings resulting from postponement of marketing activities. 9M 2017 EBITDA increased by 9.1% driven by lower severance expenses coupled with stable gross profit.
- Significant **increase in Capex** (+29.5% vs. 9M 2016) to HUF 6.0 billion mainly due to capitalization of TV content fees in the first nine months of 2017 and higher amount of capex spent on set top boxes driven by strong TV sales.

Outlook: We believe that despite increased competition in the fixed and mobile segments, as well as political uncertainty impacting SI/IT revenues, **the demonstrated EBITDA turnaround is sustainable going forward**.

2.2.3 Montenegro (discontinued operation)

In January 2017, the Company signed a share purchase agreement with Hrvatski Telekom d.d. for the sale of its 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.

a) Results from discontinued operation

HUF millions	Q3 2016	Q3 2017	1-9 months 2016	1-9 months 2017
Revenue	7 741	-	21 645	2 027
Direct costs	(2 100)	-	(6 282)	(533)
Employee related expenses	(1 277)	-	(3 407)	(332)
Depreciation and amortization	(1 576)	-	(4 374)	(517)
Other operating expenses	(1 618)	-	(4 554)	(525)
Operating expenses	(6 571)	-	(18 617)	(1 907)
Other operating income	3	-	79	73
Operating profit	1 173	-	3 107	193
Net financial result	12	-	83	7
Income tax from discontinued operations	(138)	-	(394)	(23)
Profit after tax from discontinued operations	**1 047**	**-**	**2 796**	**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 attributable to the owners of the parent	-	-	-	9 690
Income tax on gain on sale from discontinued operation	-	-	-	(1 155)
Profit for the year from discontinued operations	**1 047**	**-**	**2 796**	**9 526**
Other comprehensive income from discontinued operations	(1 009)	-	(544)	(12 512)
Total comprehensive income from discontinued operations	**38**	**-**	**2 252**	**(2 986)**

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

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

3. APPENDIX

3.1. Basis of preparation

This condensed consolidated interim financial information was prepared in accordance with IAS 34 (Interim Financial Reporting) and should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union. This consolidated interim financial information has not been audited. The statutory accounts for December 31, 2016 have been filed with the Budapest Stock Exchange and the Central Bank of Hungary. The statutory accounts for December 31, 2016 were audited and the audit report was unqualified.

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated annual financial statements for the year ended December 31, 2016 with the following exception.

There were two major changes compared to 2016:

a) as a result of the sale of Crnogorski Telekom (details in Section 2.2.3) the 2016 figures were classified as discontinued operation and re-presented in accordance with IFRS 5 and
b) telecom tax was reclassified from Other operating expenses to Direct costs since Management believes that presenting the new direct cost breakdown the financial data of the Group become more transparent. This change is also reflected on the face of the Consolidated Statements of Comprehensive Income as telecom tax appeared in 2017 as a separate line within Direct costs and utility tax appeared instead of Hungarian sector specific taxes.

