

PRESS RELEASE

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Magyar Telekom results for the third quarter of 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).

- **Total revenues increased by 8.8% year-on-year¹ 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 result of these trends, 9M 2017 mobile revenues increased by 6.5% year-on-year. **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. **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

¹ Excluding Crnogorski Telekom results

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.
- **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%**.
- 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.

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 Omogorski Telekom financials and the transaction price of the disposal of the majority ownership*