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

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q3 2016 (restated, unaudited)	Q3 2017 (unaudited)	Change	Change (%)
Revenues				
Voice retail	37,352	36,035	(1,317)	(3.5%)
Voice wholesale	2,669	2,465	(204)	(7.6%)
Data	16,157	19,863	3,706	22.9%
SMS	4,281	4,352	71	1.7%
Equipment	14,387	17,963	3,576	24.9%
Other mobile revenues	3,964	4,853	889	22.4%
Mobile revenues	**78,810**	**85,531**	**6,721**	**8.5%**
Voice retail	12,277	11,391	(886)	(7.2%)
Broadband retail	12,068	12,363	295	2.4%
TV	10,415	11,402	987	9.5%
Equipment	903	1,679	776	85.9%
Data retail	2,339	3,251	912	39.0%
Wholesale	4,961	4,604	(357)	(7.2%)
Other fixed line revenues	4,373	4,223	(150)	(3.4%)
Fixed line revenues	**47,336**	**48,913**	**1,577**	**3.3%**
System Integration/Information Technology revenues	15,260	19,590	4,330	28.4%
Energy service revenues	1,459	1,347	(112)	(7.7%)
Total revenues	**142,865**	**155,381**	**12,516**	**8.8%**
Direct costs				
Interconnect costs	(5,069)	(4,854)	215	4.2%
SI/IT service related costs	(8,726)	(13,097)	(4,371)	(50.1%)
Energy service related costs	(1,394)	(1,288)	106	7.6%
Bad debt expense	(1,670)	(1,430)	240	14.4%
Telecome tax	(5,976)	(6,339)	(363)	(6.1%)
Other direct costs	(28,294)	(31,059)	(2,765)	(9.8%)
Direct costs	**(51,129)**	**(58,067)**	**(6,938)**	**(13.6%)**
Gross profit	**91,736**	**97,314**	**5,578**	**6.1%**
Employee related expenses	(18,418)	(18,643)	(225)	(1.2%)
Utility tax	0	0	0	n.a.
Other operating expenses	(22,872)	(23,646)	(774)	(3.4%)
Other operating income	611	2,187	1,576	257.9%
EBITDA	**51,057**	**57,212**	**6,155**	**12.1%**
Depreciation and amortization	(28,320)	(27,041)	1,279	4.5%
Operating profit	**22,737**	**30,171**	**7,434**	**32.7%**
Net financial result	(6,829)	(5,396)	1,433	21.0%
Share of associates' and joint ventures' results	(32)	(123)	(91)	(284.4%)
Profit before income tax	**15,876**	**24,652**	**8,776**	**55.3%**
Income tax	(3,282)	(5,311)	(2,029)	(61.8%)
Profit for the period from continuing operations	**12,594**	**19,341**	**6,747**	**53.6%**
Profit for the period from discontinued operations	1,047	0	(1,047)	(100.0%)
Profit for the period	**13,641**	**19,341**	**5,700**	**41.8%**
Change in exchange differences on translating foreign operations	(1,330)	647	1,977	n.m.
Revaluation of available-for-sale financial assets	35	19	(16)	(45.7%)
Other comprehensive income for the period from continuing operations	(1,295)	666	1,961	n.m.
Other comprehensive income for the period from discontinued operations	(1,009)		1,009	100.0%
Other comprehensive income for the period	**(2,304)**	**666**	**2,970**	**n.m.**
Total comprehensive income for the period from continuing operations	11,299	20,007	8,708	77.1%
Total comprehensive income for the period from discontinued operations	38	0	(38)	(100.0%)
Total comprehensive income for the period	**11,337**	**20,007**	**8,670**	**76.5%**
Profit attributable to:				
Owners of the parent	12,440	18,129	5,689	45.7%
From continuing operations	11,630	18,129	6,499	55.9%
From discontinued operations	810	0	(810)	(100.0%)
Non-controlling interests	1,201	1,212	11	0.9%
From continuing operations	964	1,212	248	25.7%
From discontinued operations	237	0	(237)	(100.0%)
	13,641	**19,341**	**5,700**	**41.8%**

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Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	Q3 2016 (restated, unaudited)	Q3 2017 (unaudited)	Change	Change (%)
Total comprehensive income attributable to:				
Owners of the parent	10,876	18,490	7,614	70.0%
From continuing operations	10,871	18,490	7,619	70.1%
From discontinued operations	5	0	(5)	(100.0%)
Non-controlling interests	461	1,517	1,056	229.1%
From continuing operations	428	1,517	1,089	254.4%
From discontinued operations	33	0	(33)	(100.0%)
	11,337	**20,007**	**8,670**	**76.5%**
Basic earnings per share (HUF)	**11.95**	**17.44**	**5.49**	**46.0%**
From continuing operations	11.17	17.44	6.27	56.2%
From discontinued operations	0.78	(0.00)	(0.78)	n.m.
Diluted earnings per share (HUF)	**11.94**	**17.41**	**5.46**	**45.7%**
From continuing operations	11.17	17.41	6.24	55.9%
From discontinued operations	0.78	(0.00)	(0.78)	n.m.

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

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	1-9 months 2016 (restated, unaudited)	1-9 months 2017 (unaudited)	Change	Change (%)
Revenues				
Voice retail	110,751	106,303	(4,448)	(4.0%)
Voice wholesale	7,794	7,254	(540)	(6.9%)
Data	46,715	54,848	8,133	17.4%
SMS	12,581	12,779	198	1.6%
Equipment	38,703	45,998	7,295	18.8%
Other mobile revenues	11,007	12,216	1,209	11.0%
Mobile revenues	**227,551**	**239,398**	**11,847**	**5.2%**
Voice retail	37,873	34,674	(3,199)	(8.4%)
Broadband retail	37,021	36,820	(201)	(0.5%)
TV	31,291	33,761	2,470	7.9%
Equipment	3,317	5,037	1,720	51.9%
Data retail	7,161	8,242	1,081	15.1%
Wholesale	15,295	14,075	(1,220)	(8.0%)
Other fixed line revenues	12,915	12,011	(904)	(7.0%)
Fixed line revenues	**144,873**	**144,620**	**(253)**	**(0.2%)**
System Integration/Information Technology revenues	44,492	61,117	16,625	37.4%
Energy service revenues	5,262	4,274	(988)	(18.8%)
Total revenues	**422,178**	**449,409**	**27,231**	**6.5%**
Direct costs				
Interconnect costs	(14,709)	(13,946)	763	5.2%
SI/IT service related costs	(25,433)	(41,758)	(16,325)	(64.2%)
Energy service related costs	(5,131)	(4,094)	1,037	20.2%
Bad debt expense	(6,029)	(4,586)	1,443	23.9%
Telecome tax	(18,276)	(18,544)	(268)	(1.5%)
Other direct costs	(80,038)	(90,755)	(10,717)	(13.4%)
Direct costs	**(149,616)**	**(173,683)**	**(24,067)**	**(16.1%)**
Gross profit	**272,562**	**275,726**	**3,164**	**1.2%**
Employee related expenses	(58,365)	(58,172)	193	0.3%
Utility tax	(7,265)	(7,418)	(153)	(2.1%)
Other operating expenses	(69,570)	(70,986)	(1,416)	(2.0%)
Other operating income	8,365	4,260	(4,105)	(49.1%)
EBITDA	**145,727**	**143,410**	**(2,317)**	**(1.6%)**
Depreciation and amortization	(80,499)	(80,335)	164	0.2%
Operating profit	**65,228**	**63,075**	**(2,153)**	**(3.3%)**
Net financial result	(19,369)	(16,926)	2,443	12.6%
Share of associates' and joint ventures' results	46	184	138	300.0%
Profit before income tax	**45,905**	**46,333**	**428**	**0.9%**
Income tax	(11,999)	(11,250)	749	6.2%
Profit for the period from continuing operations	**33,906**	**35,083**	**1,177**	**3.5%**
Profit for the period from discontinued operations	2,796	9,526	6,730	240.7%
Profit for the period	**36,702**	**44,609**	**7,907**	**21.5%**
Change in exchange differences on translating foreign operations	(701)	(147)	554	79.0%
Revaluation of available-for-sale financial assets	25	31	6	24.0%
Other comprehensive income for the period from continuing operations	(676)	(116)	560	**82.8%**
Other comprehensive income for the period from discontinued operations	(544)	(12,512)	(11,968)	(2,200.0%)
Other comprehensive income for the period	**(1,220)**	**(12,628)**	**(11,408)**	**(935.1%)**
Total comprehensive income for the period from continuing operations	**33,230**	**34,967**	**1,737**	**5.2%**
Total comprehensive income for the period from discontinued operations	2,252	(2,986)	(5,238)	n.m.
Total comprehensive income for the period	**35,482**	**31,981**	**(3,501)**	**(9.9%)**
Profit attributable to:				
Owners of the parent	34,525	42,041	7,516	21.8%
From continuing operations	32,364	32,553	189	0.6%
From discontinued operations	2,161	9,488	7,327	339.1%
Non-controlling interests	2,177	2,568	391	18.0%
From continuing operations	1,542	2,530	988	64.1%
From discontinued operations	635	38	(597)	(94.0%)
	36,702	**44,609**	**7,907**	**21.5%**

MAGYAR TELEKOM

Consolidated Statements of Comprehensive Income (HUF million, except per share amounts)	**1-9 months 2016 (restated, unaudited)**	**1-9 months 2017 (unaudited)**	**Change**	**Change (%)**
Total comprehensive income attributable to:				
Owners of the parent	33,721	32,237	(1,484)	(4.4%)
From continuing operations	31,995	32,443	448	1.4%
From discontinued operations	1,726	(206)	(1,932)	n.m.
Non-controlling interests	1,761	(256)	(2,017)	n.m.
From continuing operations	1,235	2,524	1,289	104.4%
From discontinued operations	526	(2,780)	(3,306)	n.m.
	35,482	**31,981**	**(3,501)**	**(9.9%)**
Basic earnings per share (HUF)	**33.13**	**40.40**	**7.26**	**21.9%**
From continuing operations	31.06	31.29	0.23	0.7%
From discontinued operations	2.07	9.11	7.03	339.1%
Diluted earnings per share (HUF)	**33.13**	**40.34**	**7.21**	**21.8%**
From continuing operations	31.06	31.24	0.18	0.6%
From discontinued operations	2.07	9.10	7.03	339.1%

3.4. Consolidated Statements of Financial Position

MAGYAR TELEKOM

Consolidated Statements of Financial Position (HUF million)	Dec 31, 2016 (audited)	Sept 30, 2017 (unaudited)	Change	Change (%)
ASSETS				
Current assets				
Cash and cash equivalents	10,805	6,294	(4,511)	(41.7%)
Trade and other receivables	157,645	155,024	(2,621)	(1.7%)
Other current financial assets	5,104	2,195	(2,909)	(57.0%)
Current income tax receivable	2,225	2,075	(150)	(6.7%)
Inventories	16,643	16,063	(580)	(3.5%)
	192,422	181,651	(10,771)	(5.6%)
Assets held for sale	1,556	19	(1,537)	(98.8%)
Total current assets	**193,978**	**181,670**	**(12,308)**	**(6.3%)**
Non current assets				
Property, plant and equipment	483,174	456,532	(26,642)	(5.5%)
Intangible assets	260,165	229,544	(30,621)	(11.8%)
Goodwill	218,098	212,165	(5,933)	(2.7%)
Investments in associates and joint ventures	1,078	1,165	87	8.1%
Deferred tax assets	73	147	74	101.4%
Other non current financial assets	18,254	19,869	1,615	8.8%
Other non current assets	709	414	(295)	(41.6%)
Total non current assets	**981,551**	**919,836**	**(61,715)**	**(6.3%)**
Total assets	**1,175,529**	**1,101,506**	**(74,023)**	**(6.3%)**
LIABILITIES				
Current liabilities				
Financial liabilities to related parties	72,589	48,496	(24,093)	(33.2%)
Other financial liabilities	22,600	9,036	(13,564)	(60.0%)
Trade payables	136,623	109,721	(26,902)	(19.7%)
Current income tax payable	719	1,163	444	61.8%
Provisions	4,493	3,320	(1,173)	(26.1%)
Other current liabilities	40,537	37,402	(3,135)	(7.7%)
	277,561	209,138	(68,423)	(24.7%)
Liabilities held for sale	0	0	0	n.a.
Total current liabilities	**277,561**	**209,138**	**(68,423)**	**(24.7%)**
Non current liabilities				
Financial liabilities to related parties	247,179	247,480	301	0.1%
Other financial liabilities	50,098	47,202	(2,896)	(5.8%)
Deferred tax liabilities	8,740	11,835	3,095	35.4%
Provisions	9,528	9,478	(50)	(0.5%)
Other non current liabilities	1,090	846	(244)	(22.4%)
Total non current liabilities	**316,635**	**316,841**	**206**	**0.1%**
Total liabilities	**594,196**	**525,979**	**(68,217)**	**(11.5%)**
EQUITY				
Equity of the owners of the parent				
Common stock	104,275	104,275	0	0.0%
Capital reserves	27,890	27,282	(608)	(2.2%)
Treasury stock	(825)	(1,874)	(1,049)	(127.2%)
Retained earnings	375,660	391,634	15,974	4.3%
Accumulated other comprehensive income	31,490	21,686	(9,804)	(31.1%)
Total Equity of the owners of the parent	**538,490**	**543,003**	**4,513**	**0.8%**
Non-controlling interests	42,843	32,524	(10,319)	(24.1%)
Total equity	**581,333**	**575,527**	**(5,806)**	**(1.0%)**
Total liabilities and equity	**1,175,529**	**1,101,506**	**(74,023)**	**(6.3%)**

3.5. Consolidated Statements of Cash Flows

MAGYAR TELEKOM Consolidated Statements of Cash Flows (HUF million)	1-9 months 2016 (restated, unaudited)	1-9 months 2017 (unaudited)	Change	Change (%)
Cash flows from operating activities				
Profit for the period	33,906	35,083	1,177	3.5%
Depreciation and amortization	80,499	80,335	(164)	(0.2%)
Income tax expense	11,999	11,250	(749)	(6.2%)
Net financial result	19,369	16,926	(2,443)	(12.6%)
Share of associates' and joint ventures' result	(46)	(184)	(138)	(300.0%)
Change in assets carried as working capital	17,742	(11,675)	(29,417)	n.m.
Change in provisions	(4,894)	(1,214)	3,680	75.2%
Change in liabilities carried as working capital	(26,640)	(11,879)	14,761	55.4%
Income taxes paid	(8,567)	(8,378)	189	2.2%
Dividends received	14	109	95	n.m.
Interest and other financial charges paid	(17,940)	(14,512)	3,428	19.1%
Interest received	341	279	(62)	(18.2%)
Other non-cash items	(5,024)	(604)	4,420	88.0%
Net cash generated from operating activities (continuing operations)	100,759	95,536	(5,223)	(5.2%)
Net cash generated from / (used in) operating activities from discontinued operation	3,714	(23)	(3,737)	n.m.
Net cash generated from operating activities	**104,473**	**95,513**	**(8,960)**	**(8.6%)**
Cash flows from investing activities				
Purchase of property plant and equipment (PPE) and intangible assets	(55,700)	(56,595)	(895)	(1.6%)
Adjustments to cash purchases	(12,736)	(4,591)	8,145	64.0%
Purchase of subsidiaries and business units	(34)	(3,785)	(3,751)	n.m.
Cash acquired through business combinations	0	475	475	n.a.
(Payments for) / Proceeds from other financial assets - net	446	(23)	(469)	n.m.
Proceeds from disposal of subsidiaries and associates	3,484	1	(3,483)	(100.0%)
Payments for interests in associates and joint ventures	0	0	0	n.a.
Proceeds from disposal of property, plant and equipment (PPE) and intangible assets	8,513	2,432	(6,081)	(71.4%)
Net cash used in investing activities (continuing operations)	(56,027)	(62,086)	(6,059)	(10.8%)
Net cash (used in) / generated from investing activities from discontinued operation	(4,801)	36,292	41,093	n.m.
Net cash used in investing activities	**(60,828)**	**(25,794)**	**35,034**	**57.6%**
Cash flows from financing activities				
Dividends paid to Owners of the parent and Non-controlling interests	(21,351)	(29,375)	(8,024)	(37.6%)
Proceeds from/Repayment of loans and other borrowings -net	(23,317)	(39,019)	(15,702)	(67.3%)
Repayment of other financial liabilities	(5,742)	(6,052)	(310)	(5.4%)
Repurchase of treasury shares	(559)	(1,826)	(1,267)	(226.7%)
Net cash used in financing activities (continuing operations)	(50,969)	(76,272)	(25,303)	(49.6%)
Net cash (used in) /generated from financing activities from discontinued operation	(1,738)	2,041	3,779	n.m.
Net cash used in financing activities	**(52,707)**	**(74,231)**	**(21,524)**	**(40.8%)**
Exchange differences on cash and cash equivalents	(54)	1	55	n.m.
Exchange differences on cash and cash equivalents from discontinued operation	(32)	0	32	100.0%
Change in cash and cash equivalents	**(9,148)**	**(4,511)**	**4,637**	**50.7%**
Cash and cash equivalents, beginning of period	17,558	10,805	(6,753)	(38.5%)
Cash and cash equivalents, end of period	8,410	6,294	(2,116)	(25.2%)
Change in cash and cash equivalents	**(9,148)**	**(4,511)**	**4,637**	**50.7%**

3.6. Consolidated Statements of Changes in Equity

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

	pieces	in HUF millions									
			Capital reserves				Accumulated Other Comprehensive				
	Shares of common stock	Common stock	Additional paid in capital	Reserve for equity settled share-based transactions	Treasury stock	Retained earnings	Cumulative translation adjustment	Revaluation reserve for AFS financial assets – net of tax	Equity of the owners of the parent	Non-controlling interests	Total Equity
Balance at December 31, 2015	1,042,742,543	104,275	27,379	33	(307)	337,014	31,892	(68)	500,218	44,713	544,931
Dividend						(15,633)			**(15,633)**		**(15,633)**
Dividend declared to Non-controlling interests									**0**	(4,650)	**(4,650)**
Equity settled share-based transactions				226	32				**258**		**258**
Total comprehensive income						34,525	(820)	16	**33,721**	1,761	**35,482**
Treasury share repurchase					(559)				**(559)**		**(559)**
Balance at September 30, 2016	1,042,742,543	104,275	27,379	259	(834)	355,906	31,072	(52)	518,005	41,824	559,829
Dividend						0			**0**		**0**
Dividend declared to Non-controlling interests									**0**	0	**0**
Equity settled share-based transactions				252	0				**252**		**252**
Total comprehensive income						19,754	449	21	**20,224**	1,019	**21,243**
Treasury share repurchase					9				**9**		**9**
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				0		(26,067)			**(26,067)**		**(26,067)**
Dividend declared to Non-controlling interests				0					**0**	(3,320)	**(3,320)**
Equity settled share-based transactions				(608)	777				**169**		**169**
Total comprehensive income						42,041	(9,821)	17	**32,237**	(256)	**31,981**
Treasury share repurchase					(1,826)				**(1,826)**		**(1,826)**
Disposal of subsidiaries									**0**	(6,743)	**(6,743)**
Balance at September 30, 2017	1,042,742,543	104,275	27,379	(97)	(1,874)	391,634	21,700	(14)	543,003	32,524	575,527

3.7. Exchange rate information

Exchange rate	Q3 2016	Q3 2017	Change (%)	1-9 months 2016	1-9 months 2017	Change (%)
HUF/EUR beginning of period	316.16	308.87	**(2.3%)**	313.12	311.02	**(0.7%)**
HUF/EUR period-end	309.15	311.23	**0.7%**	309.15	311.23	**0.7%**
HUF/EUR cumulative monthly average	311.65	307.00	**(1.5%)**	312.54	308.63	**(1.3%)**
HUF/MKD beginning of period	5.12	5.01	**(2.1%)**	5.08	5.06	**(0.4%)**
HUF/MKD period-end	5.03	5.06	**0.6%**	5.03	5.06	**0.6%**
HUF/MKD cumulative monthly average	5.07	4.98	**(1.8%)**	5.07	5.01	**(1.2%)**

3.8. Segment information

HUF millions	Q3 2016	Q3 2017	1-9 months 2016	1-9 months 2017
Total MT-Hungary revenues	128,972	141,908	382,507	410,844
Less: MT-Hungary revenues from other segments	(66)	(33)	(198)	(94)
Telekom Hungary revenues from external customers	**128,906**	**141,875**	**382,309**	**410,750**
Total Macedonia revenues	13,977	13,522	39,920	38,706
Less: Macedonia revenues from other segments	(18)	(16)	(51)	(47)
Macedonia revenues from external customers	**13,959**	**13,506**	**39,869**	**38,659**
Total consolidated revenue of the segments	142,865	155,381	422,178	449,409
Measurement/rounding differences to Group revenue	0	0	0	0
Total revenue of the Group from continuing operations	**142,865**	**155,381**	**422,178**	**449,409**
Total Montenegro revenues	7,749	0	21,688	2,023
Less: Montenegro revenues from other segments	(8)	0	(43)	4
Montenegro revenues from external customers	**7,741**	**0**	**21,645**	**2,027**
Total revenue from discontinued operations	**7,741**	**0**	**21,645**	**2,027**
Segment results (EBITDA)				
MT-Hungary	45,135	51,000	131,331	127,143
Macedonia	5,945	6,210	14,483	15,794
Total EBITDA of the segments	**51,080**	**57,210**	**145,814**	**142,937**
Measurement/rounding differences to Group EBITDA	(23)	2	(87)	473
Total EBITDA of the Group from continuing operations	**51,057**	**57,212**	**145,727**	**143,410**
Montenegro	2,725	0	7,390	702
Income from sale of Crnogorski Telekom (segment Montenegro)	0			10,504
Measurement/rounding differences	24		91	8
Total EBITDA from discontinued operations	**2,749**	**0**	**7,481**	**11,214**

4. DECLARATION

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

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

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

Budapest, November 8, 2017

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

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors are described in, among other things, our annual financial statements for the year ended December 31, 2016, available on our website at http://www.telekom.hu which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

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